



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, 2012
2. Commission identification number 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)

2<sup>nd</sup> Floor, Dona Juanita Marquez Lim Building, Osmena Blvd., Cebu City 6000

7. Address of issuer's principal office Postal Code

(032) 255-4552

8. 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 [ x ] 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

#### *Business Overview*

Cebu Air, Inc. (the 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 Company was incorporated in 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 No. 219. International operations began in 2001 with flights from Manila to Hong Kong.

In 2005, the 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 having low distribution costs.

As of June 30, 2012, the Company operates an extensive route network serving 52 domestic routes and 28 international routes with a total of 1,885 scheduled weekly flights. It operates from four hubs, including the Ninoy Aquino International Airport 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 located in Clark, Pampanga; and Davao International Airport located in Davao City, Davao del Sur.

The Company currently operates a fleet of 38 aircraft which comprises of 10 Airbus A319, 20 Airbus A320, and eight 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 3.6 years as of June 30, 2012.

The Company 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 Company offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, excess baggage and travel-related products and services.

### ***Results of Operations***

#### *Six Months Ended June 30, 2012 versus June 30, 2011*

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##### Revenues

The Company generated revenues of ₱19.729 billion for the six months ended June 30, 2012, 17.9% higher than the ₱16.730 billion revenues earned in the same period last year. Growth in revenues is accounted for as follows:

##### *Passenger Revenues*

Passenger revenues grew by ₱1.787 billion or 12.9% to ₱15.653 billion in the six months ended June 30, 2012 from ₱13.865 billion posted in the six months ended June 30, 2011. This increase was mainly attributable to the 17.2% increase in passenger volume to 6.9 million from 5.9 million in 2011 driven by the increased number of flights in 2012. Number of flights moved up by 18.1% year on year as a result of the additional aircraft operated to 38 aircraft as of June 30, 2012 from 33 aircraft as of June 30, 2011. Increase in revenues, however, was partially offset by the reduction in average fares by 3.7% to ₱2,257 from ₱2,343 last year.

##### *Cargo Revenues*

Cargo revenues went up by ₱164.025 million or 17.0% to ₱1.127 billion in the six months ended June 30, 2012 from ₱0.963 billion realized in 2011 following the increase in the volume of cargo transported in the current period.

##### *Ancillary Revenues*

Ancillary revenues increased by ₱1.048 billion or 55.1% to ₱2.949 billion in the six months ended June 30, 2012 from ₱1.902 billion registered in the same period last year. The Company began unbundling ancillary products and services in April 2011 and significant improvements in ancillary revenues were noted since then. Increased online bookings also contributed to the growth. Sales from online bookings accounted for 49.9% of the total sales for the period compared to the 48.1% in 2011.

##### Expenses

The Company incurred expenses of ₱18.200 billion for the six months ended June 30, 2012, 24.7% higher than the ₱14.595 billion expenses recorded for the six months ended June 30, 2011. Increase in expenses was partially offset by the strengthening of the Philippine peso against the U.S. dollar to an average of ₱42.90 per U.S. dollar for the six months ended June 30, 2012 from an average of ₱43.52 per U.S. dollar in 2011 based on the Philippine Dealing System weighted average rates. Rise in expenses was due to the following:

#### *Flying Operations*

Flying operations expenses moved up by ₱2.307 billion or 28.1% to ₱10.516 billion in the six months ended June 30, 2012 from ₱8.210 billion posted in the same period last year. Growth in flying operations expenses was mainly due to the increase in aviation fuel expenses by 26.4% to ₱9.220 billion from ₱7.296 billion in the six months ended June 30, 2011 consequent to the increase in the volume of fuel consumed as a result of the increased number of flights year on year. Aviation fuel expenses was further influenced by the rise in aviation fuel prices to an average published MOPS price of U.S.\$127.05 per barrel in the six months ended June 30, 2012 from U.S.\$125.71 per barrel in 2011. Flight deck expenses, owing to pilot sourcing and training costs, also contributed to the increase in flying operations expenses.

#### *Aircraft and Traffic Servicing*

Aircraft and traffic servicing expenses increased by ₱231.303 million or 15.4% to ₱1.732 billion in the six months ended June 30, 2012 from ₱1.501 billion registered in the same period last year as a result of the overall increase in the number of flights year on year. International flights, for which landing and take-off fees and ground handling charges are significantly higher compared to domestic flights, went up by 11.0% from 2011.

#### *Repairs and Maintenance*

Repairs and maintenance expenses went up by ₱421.289 million or 35.2% to ₱1.619 billion in the six months ended June 30, 2012 from ₱1.197 billion in the six months ended June 30, 2011. Increase was mainly due to overall increase in the number of flights which was partially offset by the strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱42.90 per U.S. dollar for the six months ended June 30, 2012 from an average of ₱43.52 per U.S. dollar in 2011.

#### *Depreciation and Amortization*

Depreciation and amortization expenses grew by ₱203.161 million or 15.8% to ₱1.487 billion in the six months ended June 30, 2012 from ₱1.284 billion incurred in same period last year. Depreciation and amortization expenses increased as a result of the arrival of two Airbus A320 aircraft during the last quarter of 2011 and one Airbus A320 aircraft in 2012.

#### *Aircraft and Engine Lease*

Aircraft and engine lease expenses moved up by ₱260.917 million or 31.9% to ₱1.079 billion in the six months ended June 30, 2012 from ₱0.819 billion posted in the six months ended June 30, 2011. Increase in aircraft and engine lease expenses was due to the lease of two Airbus A320 aircraft and one ATR 72-500 engine during the last quarter of 2011 and two Airbus A320 aircraft in first quarter 2012. Increase was partly reduced by the return of two leased Airbus A320 aircraft in June 2012 and the effect of the appreciation of the Philippine peso against the U.S. dollar in 2012.

#### *Reservation and Sales*

Reservation and sales expenses increased by ₱67.815 million or 9.1% to ₱812.885 million in the six months ended June 30, 2012 from ₱745.070 million registered in 2011. This was primarily attributable to the increase in commission expenses and online bookings consequent to the overall growth in passenger volume year on year.

#### *General and Administrative*

General and administrative expenses went up by ₱67.461 million or 17.4% to ₱455.850 million in the six months ended June 30, 2012 from ₱388.389 million recorded in the same period last year. Growth in general and administrative expenses was primarily due to the increase in staff and service requirements associated with the increased flight and passenger activity in 2012.

*Passenger Service*

Passenger service expenses grew by ₱48.458 million or 12.9% to ₱424.689 million in the six months ended June 30, 2012 from ₱376.232 million incurred in the six months ended June 30, 2011. Additional cabin crew hired for the additional Airbus A320 aircraft acquired during the last quarter of 2011 and first quarter 2012 mainly caused the increase.

*Operating Income*

As a result of the foregoing, the Company finished with an operating income of ₱1.530 billion for the six months ended June 30, 2012, 28.4% lower than the ₱2.135 billion posted in 2011.

*Foreign exchange gains*

The Company's principal exposure to foreign exchange rate fluctuations is in respect of U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions. Net foreign exchange gains of ₱745.754 million in the six months ended June 30, 2012 resulted from the strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to ₱ 42.12 per U.S. dollar as of June 30, 2012 from the prevailing rate as of end of 2011 based on the Philippine Dealing System closing rates.

*Interest Income*

Interest income declined by ₱62.683 million or 20.2% to ₱247.384 million in the six months ended June 30, 2012 from ₱310.067 million earned in the same period last year. Decrease in interest income was consequent to the sale of the Company's quoted debt investment securities in 2012.

*Equity in Net Income of Joint Venture*

The Company had equity in net income of joint venture of ₱36.016 million in the six months ended June 30, 2012 compared with the ₱16.835 million equity in net income of joint venture recorded in the six months ended June 30, 2011. ₱19.181 million or 113.9% improvement in this account was mainly due to the higher income generated by Aviation Partnership (Philippines) Corporation (A-plus) in 2012. Net income from the current operations of SIA Engineering (Philippines) Corporation (SIAEP) also accounted for the increase.

*Fuel Hedging Gains*

Fuel hedging gains of ₱27.193 million in the six months ended June 30, 2012 resulted from the higher mark-to-market valuation on fuel hedging positions consequent to the increase in fuel prices from end of 2011.

*Gain on Sale of Financial Assets designated at Fair Value through Profit or Loss (FVPL)*

Gain on sale of financial assets designated at FVPL of ₱5.764 million resulted from the sale of the Company's quoted debt and equity investment securities in 2012.

*Fair Value Losses on Financial Assets designated at FVPL*

No fair value losses on FVLP was recognized in the six months ended June 30, 2012 as a result of the sale of the related quoted debt and equity investment securities in 2012.

*Interest Expense*

Interest expense moved up by ₱12.097 million or 2.7% to ₱464.366 million in the six months ended June 30, 2012 from ₱452.269 million posted in the same period last year primarily due to the interest incurred on additional loans availed to finance the acquisition of two Airbus A320 aircraft in the last quarter of 2011 and one Airbus A320 aircraft in 2012, partially offset by the strengthening of the Philippine peso against the U.S. dollar during the current period.

Income before Income Tax

As a result of the foregoing, the Company finished with an income before income tax of ₱2.127 billion for the six months ended June 30, 2012, a decline of 22.5% from the ₱2.743 billion net income before income tax earned in the six months ended June 30, 2011.

Provision for Income Tax

Provision for income tax for the six months ended June 30, 2012 amounted to ₱391.660 million, of which, ₱15.901 million pertains to current income tax recognized as a result of the taxable income in 2012. Deferred income tax amounted to ₱375.760 million primarily resulting from the recognition of deferred tax liabilities in connection with the net unrealized foreign exchange gains on the Company's foreign currency denominated obligations.

Net Income

Net income for the six months ended June 30, 2012 amounted to ₱1.736 billion, a decline of 28.9% from the ₱2.440 billion net income posted in 2011.

As of June 30, 2012, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no material off-balance sheet transactions, arrangements and obligations (including contingent obligations). As of June 30, 2012, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no transactions, arrangements and obligations with other unconsolidated entities or other persons created during the reporting period that would have a significant adverse impact on the Company's operations and/or financial condition.

***Financial Position***

*June 30, 2012 versus December 31, 2011*

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As of June 30, 2012, the Company's consolidated balance sheet remains solid, with net debt to equity of 0.53 (total debt after deducting cash and cash equivalents divided by total equity). Consolidated assets grew to ₱56.282 billion from ₱55.681 billion as of December 31, 2011 as the Company added aircraft to its fleet. Equity grew to ₱20.907 billion from ₱19.166 billion in 2011 while book value per share amounted to ₱34.50 as of June 30, 2012 from ₱31.63 as of December 31, 2011.

The Company's cash requirements have been mainly sourced through cash flow from operations. Net cash from operating activities amounted to ₱2.025 billion. As of June 30, 2012, net cash provided by investing activities amounted to ₱1.722 billion which comprised of proceeds from the sale of investment securities and payments in connection with the purchase of aircraft. Net cash used in financing activities amounted to ₱1.239 billion. Net cash used in financing activities comprised of repayments of long-term debt.

As of June 30, 2012, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

**Material Changes in the 2012 Financial Statements  
(Increase/Decrease of 5% or more versus 2011)**

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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, 2012 versus December 31, 2011

*26.6% increase in Cash and Cash Equivalents*

Due to increased collections as a result of the improvement in the Company's operations as evidenced by the 17.9% growth in revenues and from collections from the sale of investment securities.

*100.0% decrease in Financial Assets at FVPL*

Due to sale of investments in quoted debt and equity securities and settlement of certain derivative financial instruments relative to fuel hedges.

*18.3% decrease in Receivables*

Due to collections from various parties.

*13.6% decrease in Expendable Parts, Fuel, Materials and Supplies*

Due to decrease in the volume of fuel inventory.

*25.1% increase in Other Current Assets*

Due to advance payment of 2012 insurance premiums.

*20.5% increase in Investment in Shares of Stock and Joint Ventures*

Due to investment in Philippine Academy for Aviation Training, Inc. and share in the net income for the period of A-plus and SIAEP.

*100% decrease in Available-for-Sale (AFS) Investment*

Due to sale of investment in quoted equity security.

*35.0% decrease in Other Noncurrent Assets*

Due to the reduction of security deposits on leased aircraft.

*7.1% decrease in Accounts Payable and Other Accrued Liabilities*

Due to payments of the trade payables.

*54.2% increase in Financial liabilities at FVPL*

Due to decline in value of certain derivative financial instruments.

*170.5% increase in Deferred Tax Liabilities - net*

Due to future taxable amount recognized in connection with unrealized foreign exchange gains.

*10.8% decrease in Other Noncurrent Liabilities*

Due to payments made for the restoration of the two leased Airbus A320 aircraft returned during the period.

*100% decrease in Net Unrealized Losses on AFS Investment*

Due to sale of investment in quoted equity security.

*16.3% increase in Retained Earnings*

Due to net income during the period.



**KEY PERFORMANCE INDICATORS**

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2012 and December 31, 2011 and for the six months ended June 30, 2012 and 2011:

<b>Key Financial Indicators</b>	<b>2012</b>	<b>2011</b>
Total Revenue	₱19.729 billion	₱16.730 billion
Pre-tax Core Net Income	₱1.349 billion	₱2.010 billion
EBITDAR Margin	21%	25%
Cost per Available Seat Kilometre (ASK) (Php)	2.54	2.40
Cost per ASK (U.S. cents)	5.91	5.52
Seat Load Factor	84%	88%

The manner by which the Company calculates the above key performance indicators for both 2012 and 2011 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 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, 2012, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no events that would have a material adverse impact on the Company's net sales, revenues, and income from operations and future operations.

**PART II - OTHER INFORMATION**

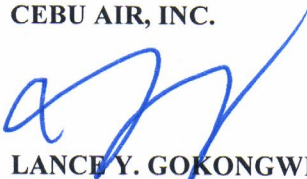
NONE.

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**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.

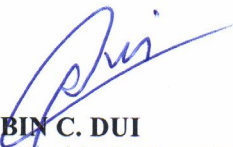
**CEBU AIR, INC.**



**LANCE Y. GOKONGWEI**  
President and Chief Executive Officer  
Date: AUG 13 2012



**JAIME I. CABANGIS**  
Chief Financial Officer  
Date: AUG 13 2012



**ROBIN C. DUI**  
Vice President - Comptroller  
Date: AUG 13 2012

**CEBU AIR, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**AS OF JUNE 30, 2012**

**(With Comparative Audited Figures as of December 31, 2011)**

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	₱11,337,106,230	₱8,957,783,986
Financial assets at fair value through profit or loss (Note 8)	-	3,261,077,998
Receivables (Note 9)	683,943,934	836,786,224
Expendable parts, fuel, materials and supplies (Note 10)	343,617,862	397,527,340
Other current assets (Note 11)	348,588,935	278,691,061
Total Current Assets	12,713,256,961	13,731,866,609
<b>Noncurrent Assets</b>		
Property and equipment (Notes 12, 16, and 27)	42,821,111,552	41,037,543,621
Investment in shares of stock and in joint ventures (Note 13)	493,388,734	409,478,237
Available-for-sale investment (Note 8)	-	110,367,200
Other noncurrent assets (Note 14)	254,482,540	391,452,391
Total Noncurrent Assets	43,568,982,826	41,948,841,449
	₱56,282,239,787	₱55,680,708,058
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued liabilities (Note 15)	₱6,237,827,822	₱6,710,838,876
Unearned transportation revenue (Note 3)	5,064,567,277	5,253,433,343
Current portion of long-term debt (Notes 12 and 16)	2,512,511,115	2,467,451,166
Financial liabilities at fair value through profit or loss (Note 8)	93,826,688	60,857,586
Due to related parties (Note 25)	34,779,056	36,302,174
Total Current Liabilities	13,943,511,958	14,528,883,145
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 12 and 16)	17,835,599,695	18,404,442,267
Deferred tax liabilities - net	599,958,891	221,786,183
Other noncurrent liabilities (Notes 17)	2,996,237,694	3,360,073,173
Total Noncurrent Liabilities	21,431,796,280	21,986,301,623
Total Liabilities	35,375,308,238	36,515,184,768
<b>Equity (Note 18)</b>		
Common stock	613,236,550	613,236,550
Capital paid in excess of par value	8,405,568,120	8,405,568,120
Treasury Stocks	(529,319,321)	(529,319,321)
Net unrealized losses on available-for-sale investment (Note 8)	-	(5,630,261)
Retained earnings	12,417,446,200	10,681,668,202
Total Equity	20,906,931,549	19,165,523,290
	₱56,282,239,787	₱55,680,708,058

See accompanying Notes to Unaudited Consolidated Financial Statements.

**CEBU AIR, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

	Quarters Ended		Six Months Ended	
	2012	2011	2012	2011
<b>REVENUE</b>				
Sale of air transportation services:				
Passenger	<b>₱8,460,606,996</b>	₱7,563,633,386	<b>₱15,652,671,368</b>	₱13,865,371,801
Cargo	<b>576,062,709</b>	500,147,528	<b>1,127,213,446</b>	963,188,739
Ancillary revenue (Note 19)	<b>1,351,633,588</b>	1,146,272,720	<b>2,949,357,512</b>	1,901,665,280
	<b>10,388,303,293</b>	9,210,053,634	<b>19,729,242,326</b>	16,730,225,820
<b>EXPENSES</b>				
Flying operations (Note 20)	<b>5,384,495,898</b>	4,581,638,648	<b>10,516,350,414</b>	8,209,647,488
Aircraft and traffic servicing (Note 20)	<b>889,422,747</b>	755,468,972	<b>1,732,119,025</b>	1,500,815,960
Repairs and maintenance (Note 20)	<b>831,846,071</b>	609,028,997	<b>1,618,730,521</b>	1,197,441,395
Depreciation and amortization	<b>748,892,972</b>	654,774,174	<b>1,487,065,906</b>	1,283,904,687
Aircraft and engine lease (Note 26)	<b>568,351,365</b>	411,130,057	<b>1,079,427,786</b>	818,510,541
Reservation and sales	<b>410,066,583</b>	368,187,759	<b>812,885,013</b>	745,070,079
General and administrative (Note 21)	<b>238,855,590</b>	197,951,539	<b>455,849,674</b>	388,388,561
Passenger service	<b>222,925,657</b>	192,854,175	<b>424,689,388</b>	376,231,643
Other expenses (Note 23)	<b>33,382,989</b>	44,784,319	<b>72,431,038</b>	75,152,845
	<b>9,328,239,872</b>	7,815,818,640	<b>18,199,548,765</b>	14,595,163,199
<b>OPERATING INCOME</b>	<b>1,060,063,421</b>	1,394,234,994	<b>1,529,693,561</b>	2,135,062,621
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense (Notes 16 and 17)	<b>(239,663,706)</b>	(220,859,497)	<b>(464,366,348)</b>	(452,269,339)
Foreign exchange gains	<b>344,310,420</b>	88,102,393	<b>745,753,941</b>	187,095,816
Fuel hedging gains (losses) (Note 8)	<b>(323,472,074)</b>	(64,262,402)	<b>27,193,019</b>	559,534,580
Interest income (Notes 7 and 8)	<b>116,584,126</b>	157,982,157	<b>247,384,132</b>	310,066,796
Fair value losses of financial assets designated at fair value through profit or loss (Note 8)	–	10,768,585	–	(13,143,152)
Gain on sale of financial assets designated at fair value through profit or loss	–	–	<b>5,764,090</b>	–
Equity in net income of joint venture (Note 13)	<b>17,595,842</b>	8,051,841	<b>36,015,869</b>	16,834,761
	<b>(84,645,392)</b>	(20,216,923)	<b>597,744,703</b>	608,119,462
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>975,418,029</b>	1,374,018,071	<b>2,127,438,264</b>	2,743,182,083
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	<b>202,036,420</b>	134,583,683	<b>391,660,266</b>	303,151,296
<b>NET INCOME (LOSS)</b>	<b>773,381,609</b>	1,239,434,388	<b>1,735,777,998</b>	2,440,030,787
Net unrealized losses on available-for-sale investment (Note 8)	–	(1,185,838)	–	(2,361,463)
Benefit from income tax (Notes 8 )	–	358,293	–	361,920
<b>OTHER COMPREHENSIVE LOSS, NET OF TAX</b>	–	(827,545)	–	(1,999,543)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱773,381,609</b>	₱1,238,606,843	<b>₱1,735,777,998</b>	₱2,438,031,244
<b>Basic/Diluted Earnings (Loss) Per Share</b> (Note 24)			<b>₱2.84</b>	₱3.99

See accompanying Notes to Unaudited Consolidated Financial Statements.

**CEBU AIR, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE SIX MONTHS ENDED JUNE 30, 2012**

(With Comparative Unaudited Figures as of June 30, 2011)

	For the Six Months Ended June 30, 2012						
	Common Stock (Note 18)	Capital Paid in Excess of Par Value (Note 18)	Treasury Stock (Note 18)	Net unrealized losses on available-for-sale investment (Note 8)	Appropriated Retained Earnings (Note 18)	Unappropriated Retained Earnings (Note 18)	Total Equity
Balance at January 1, 2012	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱5,630,261)	₱933,500,000	₱9,748,168,202	₱19,165,523,290
Appropriation of retained earnings					483,262,000	(483,262,000)	–
Net income	–	–	–	–	–	1,735,777,998	1,735,777,998
Other comprehensive income	–	–	–	5,630,261	–	–	5,630,261
Total comprehensive income	–	–	–	5,630,261	483,262,000	1,252,515,998	1,741,408,259
<b>Balance at June 30, 2012</b>	<b>₱613,236,550</b>	<b>₱8,405,568,120</b>	<b>(₱529,319,321)</b>	<b>(₱–)</b>	<b>₱1,416,762,000</b>	<b>₱11,000,684,200</b>	<b>₱20,906,931,549</b>

	For the Six Months Ended June 30, 2011						
	Common Stock (Note 18)	Capital Paid in Excess of Par Value (Note 18)	Treasury Stock (Note 18)	Net unrealized losses on available-for-sale investment (Note 8)	Appropriated Retained Earnings (Note 18)	Unappropriated Retained Earnings (Note 18)	Total Equity
Balance at January 1, 2011	₱613,236,550	₱8,405,568,120	₱–	(₱2,714,902)	₱–	₱8,890,960,134	₱17,907,049,902
Net income	–	–	–	–	–	2,440,030,787	2,440,030,787
Other comprehensive income	–	–	–	(1,999,543)	–	–	(1,999,543)
Total comprehensive income	–	–	–	(1,999,543)	–	2,440,030,787	2,438,031,244
Dividends paid						(1,833,709,650)	(1,833,709,650)
Treasury stocks			(158,547,360)				(158,547,360)
<b>Balance at June 30, 2011</b>	<b>₱613,236,550</b>	<b>₱8,405,568,120</b>	<b>(₱158,547,360)</b>	<b>(₱4,714,445)</b>	<b>₱–</b>	<b>₱9,497,281,271</b>	<b>₱18,352,824,136</b>

**CEBU AIR, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	₱2,127,438,266	₱2,743,182,083
Adjustments for:		
Depreciation and amortization	1,487,065,906	1,283,904,687
Interest expense (Notes 16 and 17)	464,366,348	452,269,339
Unrealized foreign exchange (gains)	(732,127,932)	(214,500,588)
Fuel hedging (gains) (Note 8)	(27,193,019)	(559,534,580)
Gain on sale of financial assets at fair value through profit or loss	(5,764,090)	-
Interest income (Note 7 and 8)	(247,384,132)	(310,066,796)
Fair value loss of financial assets at fair value through profit or loss (Note 8)	-	13,143,152
Equity in net (income) of joint venture (Note 13)	(36,015,869)	(16,834,761)
Operating income before working capital changes	3,030,385,478	3,391,562,536
Decrease (increase) in:		
Receivables	62,073,600	126,025,557
Other current assets	(69,897,874)	(74,504,110)
Expendable parts, fuel, materials and supplies	53,909,478	(126,516,406)
Financial assets at fair value through profit or loss (derivatives)	77,042,328	517,048,260
Increase (decrease) in:		
Accounts payable and other accrued liabilities	(427,892,057)	194,226,099
Unearned transportation revenue	(188,866,066)	413,179,813
Due to related parties	(1,523,119)	172,662
Noncurrent liabilities	(479,952,017)	5,956,441
Net cash generated from operations	2,056,179,751	4,447,150,852
Interest paid	(357,202,386)	(350,106,269)
Interest received	326,375,203	329,329,281
Net cash provided by operating activities	2,025,352,568	4,426,373,864
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment (Notes 12 and 27)	(1,735,433,600)	(1,967,654,341)
Decrease (increase) in other noncurrent assets	136,969,851	(236,632,614)
Proceeds from sale of financial assets	3,258,002,595	-
Proceeds from sale of available for sale investment	110,369,718	-
Investment in shares of stocks	(101,123,645)	-
Dividends received	53,229,016	-
Net cash used in investing activities	1,722,013,935	(2,204,286,955)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of:		
Long-term debt	(₱1,238,688,087)	(₱1,041,524,786)
Payments of treasury shares of stocks	-	(158,547,360)
Dividends paid	-	(1,833,709,650)
Net cash provided by (used in) financing activities	(1,238,688,087)	(3,033,781,796)
<b>EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>		
	(129,356,172)	(10,017,022)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,379,322,244</b>	<b>(821,711,909)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>8,957,783,986</b>	<b>9,763,288,972</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	<b>₱11,337,106,230</b>	<b>₱8,941,577,063</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**CEBU AIR, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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 Company is at 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City.

The Parent Company has six 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) and Vector Aircraft Leasing Limited (VALL) (collectively known as the “Group”). CALL, ILL, BLL, SLL, SALL and VALL are SPEs in which the Parent Company does not have equity interest. CALL, ILL, BLL, SLL, SALL and VALL acquired the passenger aircraft for lease to the Parent Company under finance lease arrangements (Note 12) and funded the acquisitions through long-term debt (Note 16). In accordance with Standards Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, 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 Company’s initial public offering (IPO).

The Parent Company’s ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Company is 66.15%-owned by CPAir Holdings, Inc. (the Parent Company or CPAHI).

In 1991, pursuant to Republic Act (RA) No. 7151, the 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 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 Company is registered with the Board of Investments (BOI) as a new operator of air transport on a non-pioneer status. Under the terms of the registration and subject to certain requirements, the Company is entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four years. The Company can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight years.

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

- a. The Company is subject to franchise tax of five (5) percent of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, the 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 Company at any disadvantage, then such privileges shall have been deemed by the fact itself of the Company's tax privileges and shall operate equally in favor of the 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 Company is abolished;
- b. The Company shall be subject to RCIT;
- c. The 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 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. The registration provides incentives, rights and privileges such as imposition of five percent (5.00%) tax on gross income earned in lieu of national and local taxes.

The accompanying consolidated financial statements of the Company and its special purpose entities (SPEs) (the Group) were approved and authorized for issue by the Executive Committee on August 13, 2012.

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## 2. Summary of Significant Accounting Policies

### 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 values are rounded to the nearest peso except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).



### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and the SPEs that it controls.

SIC 12, prescribes guidance on the consolidation of SPE. Under SIC 12, 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 even in cases where an enterprise owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities.

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.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new 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.

- Amendment to Philippine Accounting Standards (PAS) 24, *Related Party Disclosures*  
This amended Standard clarified the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.
- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*  
The Amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The Amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's *non-derivative equity instruments*, to acquire a *fixed number of the entity's own equity instruments* for a fixed amount in any currency.
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*  
The Amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The Amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.
- Amendment to Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities and Equity Instruments*  
This Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

### *Improvements to PFRS 2010*

Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following interpretation and amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

### Future Changes in Accounting Policies

The Group 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 consolidated financial statements of the Group:

#### *Effective 2012*

- PFRS 7, *Financial Instruments: Disclosures (Amendment) - Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after July 1, 2011)  
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.
- Amendments to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

#### *Effective 2013*

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)  
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in

accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be applied retrospectively. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013) PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013) PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.
- PFRS 12, *Disclosures of Involvement with Other Entities* (effective for annual periods beginning periods on or after January 1, 2013) PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or before January 1, 2013) PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.
- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)  
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

- Amendments to PAS 19, *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013) Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19.
- Revised PAS 27, *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013). As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- Revised PAS 28, *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013). As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)  
This Philippine Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

#### *Effective 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)  
These amendments to PAS 32 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.

#### *Effective 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015) PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. 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 classification and measurements of financial liabilities.
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*  
The implementation of the Philippine Interpretation is deferred until the final *Review Standard* is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in

which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

### 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 in-flight sales and other services are recognized when the goods are delivered or the services are carried out.

#### *Interest income*

Interest on cash, cash equivalents and other short-term cash investments 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.

#### 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 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 investments as of June 30, 2012 and as of December 31, 2011.

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.

*'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. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss, when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' 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, 2012 and as of December 31, 2011, the Group's financial assets at FVPL consist of derivative assets, as well as private and government debt and equity securities (Note 8).

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 six months ended June 30, 2012 and 2011.

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, 2012 and as of December 31, 2011, 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.

The AFS investment of the Group represents a quoted equity security (Note 8).

*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 (Note 14).

#### *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 debt, accounts payable and other accrued liabilities and other obligations that meet the above definition (Notes 15, 16 and 17).

#### 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 (Note 4).

#### *AFS investments*

The Group assesses at each statement of financial position 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. Cost also includes asset retirement obligation (ARO) relating to the leased passenger aircraft.

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.

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%

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.

#### 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 Group recognizes the present value of these costs as ARO asset (included under 'Property and equipment') and ARO liability (included under 'Noncurrent liabilities'). The Group depreciates ARO asset on a straight-line basis over the EUL of the related asset or the lease term, whichever is shorter, or written off as a result of impairment of the related asset. The Group amortizes ARO liability using the effective interest method and recognizes accretion expense (included in interest expense) over the lease term.

The Group regularly assesses the provision for ARO and adjusts the related asset and liability (Note 3).

#### 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 on an accrual basis except for heavy maintenance which are capitalized when incurred. For maintenance contract under PBH, the Group recognizes expense on an accrual basis.

#### Investment in Shares of Stock and Joint Ventures

The investment in shares of stock represents 60% investment by the Group in Philippine Academy for Aviation Training, Inc. (PAAT).

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 49.00% and 35.00% investments in Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP) are accounted for under the equity method (Note 13). 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.

#### Impairment of Nonfinancial Assets

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

At each statement of financial position 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 reporting 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, 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 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.

#### 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.

#### 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

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against profit or loss when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.0% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation as of reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash inflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

#### 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 statement of financial position date.

##### *Deferred tax*

Deferred tax is provided using the balance sheet 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 profit 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 quarter ended June 30, 2012 and 2011 as all borrowing costs from outstanding long-term debt relate to assets that are at states ready for intended use (Note 16).

#### 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 System (PDS) 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.

#### 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 Period

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

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### 3. 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 judgment 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 5.

*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. 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 26).

*f. Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. 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 to control or significantly influence the 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.

*g. 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 Company's functional currency.

*h. 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 26).

Estimates

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

a. *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 provisions for credit losses on receivables are discussed in more detail in Note 9.

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 100.0% 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 details of expendable parts, fuel, materials and supplies are disclosed in Note 10.

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 Group recognizes the present value of these costs as ARO asset and ARO liability.

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 noncurrent assets and noncurrent liabilities, which results in increase of depreciation expense and interest expense.

The details and the carrying value of ARO asset and liability are disclosed in Note 17.

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.

The details and the carrying value of property and equipment are disclosed in Note 12.

*e. 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 profit 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.

*f. 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.

The carrying values of property and equipment and investment in JV are disclosed in Notes 12 and 13, respectively.

*g. 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. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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 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.

The present value of the defined benefit obligation, other details for the retirement plan and other employee benefit cost are disclosed in Note 22.

*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, 2012 and as of December 31, 2011, the balances of the Group's unearned transportation revenue amounted to ₱5.1 billion and ₱5.3 billion, 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.

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#### **4. 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 shall assist 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. Event Identification – it identifies both internal and external events affecting the group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment - the identified risks are analyzed relative to the probability and severity of potential loss 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.
5. 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.
6. Control Activities - policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication - relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. 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.

The Group has no concentration of risk with regard to various industry sectors. The major industry relevant to the Group is the transportation sector and financial intermediaries.

#### *Credit quality per class of financial assets*

The Group rates its financial assets based on an internal and external credit rating system.

For financial assets such as designated financial assets at FVPL and AFS investments, the Group assesses their credit quality using external credit ratings from Standard & Poor's (S&P). Financial assets with at least A- are identified as high grade, at least B- as standard grade and not rated (NR) if the credit rating is not performed by an external credit rating agency.

#### *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, 2012 and as of December 31, 2011, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statement of financial position) amounted to ₱176.6 million and ₱161.4 million, respectively (Note 15). 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 reporting date to the contractual maturity date or if earlier the expected date the assets will be realized.

#### *Financial liabilities*

The relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When 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, 2012 and as of December 31, 2011 follow:

	<b>2012</b>	<b>2011</b>
US dollar	<b>₱42.12 to US\$1.00</b>	₱43.84 to US\$1.00
Singapore dollar	<b>₱33.04 to US\$1.00</b>	₱33.85 to SGD1.00
Hong Kong dollar	<b>₱5.45 to US\$1.00</b>	₱5.65 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, 2012 and the year ended December 31, 2011. (in thousands).

	June 30, 2012		December 31, 2011 (Audited)	
	₱5	(₱5)	₱5	(₱5)
Changes in foreign exchange value				
Change in pre-tax income	(₱2,620,599)	₱2,620,599	(₱2,308,680)	₱2,308,680

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 ₱652.2 million and ₱1,121.0 million as of June 30, 2012 and December 31, 2011 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 16).

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 six Months ended June 30, 2012 and for the year ended December 31, 2011.

	June 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	1.50%	(1.50%)	1.50%	(1.50%)
Changes in interest rates				
Change in pre-tax income	(₱91,004,521)	₱91,004,521	(₱104,185,842)	₱104,185,842

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

**5. 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 discount rates of 6.93% in 2012 and 8.72% in 2011.

*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 3.67% to 4.44% as of June 30, 2012.

## 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 operating segment mainly derived from rendering transportation services. All sales are made to external customers.

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

	2012	2011
Revenue	<b>₱20,791,353,377</b>	₱17,803,757,773
Net income (loss)	<b>1,735,777,998</b>	2,440,030,789
Depreciation and amortization	<b>1,487,065,906</b>	1,283,904,687
Interest expense	<b>464,366,348</b>	452,269,339
Interest income	<b>247,384,132</b>	310,066,796

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:

	2012	2011
Total segment revenue of reportable operating segment	<b>₱19,729,242,326</b>	₱16,730,225,820
Nontransport revenue and other income	<b>1,062,111,051</b>	1,073,531,953
Total revenue	<b>₱20,791,353,377</b>	₱17,803,757,773

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:

	2012	2011
Total segment income of reportable segment	<b>₱1,529,693,561</b>	₱2,135,062,621
Add (deduct) unallocated items:		
Nontransport revenue and other income	<b>1,062,111,051</b>	1,073,531,953
Nontransport expenses and other charges	<b>(464,366,348)</b>	(465,412,491)
Benefit from (provision for) income tax	<b>(391,660,266)</b>	(303,151,296)
Net income (loss)	<b>1,735,777,998</b>	2,440,030,787
Other comprehensive loss		(1,999,543)
Total comprehensive income (loss)	<b>₱1,735,777,998</b>	₱2,438,031,244

The Group's major revenue-producing asset is the fleet of aircraft owned by the Group, which is employed across its route network (Note 12).

The Group has no significant customer which contributes 10.0% or more to the revenues of the Group.

## 7. Cash and Cash Equivalents

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Cash on hand	<b>₱20,253,683</b>	₱16,641,225
Cash in banks	<b>416,989,199</b>	503,830,598
Short-term placements	<b>10,899,863,348</b>	8,437,312,163
	<b>₱11,337,106,230</b>	₱8,957,783,986

Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn an average interest of 4.16% and 4.09% for six months ended June 30, 2012 and 2011 respectively, on short-term placements denominated in Philippine peso. Moreover, short-term placements in US dollar earn an average of 1.61% in 2012.

Interest income on cash and cash equivalents, presented in the consolidated statements of comprehensive income, amounted to ₱243.0 million and ₱202.6 million for six months ended June 30, 2012 and 2011 respectively.

## 8. Investment and Trading Securities

### Financial Assets at FVPL

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Designated at FVPL		
Quoted debt securities:		
Private	₱-	₱2,021,911,190
Government	-	1,039,254,600
	-	3,061,165,790
Quoted equity securities	-	183,032,000
	-	3,244,197,790
Derivative financial instruments		
not designated as accounting hedges		16,880,208
	<b>₱</b>	<b>₱3,261,077,998</b>

On June 30, 2010, the Group acquired from JGSHI the financial assets designated at FVPL and AFS by execution of deed of assignment.

On January 13, 2012, JGSHI acquired all of the Group's debt and equity securities classified as financial assets at FVPL and AFS financial assets in exchange for a settlement amounting ₱3,368.4 million. Market value of financial assets at FVPL and AFS financial assets at date of settlement amounted to ₱3,258.0 million and ₱110.4 million, respectively.

At inception, the Group classified this group of debt and equity securities as financial assets designated at FVPL since their performance are managed and evaluated on a fair value basis in

accordance with the Group's documented investment strategy. The information about these financial instruments is reported to management on that basis.

In 2012, the Group recognized gain and dividend income of ₱5.8 million and ₱4.4 million from the sale of quoted debt and equity securities respectively classified as financial assets designated at FVPL.

Commodity options

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, 2012 and 2011, the Group has outstanding fuel hedging transactions with notional quantity of 540,000 US barrels and 900,000 US barrels, respectively. 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, 2012 and December 31, 2013.

*Fair value changes on derivatives*

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

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Balance at beginning of period		
Derivative assets	<b>₱16,880,208</b>	₱489,917,466
Derivative liabilities	<b>(₱60,857,586)</b>	-
	<b>(₱43,977,378)</b>	489,917,466
Net changes in fair value of derivatives	<b>27,193,019</b>	477,128,001
	<b>(16,784,359)</b>	967,045,467
Fair value of settled instruments	<b>(77,042,329)</b>	(1,011,022,845)
Balance at end of period	<b>(₱93,826,688)</b>	(₱43,977,378)
Attributable to:		
Derivative assets	<b>₱</b>	₱16,880,208
Derivative liabilities	<b>(₱93,826,688)</b>	(₱60,857,586)

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9. **Receivables**

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Trade receivables	<b>₱555,873,804</b>	₱546,244,400
Interest receivable	<b>67,253,280</b>	146,244,351
Due from related parties (Note 25)	<b>48,099,543</b>	35,174,259
Others	<b>236,456,997</b>	341,707,354
	<b>907,683,624</b>	1,069,370,364
Less allowance for credit losses	<b>223,739,690</b>	232,584,140
	<b>₱683,943,934</b>	₱836,786,224

Trade receivables are non-interest bearing and generally have 30 to 90 days terms.

Others include receivable under a sublease agreement amounting to ₱216.6 million with another airline company denominated in US dollar. This receivable is fully provided with allowance for credit losses.

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

	2012							
	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	₱489,689,681	₱25,379,134	₱33,190,100	₱96,906	₱1,187,108	₱6,330,875	₱555,873,804	
Interest receivable	67,253,280	-	-	-	-	-	67,253,280	
Due from related parties	48,099,543	-	-	-	-	-	48,099,543	
Others*	15,887,788	573,957	88,667	551,938	1,945,832	217,408,815	236,456,997	
	<b>₱620,930,292</b>	<b>₱25,953,091</b>	<b>₱33,278,767</b>	<b>₱648,844</b>	<b>₱3,132,940</b>	<b>₱223,739,690</b>	<b>₱907,683,624</b>	

\*Include nontrade receivables from derivative counterparties and employees

	2011							
	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	₱450,744,710	₱43,594,752	₱40,712,136	₱1,591,235	₱3,270,692	₱6,330,875	₱546,244,400	
Interest receivable	146,244,351	-	-	-	-	-	146,244,351	
Due from related parties	31,977,638	-	-	-	3,196,621	-	35,174,259	
Others*	115,454,089	-	-	-	-	226,253,265	341,707,354	
	<b>₱744,420,788</b>	<b>₱43,594,752</b>	<b>₱40,712,136</b>	<b>₱1,591,235</b>	<b>₱6,467,313</b>	<b>₱232,584,140</b>	<b>₱1,069,370,364</b>	

\*Include nontrade receivables from derivative counterparties and employees

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

	2012 (Unaudited)		
	Trade Receivables	Others	Total
Balance at beginning of year	₱6,330,875	₱226,253,265	₱232,584,140
Unrealized foreign exchange (loss) gain on allowance for credit losses	-	(8,844,450)	(8,844,450)
Provision for credit losses (Note 21)	-	-	-
Write-off	-	-	-
Balance at end of year	<b>₱6,330,875</b>	<b>₱217,408,815</b>	<b>₱223,739,690</b>

	2011 (Audited)		
	Trade Receivables	Others	Total
Balance at beginning of year	₱6,330,875	₱226,253,265	₱232,584,140
Unrealized foreign exchange gain on allowance for credit losses	-	-	-
Provision for credit losses (Note 21)	-	-	-
Write-off	-	-	-
Balance at end of year	<b>₱6,330,875</b>	<b>₱226,253,265</b>	<b>₱232,584,140</b>

As of June 30, 2012 and December 31, 2011 the specific allowance for credit losses on trade receivables and other receivables amounted to ₱6.3 million and ₱217.4 million, and ₱6.3 million and ₱226.3 million, respectively.

## 10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
At NRV:		
Expendable parts	<b>₱254,846,712</b>	₱243,906,026
At cost:		
Fuel	<b>62,352,737</b>	128,721,614
Materials and supplies	<b>26,418,413</b>	24,899,700
	<b>88,771,150</b>	153,621,314
	<b>₱343,617,862</b>	₱397,527,340

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under 'Repairs and maintenance' account in the consolidated statement of comprehensive income) for six months ended June 30, 2012 and 2011 amounted to ₱140.5 million and ₱71.5 million, respectively. The cost of fuel reported as expense under 'Flying operations' amounted to ₱9.2 billion and ₱7.3 billion in 2012 and 2011, respectively (Note 20).

## 11. Other Current Assets

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Prepaid rent	<b>₱153,798,919</b>	₱163,245,902
Advances to suppliers	<b>70,707,212</b>	55,060,231
Prepaid insurance	<b>68,763,442</b>	39,222,963
Others	<b>55,319,362</b>	21,161,965
	<b>₱348,588,935</b>	₱278,691,061

Prepaid rent pertains to advance rental on aircraft under operating lease and on office spaces in airports (Note 26).

## 12. Property and Equipment

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
<b>Acquisition Costs</b>		
Passenger aircraft	<b>₱42,813,245,026</b>	₱40,981,154,504
Pre-delivery payments	<b>7,661,992,394</b>	6,853,388,188
Engines	<b>2,324,646,331</b>	2,191,776,807
Rotables	<b>1,501,095,342</b>	1,115,405,930
EDP equipment, mainframe and peripherals	<b>574,449,542</b>	543,389,385
Ground support equipment	<b>345,313,697</b>	313,326,798
Leasehold improvements	<b>172,318,433</b>	168,944,592
Transportation equipment	<b>156,320,189</b>	146,808,581
Furniture, fixtures and office equipment	<b>78,332,068</b>	74,032,990
Construction in-progress	<b>47,410,774</b>	18,047,947
Special tools	<b>12,942,928</b>	12,854,536
(Forward)		

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Communication equipment	<b>9,156,931</b>	8,519,385
Maintenance and test equipment	<b>6,681,631</b>	6,416,984
Other equipment	<b>71,371,485</b>	70,576,306
Total	<b>55,775,276,771</b>	52,504,642,933
Accumulated depreciation	<b>12,954,165,219</b>	11,467,099,312
<b>Net book value</b>	<b>₱42,821,111,552</b>	<b>₱41,037,543,621</b>

#### Passenger Aircraft Held as Securing Assets Under Various Loans

In 2005 and 2006, the Group entered into Export Credit Agency (ECA)-backed loan facilities (ECA loans) to partially finance the purchase of ten Airbus A319 aircraft. In 2007, the Group also 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 Quick Engine Change (QEC) Kit. In 2008, the Group entered into both ECA loans and commercial loans to partially finance the purchase of six Avion de Transport Regional (ATR) 72-500 turboprop aircraft. Then in 2009, ECA loans were availed to finance the purchase of two ATR 72-500 turboprop aircraft. In 2010, the Group entered into ECA loan to finance the purchase of three Airbus A320 aircraft. In 2011, the Group entered into ECA loan to finance the purchase of three additional Airbus A320 aircraft.

Under the terms of the ECA loan and the 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 by the guarantors which are CPAHI and JGSHI. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of June 30, 2012 and December 31, 2011, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱31.1 billion and ₱30.4 billion, respectively.

On July 18, 2010, one ATR 72-500 turboprop aircraft was damaged due to a hard landing at the Ninoy Aquino International Airport (NAIA). The Company initially decided to repair the aircraft, however, in October 2010, the Company's engineer concluded this as a constructive loss, wherein it is more beneficial to dispose the aircraft since the reparation cost is higher than the book value of the said aircraft. On November 30, 2010, the Group received insurance proceeds and terminated the related loan. Accordingly, rights over the aircraft went to the insurers.

The Group took delivery of one ATR 72-500 turboprop aircraft in March 2011.

#### Operating Fleet

As of June 30, 2012 and as of December 31, 2011, the Group's operating fleet follows:

	<b>2012</b>	2011
Owned (Note 16):		
Airbus A319	<b>10</b>	10
Airbus A320	<b>9</b>	8
ATR 72-500	<b>8</b>	8
Under operating lease (Note 26):		
Airbus A320	<b>11</b>	11
	<b>38</b>	37

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, 2012 and December 31, 2012, the Group's capitalized pre-delivery payments as construction-in-progress amounted to ₱7.7 billion and ₱6.9 billion respectively.

As of June 30, 2012 and December 31, 2011, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱606.1 million and ₱556.2 million, respectively.

### 13. Investment in Shares of Stock and Joint Ventures

The investment in shares of stocks represents 60% investments by the Group in PAAT. PAAT was created to provide training for pilots, cabin crews, aviation management services and guest services for purposes of addressing the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including local and international airline companies. As of June 30, 2012 and December 31, 2011, the Company has investment in PAAT amounting to ₱134.9 million and ₱33.8 million respectively.

This account also represents the Group's 49.00% and 35.00% interest in A-plus and SIAEP, respectively. These jointly controlled entities 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 A-plus and SIAEP follow:

	June 30, 2012 (Unaudited)		
	A-plus	SIAEP	Total
<b>Cost</b>	<b>₱87,012,572</b>	<b>₱304,763,900</b>	<b>₱391,776,472</b>
<b>Accumulated Equity in Net Income (Loss)</b>			
<b>Balance at beginning of period</b>	44,732,164	(60,780,399)	(16,048,235)
<b>Dividends</b>	(53,229,016)		(53,229,016)
<b>Equity in net income (loss) for the period</b>	26,669,474	9,346,395	36,015,869
<b>Balance at end of period</b>	18,172,622	(51,434,004)	(33,261,383)
<b>Net Carrying Value</b>	<b>₱105,185,194</b>	<b>₱253,329,896</b>	<b>₱358,515,089</b>

	December 31, 2011 (Audited)		
	A-plus	SIAEP	Total
<b>Cost</b>	<b>₱87,012,572</b>	<b>₱304,763,900</b>	<b>₱391,776,472</b>
<b>Accumulated Equity in Net Income (Loss)</b>			
<b>Balance at beginning of period</b>	30,116,847	(52,248,581)	(22,131,734)
<b>Equity in net income (loss) for the period</b>	50,850,020	(8,531,818)	42,318,202
<b>Dividends received</b>	(36,234,703)	-	(36,234,703)
<b>Balance at end of period</b>	44,732,164	(60,780,399)	(16,048,235)
<b>Net Carrying Value</b>	<b>₱131,744,736</b>	<b>₱243,983,501</b>	<b>₱375,728,237</b>



Selected financial information of A-plus and SIAEP follows:

	June 30, 2012		December 31, 2011	
	A-plus	SIAEP	A-plus	SIAEP
Total current assets	<b>₱394,358,219</b>	<b>₱361,411,733</b>	₱396,481,683	₱267,039,671
Total assets	<b>446,893,945</b>	<b>926,675,086</b>	449,545,110	871,670,211
Total current liabilities	<b>230,426,566</b>	<b>282,053,688</b>	178,874,540	228,070,700
Total liabilities	<b>230,426,566</b>	<b>282,053,688</b>	178,874,540	228,070,700
Net income (loss)	<b>33,916,269</b>	<b>2,765,296</b>	84,118,310	(21,902,640)

The fiscal year-end of A-plus and SIAEP is every March 31.

The undistributed earnings of A-plus included in the consolidated retained earnings amounted to ₱18.2 million and ₱44.7 million as of June 30, 2012 and December 31, 2011, 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, 2012 and December 31, 2011.

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#### 14. Other Noncurrent Assets

This account consists of:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Refundable deposits	<b>₱33,438,542</b>	₱166,175,680
Creditable withholding tax	<b>41,967,818</b>	57,492,013
Others	<b>179,076,180</b>	167,784,698
	<b>₱254,482,540</b>	₱391,452,391

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

Others include option and commitment fees.

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#### 15. Accounts Payable and Other Accrued Liabilities

This account consists of:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Accrued expenses	<b>₱3,408,581,272</b>	₱3,312,566,151
Trade payables (Note 26)	<b>2,047,275,164</b>	2,639,714,690
Airport and other related fees payable	<b>329,815,309</b>	330,044,660
Advances from agents and others	<b>230,180,864</b>	191,017,007
Accrued interest payable (Note 16)	<b>110,407,267</b>	102,259,843
Other payables	<b>111,567,946</b>	135,236,525
	<b>₱6,237,827,822</b>	₱6,710,838,876

Accrued Expenses

The Group's accrued expenses include accruals for:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Maintenance	<b>₱774,359,682</b>	₱861,990,342
Advertising and promotion	<b>410,767,884</b>	408,910,866
Training costs	<b>470,722,559</b>	359,401,193
Compensation and benefits	<b>517,260,943</b>	505,238,321
Landing and take-off fees	<b>256,563,310</b>	226,106,789
Navigational charges	<b>275,992,868</b>	231,723,393
Fuel	<b>159,506,358</b>	153,277,223
Repairs and services	<b>143,391,465</b>	165,768,719
Rent (Note 26)	<b>118,911,693</b>	91,959,267
Ground handling charges	<b>101,553,668</b>	108,131,398
Aircraft insurance	<b>41,035,348</b>	41,924,552
Catering supplies	<b>42,443,644</b>	38,980,896
Reservation costs	<b>21,849,016</b>	13,658,115
Others	<b>74,222,834</b>	105,495,077
	<b>₱3,408,581,272</b>	₱3,312,566,151

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 non interest-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.

Interest Payable

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

Advances from Agents and Others

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

Other Payables

Other payables are non interest-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.

## 16. Long-term Debt

This account consists of:

	Interest Rates	Maturities	2012 (Unaudited)	
			US Dollar	Philippine Peso Equivalent
ECA loans	2.51% to 5.83%	Various dates through 2023	US\$356,168,731	₱15,001,826,966
	1.07% to 2.02% (US Dollar LIBOR 6 months + margin or 3 months + margin)		79,263,745	3,338,588,923
			435,432,476	18,340,415,889
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	43,881,309	1,848,280,728
	1.71% to 2.03% (US Dollar LIBOR 6 months + margin)		3,784,762	159,414,193
			47,666,071	2,007,694,921
			483,098,547	20,348,110,810
<b>Less current portion</b>			59,651,261	2,512,511,115
			US\$423,447,286	₱17,835,599,694
2011 (Audited)				
	Interest Rates	Maturities	US Dollar	Philippine Peso Equivalent
ECA loans	3.37% to 5.83%	Various dates through 2022	US\$248,553,773	₱10,896,597,403
	0.86% to 2.54% (US Dollar LIBOR 6 months + margin or 3 months + margin)		175,556,066	7,696,377,955
			424,109,839	18,592,975,358
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	47,428,768	2,079,277,203
	1.64% to 2.12% (US Dollar LIBOR 6 months + margin)		4,553,852	199,640,872
			51,982,620	2,278,918,075
			476,092,459	20,871,893,433
<b>Less current portion</b>			56,283,101	2,467,451,166
			US\$419,809,358	₱18,404,442,267

### 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 Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the 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 amounting ₱638.1 million (US\$14.5 million) and ₱13.0 million (US\$0.3 million), respectively, 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.

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 seven 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 four 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 related to CALL and BLL is at fixed rates, which range from 3.78% to 5.83%. Interest on loans from ECA lenders related to SLL is fixed at 3.37% for one aircraft and US dollar LIBOR 6 months plus margin for the other aircraft. Interest on loans from the ECA lenders related to SALL and VALL for the seven Airbus A320 aircraft is US dollar LIBOR 3 months plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL and VALL 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 and VALL 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 becomes insolvent, (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's and VALL'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, 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.
- 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, 2012 and December 31, 2011, the total outstanding balance of the ECA loans amounted to ₱18.3 billion (US\$435.4 million) and ₱18.6 billion (US\$424.1 million), respectively. Interest expense amounted to ₱312.2 million and ₱297.0 million for six months ended June 30, 2012 and 2011, respectively.

#### Commercial Loans from Foreign Banks

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.

The terms of the commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each Airbus A320 aircraft.
- Terms of six and five years for the engines and QEC Kit, respectively.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the two Airbus A320 aircraft and six ATR 72-500 turboprop aircraft, and equal principal repayments for the engines and the QEC Kit. Principal repayments shall be made on a quarterly and semi-annual basis for the two Airbus A320 aircraft, engines and the QEC Kit and six ATR 72-500 turboprop aircraft, respectively.
- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be US dollar LIBOR 3 months plus margin. On February 29, 2009, the interest rates on the two Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 4.11% to 5.67%.
- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be US dollar LIBOR 6 months plus margin.

- 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, 2012 and December 31, 2011, the total outstanding balance of the commercial loans from foreign banks amounted to ₱2.0 billion (US\$47.7 million) and ₱2.3 billion (US\$52.0 million), respectively. Interest expense amounted to ₱53.2 million and ₱61.9 million for the six months ended June 30, 2012 and 2011, respectively.

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## 17. Other Noncurrent Liabilities

This account consists of:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
ARO	<b>₱2,077,221,073</b>	₱2,437,668,334
Accrued maintenance	<b>670,810,817</b>	670,810,817
Pension liability (Note 22)	<b>248,205,804</b>	251,594,022
	<b>₱2,996,237,694</b>	₱3,360,073,173

### 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 2007, which includes estimates of certain redelivery costs at the end of the operating aircraft lease (see Note 3).

The rollforward analysis of the Group's ARO follows:

	<b>June 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Balance at beginning of year	<b>₱2,437,668,334</b>	₱2,070,145,159
Accretion expense*	<b>99,016,539</b>	191,472,734
Capitalized during the year**		279,926,767
Payment of restorations during the year	<b>(459,463,800)</b>	(103,876,326)
Balance at end of year	<b>₱2,077,221,073</b>	₱2,437,668,334

\* Included under interest expense account in the consolidated statements of comprehensive income

\*\* Related to recognized ARO liability for two additional Airbus A320 aircraft under operating lease agreements entered in 2011

### Accrued Maintenance

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

## 18. Equity

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

	2012	2011
Authorized – at ₱1 par value	<b>1,340,000,000</b>	1,340,000,000
Beginning of year	<b>605,953,330</b>	613,236,550
Treasury shares	–	(7,283,220)
Issuance of shares during the year	–	–
<b>Issued and outstanding</b>	<b>605,953,330</b>	605,953,330

### Issuance of Common Shares of Stock

On October 26, 2010, the Parent Company listed with the PSE its common stock, wherein it offered 212,419,700 shares to the public at ₱125.00 per share. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting to ₱3.8 billion. The Parent Company incurred transaction costs incidental to the IPO amounting to ₱100.4 million, which is charged against Capital paid in excess of par value' in the consolidated statement of financial position.

### 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 billion 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, 2011, restricting the Parent Company from declaring an equivalent amount from the unappropriated retained earnings as dividends.

### Appropriation of Retained Earnings

On December 12, 2011, the Parent Company's Executive Committee appropriated ₱933.5 million from its unrestricted retained earnings as of December 31, 2011 for purposes of the Parent Company's re-fleeting program.

On April 19, 2012, the Parent Company's Executive Committee appropriated ₱483.3 million from its unrestricted retained earnings as of December 31, 2011 for purposes of the Parent Company's re-fleeting program.

### 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 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.

Also, on June 28, 2012, the Parent Company's BOD approved the declaration of ₱1 per common share to all stockholders of record as of July 18, 2012 and payable on August 13, 2012.

### 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 debt-to-capital ratios follow:

	2012	2011
(a) Long term debt (Note 16)	<b>₱20,348,110,810</b>	₱20,871,893,433
(b) Capital	<b>20,906,931,549</b>	19,165,523,290
(c) Debt-to-capital ratio (a/b)	<b>.97:1</b>	1.1:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of June 30, 2012 and December 31, 2011. Such ratio is currently being managed on a group level by the Group's ultimate parent.

### 19. Ancillary Revenue

Ancillary revenue consists of:

	2012	2011
Excess baggage fees	<b>₱1,446,434,079</b>	₱835,738,303
Rebooking, refunds and cancellation fees	<b>278,995,750</b>	254,529,123
Others	<b>1,223,927,683</b>	811,397,855
	<b>₱2,949,357,512</b>	₱1,901,665,280

Others pertain to revenues from in-flight sales and services provided through reservation system such as advance seat selection, website administration as well as commissions.

### 20. Operating Expenses

#### Flying Operations

Flying operations consists of:

	2012	2011
Aviation fuel expense	<b>₱9,219,535,655</b>	₱7,296,232,413
Flight deck	<b>1,143,098,872</b>	769,029,511
Aircraft insurance	<b>93,462,466</b>	88,071,267
Others	<b>60,253,421</b>	56,314,297
	<b>₱10,516,350,414</b>	₱8,209,647,488

#### Aircraft and Traffic Servicing

Aircraft and traffic servicing consists of:

	2012	2011
Airport charges	<b>₱1,015,709,893</b>	₱865,847,933
Ground handling	<b>533,232,751</b>	473,941,621
Others	<b>183,176,381</b>	161,026,406
	<b>₱1,732,119,025</b>	₱1,500,815,960



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.

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**21. General and Administrative Expenses**

This account consists of staff-related expenses, provision for credit losses on receivables (Note 9), travel and transportation, rent, non-aircraft repairs and maintenance, utilities and insurance.

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**22. 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 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.

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**23. Other Expenses**

This account consists mainly of bank charges.

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**24. Earnings Per Share**

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

	<u>2012</u>	<u>2011</u>
(a) Net income (loss) attributable to common shareholders	<b>₱1,735,777,998</b>	₱2,440,030,787
(b) Weighted average number of common shares for basic EPS	<b>610,851,702</b>	611,726,961
(c) Basic/diluted earnings (loss) per share	<b>₱2.84</b>	₱3.99

The Group has no dilutive potential common shares in 2012 and 2011.

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**25. Related Party Transactions**

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.

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**26. 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 11 Airbus A320 aircraft:

<b>Date of Lease Agreement</b>	<b>Original Lessors</b>	<b>New Lessors</b>	<b>No. of Units</b>	<b>Lease Term</b>
April 23, 2007	Celestial Aviation Trading 17 Limited (CAT 17)	Inishcrean Leasing Limited (Inishcrean)*	1	October 2007 - October 2016
May 29, 2007	CITAI	–	4	March 2008 - March 2014 April 2008 - April 2014 May 2008 - May 2014 October 2008 - October 2014
March 14, 2008	Celestial Aviation Trading 19 Limited (CAT 19)	GY Aviation Lease 0905 Co. Limited**	2	January 2009 - January 2017
March 14, 2008	Celestial Aviation Trading 23 Limited (CAT 23)	–	2	October 2011-October 2019
July 13, 2011	RBS Aerospace Limited	–	2	March 2012-February 2018

\* *Effective June 24, 2009.*

\*\* *Effective March 25, 2010.*

On March 14, 2008, the Group entered into an operating lease agreement with CAT 19 for the lease of two Airbus A320 aircraft, which were delivered in 2009. On the same date, the Group also entered into another lease agreement with Celestial Aviation Trading 23 Limited (CAT 23) for the lease of two additional Airbus A320 aircraft to be received in 2012. In November 2010, the Group signed an amendment to the operating lease agreements with CAT 23, advancing the delivery of the two Airbus A320 aircraft to 2011 from 2012.

Lease agreements with CITAI, CAT 17 and CAT 19 were amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

On July 13, 2011, the Group entered into an operating lease agreement with RBS Aerospace Ltd. for the lease of two Airbus A320 aircraft, which shall be delivered in March 2012. This aircrafts shall replace the two aircrafts under Wilmington Trust SP Services (Dublin) Ltd. which contract shall expire on May 2012 and June 2012. Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱1,071.0 million and ₱814.6 million for six months ended June 30, 2012 and 2011, respectively.

*A330 aircraft*

On December 6, 2011, the Group entered into an aircraft operating lease Memorandum of Understanding (MOU) with CIT Aerospace International for the lease of four Airbus A330-330 aircrafts, which are scheduled to be delivered from June 2013 to 2014. These aircrafts shall be used for the long-haul network expansion programs of the Group.

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%.

Lease expenses relating to non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱137.5 million and ₱122.0 million in 2012 and 2011, respectively.

### Aircraft and Spare Engine Purchase Commitments

As of December 31, 2009, the Group has existing commitments to purchase 15 additional new Airbus A320 aircraft, which are scheduled for delivery between 2010 and 2014, and one spare engine to be delivered in 2011. In 2010, the Group exercised its option to purchase five Airbus A320 aircraft and entered into a new commitment to purchase two Airbus A320 aircraft to be delivered between 2011 and 2014.

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.

As of December 31, 2011, the Group has existing commitments to purchase 26 new Airbus A320 aircraft, three of which were delivered on January 25, September 29 and December 8, 2011, respectively. The remaining 23 Airbus A320 aircraft are scheduled to be delivered between 2012 and 2016, one of which was delivered in January 2012. The spare engine was delivered as scheduled in 2011.

Also in 2007, the Group has committed to purchase six ATR 72-500 turboprop aircraft and has exercised an option to purchase additional four ATR 72-500 turboprop aircraft. These turboprop aircraft will cater to destinations in the country's smaller airports. The Group has taken delivery of the initial six aircraft in 2008 and the remaining two were received during the first quarter of 2009. One ATR 72-500 turboprop aircraft was delivered in March 2011 to replace the aircraft disposed last November 2010. The Group terminated the purchase commitment for one ATR-72-500 turboprop aircraft.

On August 2011, the Group entered in a new commitment to purchase firm orders of thirty new A321 NEO aircraft and ten additional option orders. These aircraft shall be used for longer range network expansion programs. The aircraft are scheduled to be delivered from 2017 to 2021. In June 2012, the Group selected Pratt & Whitney engines for its A321 NEO aircraft. The agreement also includes a long term maintenance package for each aircraft as well as the purchase of spare engines.

On June 2012, the Group signed a contract with Rolls Royce for the Rolls Royce Trent 700 engines to power up the Group's four leased Airbus A330 aircraft, and up to four more aircraft. Rolls Royce will also provide up to two spare engines, as well as long term maintenance service in support for the engines.

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

### 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 Parent Company has a pending tax assessment, the outcome of which is not presently determinable.

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**27. Supplemental Disclosures to the Consolidated Statements of Cash Flows**

On March 30 and 31, 2011, the Group acquired a total of 2,000,000 shares of treasury stocks pursuant to the share buyback program (SBP) as approved by the BOD on February 28, 2011. The transaction was paid on April 2011 amounting to ₱ 158.5 million.

The Group acquired one Airbus A320 aircraft in 2011 and another Airbus A320 aircraft in 2012 by assuming direct liabilities. These transactions are considered non-cash financing activities.