COVER SHEET

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SEC Registration Number

C E B U A I R , I N C .

(Company's Full Name)

2 N D F L O O R , D O N A J U A N I T A M A R Q U E Z L
I M B U I L D I N G , O S M E N A B L V D . , C E B U C
I T Y

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

Robin C. Dui

(Contact Person)

852-2461

(Company Telephone Number)

1 2 | 3 1
Month | *Day*

(Fiscal Year)

1 7 Q

(Form Type)

Month | *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

- -

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2010**

2. Commission identification number **154675**

3. BIR tax identification no. **000-948-229-000**

4. **Cebu Air, Inc.**
   Exact name of issuer as specified in its charter

5. **Cebu City, Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

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

8. **(032) 255-4552**
   Issuer's telephone number, including area code

9. **Not Applicable**
   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	**582,574,750 shares**

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

    Yes [ ] No [/]

12. Indicate by check mark whether the registrant:

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

Yes [ ] No [/]

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

Yes [ ] No [/]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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 September 30, 2010, the Company operates an extensive route network serving 50 domestic routes and 23 international routes with a total of 1,662 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 29 aircraft which comprises of ten Airbus A319, eleven 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 3.26 years as of September 30, 2010.

The Company has three principal distribution channels: the internet; direct sales through booking sales offices, call centres 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, travel-related products and services such as sale of travel insurance, and value-added services such as seat selector.

Results of Operations

Nine Months Ended September 30, 2010 vs. September 30, 2009

Revenues
The Company posted revenues of ₱21.521 billion for the nine months ended September 30, 2010, 30.8% higher than the ₱16.457 billion revenues generated from the same period last year. Considerable improvement in revenues is accounted for as follows:

Passenger Revenues
Passenger revenues increased by ₱4.576 billion or 33.2% to ₱18.352 billion in the nine months ended September 30, 2010 from ₱13.777 billion revenues registered in the same period last year. This increase was primarily due to the 19.6% increase in passenger volume to 7.7 million in the nine months ended September 2010 from 6.4 million in the nine months ended September 30, 2009. This was largely driven by the increased number of flights in 2010 and higher seat load factor. The Company increased the size of its fleet by adding two Airbus A320 aircraft and two ATR 72-500 aircraft during the nine months ended September 30, 2009. These aircraft were in operation for the entire nine months ended September 30, 2010 thus, resulting in more flights, which was up by 8.9% from last year. The increase in passenger revenues for the nine months ended September 30, 2010 compared with the nine months ended September 30, 2009 was also attributable to the increase in the average one-way fares by 11.3% to ₱2,378 in the nine months ended September 30, 2010 from ₱2,136 in prior year.

Cargo Revenues
Cargo revenues increased by ₱404.977 million or 35.7% to ₱1.540 billion in the nine months ended September 30, 2010 from ₱1.135 billion in the nine months ended September 30, 2009, mainly as a result of the increase in the volume of cargo transported during the period.

Ancillary Revenues
Ancillary revenues increased by ₱83.604 million or 5.4% to ₱1.629 billion in the nine months ended September 30, 2010 from ₱1.546 billion in the same period in 2009. Changes in the Company's travel regulations led to the reduction in rebooking, refunds and cancellation fees as the Company no longer allows booking changes including cancellations within 24 hours from the estimated date of departure. This offset the increase in revenues from other ancillary services,

such as advance seat selection, website administration as well as commissions earned on travel insurance and from hotel partners.

Expenses
The Company incurred expenses of ₱16.829 billion for the nine months ended September 30, 2010, 17.3% higher than the ₱14.343 billion expenses posted from the same period last year. Increase was partially offset by the strengthening of the Philippine peso against the U.S. dollar to an average of ₱45.60 per U.S. dollar for the nine months ended September 30, 2010 from an average of ₱47.93 per U.S. dollar for the same period in 2009. Expenses increased as a result of the following:

Flying Operations
Flying operations expenses increased by ₱1.953 billion or 30.4% to ₱8.387 billion in the nine months ended September 30, 2010 from ₱6.434 billion in the same period last year. Increase in flying operations expenses was mainly attributable to the increase in aviation fuel expenses by 39.5% to ₱7.182 billion in the nine months ended September 30, 2010 from ₱5.148 billion in the nine months ended September 30, 2009 as a result of the overall increase in the number of flights as well as an increase in aviation fuel prices. Aviation fuel expenses increased as aviation fuel prices rose as referenced by the increase in the average published MOPS price of U.S.$87.27 per barrel in the nine months ended September 30, 2010 compared to the U.S.$65.73 per barrel in the prior period.

Aircraft and Traffic Servicing
Aircraft and traffic servicing expenses increased by ₱86.225 million or 4.5% to ₱1.997 billion in the nine months ended September 30, 2010 from ₱1.911 billion in the nine months ended September 30, 2009 as a result of the overall increase in the number of flights, especially due to the increased number of international flights for which landing and take-off fees and ground-handling charges are generally higher compared with domestic flights.

Repairs and Maintenance
Repairs and maintenance expenses increased by ₱55.232 million or 3.4% to ₱1.658 billion in the nine months ended September 30, 2010 from ₱1.603 billion in the nine months ended September 30, 2009, primarily as a result of the overall increase in the number of flights, partially offset by the strengthening of the Philippine peso against the U.S. dollar to an average of ₱45.60 per U.S. dollar for the nine months ended September 30, 2010 from an average of ₱47.93 per U.S. dollar for the same period in 2009.

Depreciation and Amortization
Depreciation and amortization expenses increased by ₱70.078 million or 4.9% to ₱1.498 billion in the nine months ended September 30, 2010 from ₱1.428 billion in same period last year mainly because of the addition of two ATR 72-500 aircraft during the course of the nine months ended September 30, 2009 which were in operation for the entire nine months ended September 30, 2010. The acquisition of one spare engine in fourth quarter 2009 also contributed to the increase.

Aircraft and Engine Lease
Aircraft and engine lease expenses decreased by ₱125.948 million or 9.5% to ₱1.201 billion in the nine months ended September 30, 2010 from ₱1.327 billion in the same period in prior year consequent to the return of two leased Boeing 757 aircraft in June and October 2009. Decline in aircraft and engine lease expenses was also attributable to the strengthening of the Philippine peso to an average of ₱45.60 per U.S. dollar for the nine months ended September 30, 2010 compared to an average of ₱47.93 per U.S. dollar for the nine months ended September 30, 2009.

Reservation and Sales
Reservation and sales expenses increased by ₱292.076 million or 41.2% to ₱1.002 billion in the nine months ended September 30, 2010 from ₱.709 billion in the nine months ended September 30, 2009. This increase was primarily attributable to the increase in commission expense due to the overall increase in passenger and cargo volumes, especially on the international operations. Increase was also due to increased advertising and promotions expenditures incurred to increase travel on the Company's international operations.

General and Administrative
General and administrative expenses increased by ₱65.599 million or 13.7% to ₱544.625 million in the nine months ended September 30, 2010 from ₱479.026 million in the nine months ended September 30, 2009. This increase was primarily due to the increase in staff and service expenses associated with the increased flight and passenger activity in the nine months ended September 30, 2010.

Passenger Service
Passenger service expenses increased by ₱51.345 million or 12.2% to ₱472.071 million in the nine months ended September 30, 2010 from ₱420.726 million in the same period last year. This increase was mainly due to the increase in cabin crew requirements for Airbus A319 fleet consequent to the reconfiguration of said aircraft which increased the seat capacity from 150 passengers to 156 passengers thereby requiring additional cabin crew to attend to passenger needs.

Operating income
As a result of the foregoing, operating income increased by ₱2.579 billion or 122.0% to ₱4.692 billion in the nine months ended September 30, 2010 from ₱2.113 billion in the nine months ended September 30, 2009.

Interest expense - net
Net interest expense decreased by ₱185.945 million or 24.4% to ₱575.157 million in the nine months ended September 30, 2010 from ₱761.101 million in prior period. Decrease was primarily due to the repayment of certain outstanding long-term debt in accordance with the repayment schedule. The strengthening of the Philippine peso against the U.S. dollar during the current period also contributed to the decline. Interest income amounted to ₱111.222 million for the nine months ended September 30, 2010 compared to ₱9.551 million for the nine months ended September 30, 2009.

Foreign exchange gains
Foreign exchange gains increased by ₱685.474 million to ₱693.731 million in the nine months ended September 30, 2010 from ₱8.257 million in the nine months ended September 30, 2009. This was due to the strengthening of the Philippine peso against the U.S. dollar to an average of ₱45.60 per U.S. dollar for the nine months ended September 30, 2010 from an average of ₱47.93 per U.S. dollar in the same period last year. 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

Equity in net income (loss) of joint venture
The Company had equity in net income of joint venture of ₱17.657 million in the nine months ended September 30, 2010 compared with equity in net loss of joint venture of ₱13.834 million in the nine months ended September 30, 2009. Improvement of ₱31.491 million or 227.6% in this account was due to the net income from the current operations of A+, which was partially offset

by the net loss incurred during the current period by SIAEP, a company which was established in July 2008 and began commercial operations in August 2009.

Fuel hedging gains
Fuel hedging gains declined by ₱462.201 million or 86.6% to ₱71.511 million in the nine months ended September 30, 2010 from ₱533.713 million in the same period last year. Decrease was primarily attributable to the net changes in the fair value of fuel derivative instruments.

Fair value gains
Fair value gains amounted to ₱130.019 million for the nine months ended September 30, 2010. This was caused by the changes in the fair values of quoted debt and equity instruments designated at FVPL.

Income before income tax
As a result of the foregoing, income before income tax increased by ₱3.150 billion or 167.5% to ₱5.030 billion in the nine months ended September 30, 2010 compared with ₱1.880 billion in the nine months ended September 30, 2009.

Provision for (benefit from) income tax
Provision for (benefit from) income tax in the nine months ended September 30, 2010 was ₱198.315 million. Increase in provision for income tax was mainly due to deferred tax liabilities recognized in connection with the unrealized foreign exchange gains on foreign currency denominated obligations as a result of the strengthening of the Philippine peso during the current period.

Net income
Unaudited net income for the nine months ended September 30, 2010 amounted to ₱4.832 billion, 153.8% higher than the ₱1.904 billion net income posted in the same period last year as a result of the foregoing.

As of September 30, 2010, 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 September 30, 2010, 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

September 30, 2010 vs. December 31, 2009

As of September 30, 2010, the Company's balance sheet had consolidated assets of ₱39.715 billion from ₱35.323 billion as of December 31, 2009.

Net cash from operating activities amounted to ₱7.873 billion. As of September 30, 2010, net cash used in investing activities amounted to ₱6.326 billion. Net cash used in financing activities amounted to ₱1.410 billion. Net cash used in financing activities primarily reflected the scheduled repayments of long-term debt.

As of September 30, 2010, 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 2010 Financial Statements
(Increase/Decrease of 5% or more versus 2009)

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 - September 30, 2010 versus December 31, 2009

1,497.9% increase in Financial Assets at Fair Value through Profit or Loss
Due to the investment in quoted debt and equity financial instruments during the current period coupled with the increase in the fair value of such instruments from the initially recognized amount.

24.6% decline in Receivables
Due to the liquidation of advances to suppliers during the current period.

100% increase in Available-for-Sale Investments
Due to the investment in unquoted equity securities during the year, further increased by changes in the fair value of these investments.

31.7% increase in Other Noncurrent Assets
Due to fees paid by the Company for the option to purchase aircraft.

5.5% increase in Accounts Payable and Other Accrued Liabilities
Due to the increase in accruals of certain operating expenses as a result of the increased flight and passenger activity in the nine months ended September 30, 2010.

34.1% increase in Unearned Transportation Revenue
Due to the increase in sale of passenger travel services.

18.0% decrease in Due to Related Parties
Due to payments made during the period.

12.9% decline in Long-Term Debt (including current portion)
Due to the repayment of certain outstanding long-term debt in accordance with the repayment schedule. Decrease was also caused by the appreciation in the value of Philippine peso against the U.S. dollar.

143.6% increase in Deferred Tax Liabilities
Due to the future taxable amount recognized in connection with the unrealized foreign exchange gains.

5.5% increase in Other Noncurrent Liabilities
Due to the accretion of interest on the recognized "Asset Retirement Obligation" and increased retirement provision.

100% increase in Net Unrealized Gain on AFS investments
Due to the increase in fair value of the acquired unquoted equity securities.

245.5% 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 September 30, 2010 and December 31, 2009 and for the nine months ended September 30, 2010 and 2009:

Key Financial Indicators	2010	2009
Total Revenue	₱21.521 billion	₱16.457 billion
Pre-tax Core Net Income	₱4.135 billion	₱1.338 billion
EBITDAR Margin	34%	30%
Cost per Available Seat Kilometre (ASK) (Php)	2.21	2.09
Cost per ASK (U.S. cents)	4.84	4.38
Seat Load Factor	85%	78%

The manner by which the Company calculates the above key performance indicators for both year-end 2010 and 2009 is as follows:

Key Financial Indicators		
Total Revenue	=	Total of the Company's three main revenue sources, namely passenger revenue, cargo revenue, and ancillary revenue
Pre-tax Core Net Income	=	Operating income after deducting net interest expense and adding equity income/losses of a 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 September 30, 2010, 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 financial condition.

PART II - OTHER INFORMATION

NONE.

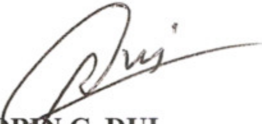
SIGNATURES

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

CEBU AIR, INC.

LANCE Y. GOKONGWEI
President and Chief Executive Officer
Date: 11/12/10

HANSLEY HEINRYCH C. SEE
Chief Financial Officer
Date: 11/12/10



ROBIN C. DUI
Vice President - Comptroller
Date: 11/12/10

CEBU AIR, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2010

(With Comparative Audited Figures as of December 31, 2009)

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱3,925,017,900**	₱3,840,859,455
Financial assets at fair value through profit or loss (Note 7)	**3,639,995,790**	227,794,364
Receivables (Note 8)	**705,679,680**	936,458,640
Expendable parts, fuel, materials and supplies (Note 9)	**348,951,059**	348,972,488
Other current assets (Note 10)	**193,760,850**	199,614,957
Total Current Assets	**8,813,405,279**	5,553,699,904
Noncurrent Assets		
Property and equipment (Notes 11, 15 and 26)	**30,097,912,892**	29,155,171,390
Available-for-sale (AFS) investments (Note 7)	**115,678,650**	–
Investments in joint venture (Note 12)	**362,053,644**	366,355,686
Other noncurrent assets (Note 13)	**326,378,774**	247,748,922
Total Noncurrent Assets	**30,902,023,960**	29,769,275,998
	₱39,715,429,239	₱35,322,975,902
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 14)	**₱5,274,414,002**	₱4,999,811,707
Unearned transportation revenue (Note 2)	**4,652,772,130**	3,469,155,354
Current portion of long-term debt (Note 11 and 15)	**1,804,442,622**	1,862,763,608
Due to related parties (Note 24)	**60,448,069**	73,716,757
Total Current Liabilities	**11,792,076,823**	10,405,447,426
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 11 and 15)	**13,093,679,337**	15,247,363,123
Deferred tax liabilities	**336,444,517**	138,129,877
Other noncurrent liabilities (Note 16)	**2,402,702,833**	2,277,073,622
Total Noncurrent Liabilities	**15,832,826,687**	17,662,566,622
Total Liabilities	**27,624,903,510**	28,068,014,048
Equity (Note 17)		
Common stock	**582,574,750**	582,574,750
Capital paid in excess of par value	**4,703,920,250**	4,703,920,250
Net unrealized gain on AFS investments	**3,645,606**	
Retained earnings	**6,800,385,123**	1,968,466,854
Total Equity	**12,090,525,729**	7,254,961,854
	₱39,715,429,239	₱35,322,975,902

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CEBU AIR, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	Quarters Ended		Nine Months Ended	
	2010	2009	**2010**	2009
REVENUE				
Sale of air transportation services:				
Passenger	**₱5,466,968,702**	3,949,766,891	**₱18,352,202,510**	₱13,776,616,291
Cargo	**539,611,410**	443,290,935	**1,539,647,479**	1,134,670,669
Ancillary revenue	**611,269,461**	535,307,419	**1,629,128,631**	1,545,525,118
	6,617,849,573	4,928,365,245	**21,520,978,620**	16,456,812,078
EXPENSES				
Flying operations	**2,742,247,955**	2,386,635,924	**8,387,261,146**	6,434,023,957
Aircraft and traffic servicing	**673,409,143**	635,726,026	**1,997,371,635**	1,911,146,714
Repairs and maintenance	**538,372,875**	564,012,979	**1,658,114,548**	1,602,882,908
Depreciation and amortization	**502,630,527**	485,677,911	**1,498,479,708**	1,428,402,005
Aircraft and engine lease	**419,076,356**	423,202,447	**1,201,001,898**	1,326,950,046
Reservation and sales	**337,523,800**	239,875,326	**1,001,512,089**	709,435,709
General and administrative	**170,395,005**	152,620,969	**544,624,627**	479,025,980
Passenger service	**155,548,995**	131,799,803	**472,071,092**	420,725,715
Other expenses	**32,417,897**	7,882,067	**68,070,310**	30,816,186
	5,571,622,553	5,027,433,452	**16,828,507,053**	14,343,409,220
OPERATING INCOME	**1,046,227,020**	(99,068,207)	**4,692,471,566**	2,113,402,858
Interest expense - net	**(146,322,858)**	(252,035,835)	**(575,156,578)**	(761,101,167)
Foreign exchange gains	**762,112,950**	211,218,350	**693,730,787**	8,256,674
Equity in net income (loss) of joint venture	**3,974,285**	(7,475,740)	**17,657,440**	(13,833,655)
Fuel hedging gains (loss)	**63,256,404**	(29,346,071)	**71,511,173**	533,712,541
Fair value gains	**130,018,521**	–	**130,018,521**	
	813,039,302	(77,639,296)	**337,761,343**	(232,965,607)
INCOME (LOSS) BEFORE INCOME TAX	**1,859,266,322**	(176,707,503)	**5,030,232,910**	1,880,437,251
PROVISION FOR (BENEFIT FROM) INCOME TAX	**193,456,317**	44,944,048	**198,314,641**	(23,710,737)
NET INCOME (LOSS)	**1,665,810,005**	(221,651,551)	**4,831,918,269**	1,904,147,988
OTHER COMPREHENSIVE INCOME	–	–	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱1,665,810,005**	(₱221,651,551)	**₱4,831,918,269**	₱1,904,147,988
Basic/Diluted Earnings Per Share (Note 23)			**₱8.29**	₱3.27

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CEBU AIR, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	Common Stock	Capital Paid in Excess of Par Value	Net Unrealized Gain on AFS Investments	Retained Earnings (Deficit)	Total Equity
Balance at January 1, 2010	**₱582,574,750**	**₱4,703,920,250**	**₱–**	**₱1,968,466,854**	**₱7,254,961,854**
Net income	**–**	**–**	**–**	**4,831,918,269**	**4,831,918,269**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**4,831,918,269**	**4,831,918,269**
Net unrealized gain on AFS investments	**–**	**–**	**3,645,606**	**–**	**3,645,606**
Balance at September 30, 2010	**₱582,574,750**	**₱4,703,920,250**	**₱3,645,606**	**₱6,800,385,123**	**₱12,090,525,729**
Balance at January 1, 2009	₱582,574,750	₱4,703,920,250	₱–	(₱1,289,381,851)	₱3,997,113,149
Net income	–	–	–	1,904,147,988	1,904,147,988
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	1,904,147,988	1,904,147,988
Balance at September 30, 2009	₱582,574,750	₱4,703,920,250	₱–	₱614,766,137	₱5,901,261,137

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CEBU AIR, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	Nine Months Ended	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,030,232,910**	₱1,880,437,251
Adjustments for:		
Depreciation and amortization	**1,498,479,708**	1,428,402,005
Interest expense - net	**575,156,578**	761,101,167
Fuel hedging gains	**(71,511,173)**	(533,712,541)
Fair value gains	**(130,018,521)**	–
Unrealized foreign exchange gains	**(656,364,128)**	(21,286,661)
Equity in net loss (income) of joint venture	**(17,657,440)**	13,833,655
Operating income before working capital changes	**6,228,317,934**	3,528,774,876
Decrease (increase) in:		
Receivables	**222,854,462**	(4,386,451)
Other current assets	**5,854,106**	1,824,145,849
Expendable parts, fuel, materials and supplies	**21,429**	(179,922,046)
Financial assets at fair value through profit or loss - derivatives	**135,760,779**	–
Increase (decrease) in:		
Accounts payable and other accrued liabilities	**593,683,446**	460,203,600
Unearned transportation revenue	**1,183,616,776**	661,863,127
Financial liabilities at fair value through profit or loss - derivatives	**–**	(1,349,270,193)
Due to related parties	**(13,268,688)**	–
Other noncurrent liabilities	**23,286,395**	(353,538,608)
Net cash generated from operations	**8,380,126,639**	4,587,870,154
Interest paid	**(618,514,729)**	(688,023,091)
Interest received	**111,221,717**	9,551,449
Net cash provided by operating activities	**7,872,833,627**	3,909,398,512
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to a related party	**(3,662,583,961)**	(1,520,756,953)
Acquisition of property and equipment	**(2,607,174,601)**	(2,652,540,826)
Decrease (increase) in other noncurrent assets	**(78,629,853)**	72,694,611
Additional investment in joint venture	**–**	(33,813,500)
Dividends received from a joint venture	**21,959,482**	2,226,402
Net cash used in investing activities	**(6,326,428,933)**	(4,132,190,266)

(Forward)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long term debt	**₱–**	₱1,451,239,335
Repayments of:		
Long-term debt	**(1,410,204,098)**	(1,381,039,065)
Net cash provided by (used in) financing activities	**(1,410,204,098)**	70,200,270
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(52,042,151)**	12,541,465
NET INCREASE (DECREASE) IN CASH AND CASH EQ UIVALENTS	**84,158,445**	(140,050,019)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**3,840,859,455**	646,049,663
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	**₱3,925,017,900**	₱505,999,644

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

1. Corporate Information

Cebu Air, Inc. (the Company) was incorporated and organized in the Philippines on August 18, 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 registered office address of the Company is at 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City.

The Company is a wholly owned subsidiary of CP Air Holdings, Inc. (the Parent Company or CPAHI). The Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI).

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.

On December 14, 2005, the Company was 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 (4) years from
January 9, 2007. The Company can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years.

On September 28, 2007, the BOI approved the amendment of the Company's December 2005 registration to include additional new aircraft purchased and leased in 2008.

On December 19, 2007, the Company was given by the BOI an extension of one (1) year or up to December 31, 2008 to fully comply with the requirement under its BOI registration in December 2005 to increase its paid-up capital to at least ₱5.3 billion. As of December 31, 2008, the Company has fully complied with the required paid-up capital.

On June 4, 2008, the Company was registered with the BOI as a new operator of air transport services involving the acquisition of thirteen (13) brand new aircraft 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 ITH for a period of four (4) years from January 2010. The Company can avail of bonus years in certain specified cases but the aggregate ITH availment (regular and bonus years) shall not exceed

eight (8) years. Among the requirements by the BOI is for the Company to increase its authorized and paid-up capital by at least ₱1.4 billion on or before availment of ITH.

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 Expanded-Value Added Tax (E-VAT) law was signed as RA No. 9337 or the E-VAT Act of 2005. The E-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 E-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 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 said registration was valid for one year effective from December 9, 2009 until December 8, 2010. The registration results in the 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 unaudited interim consolidated financial statements of the Company and its special purpose entities (SPEs) (the Group) were approved and authorized for issue by the board of directors (BOD) on November 12, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim 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) that have been measured at fair value.

The financial statements of the Group are presented in Philippine Peso, the Company's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

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

Basis of Consolidation

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

Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, 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. In accordance with SIC 12, the unaudited interim consolidated financial statements include the accounts of Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL) and Surigao Leasing Limited (SLL). CALL, ILL, BLL and SLL are SPEs in which the Company does not have equity interest. CALL, ILL, BLL and SLL acquired the passenger aircraft for lease to the Company under finance lease arrangements (Note 11) and funded the acquisitions through long-term debt (Note 15).

The unaudited interim 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.

Seasonality of Operations

The Group's financial performance and results of operations are subject to seasonality.
The Group records higher domestic revenue in January, March, April, May and December as festivals and school holidays in the Philippines increase the seat load factors in these periods. Accordingly, the revenue, operating profit is relatively lower in July to September due to decreased travel during those months. Demand for international routes inversely correlates to the seasonality of domestic routes.

Changes in Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the unaudited interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2009, except for the adoption of the following new and amended standards and interpretations as of January 1, 2010:

- Philippine Financial Reporting Standards (PFRS) 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 8, *Scope of PFRS 2* and IFRIC 11, *Group and Treasury Shares Transactions*. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- Amendment to PAS 39, *Eligible Hedged Items*
  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes noncash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

- Revised PFRS 3, *Business Combinations* and Amended PAS 27, *Consolidated and Separate Financial Statements*, are effective for the Group beginning January 1, 2010.
  Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Improvements to PFRS 2009

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

- PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards*
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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 in profit or loss.

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 decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Group includes 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

Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. 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 trade date basis.

Initial recognition of financial instruments

Financial instruments are recognized initially at 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, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost.

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 reporting 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'difference

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 observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) 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' difference 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 September 30, 2010 and December 31, 2009, the Group's financial assets at FVPL consist of derivative assets, private and government bonds and equity securities (Note 7).

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 remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). The Group did not apply hedge accounting on its derivative transactions for the nine months period ended September 30, 2010 and for the year ended December 31, 2010.

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 or credits against current operations under Fuel Hedging Gains (Losses) account in profit or loss.

Embedded derivatives
Embedded derivatives are bifurcated from their host contracts, when the following conditions are met: (a) when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL; (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and (c) when a separate instrument with the same terms as the embedded derivative

would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contract when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

As of September 30, 2010 and December 31, 2009, the Group has no embedded derivatives.

AFS investments

AFS investments are those nonderivative 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 effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under other comprehensive income section of the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Interest earned on holding AFS investments are reported as interest income using the effective interest method. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Dividends earned on holding AFS investments are recognized in the consolidated statement of comprehensive income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive income.

The AFS investment of the Group represents unquoted equity security that does not have quoted market prices in an active market, and whose fair market value cannot be reliably measured.

Unquoted equity securities are subsequently carried at cost less allowance for any impairment losses due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. The losses arising from impairment of unquoted equity securities are recognized in provision for imp airment losses in profit or loss.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and 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 integral part of the effective interest rate (EIR) and transaction costs. Gains and losses are recognized in profit or loss, when the loans and 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 8) and certain refundable deposits (Note 13).

Other 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.

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 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 reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded under interest income in profit or loss. If, in 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 income. Increases in fair value after impairment are recognized directly in other comprehensive income.

<u>Derecognition of Financial Instruments</u>
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 is 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. 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. 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 (EUL) of the assets, regardless of utilization. Passenger aircraft are depreciated over a period of 15 years to a residual value of 15.00%.

The EUL 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

Leasehold improvements are amortized over the shorter of their EUL 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 legally 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 and depreciates such on a straight-line basis over the EUL of the related account or the contract period, whichever is shorter, or written off as a result of impairment of the related account.

Aircraft Maintenance and Overhaul Cost

The Group recognizes aircraft maintenance and overhaul expenses on an incurred basis. For heavy maintenance visits covered by maintenance agreements, expenses are capitalized on the basis of hours flown in accordance to the contractual terms.

Investments in Joint Venture

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 12). 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.

Impairment of Nonfinancial Assets

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

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units) 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 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 are 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, net of tax, from the proceeds.

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 out flow 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 assessment 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 asset is 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 income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.00% 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 ass et 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 reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over RCIT and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable 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 asset 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 reporting 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 estimated useful life 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 nine months period ended September 30, 2010 and for the year ended December 31, 2009 as all borrowing costs from outstanding long-term debt relates to assets that are at a state ready for intended use (Note 15)

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded in the 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 PDS closing exchange rate as of the date of initial transaction.

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

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

For the nine months ended September 30, 2010 and 2009, the Group does not have any dilutive potential ordinary shares.

Segment Reporting

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

Subsequent Events

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.

Future Changes in Accounting Policies

The Group will adopt the following standards, interpretations and amendments to standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

New Standards and Interpretations

Effective in 2011

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* The interpretation is effective for annual periods on or after July 1, 2010, with earlier application permitted. This interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments, often referred to as debt for equity swaps. The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. It clarifies that:

- the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability.
- the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.
- the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

PAS 24, *Related Party Disclosures* (Revised)

The standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. The revised standard addresses the complexity of the definition of a related party by providing a partial exemption for government-related entities and by providing by simplifying the definition of a related party and removing inconsistencies.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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. The Standard is effective for annual periods beginning on or after January 1, 2012.

Effective in 2013

PFRS 9, *Financial Instruments: Classification and Measurements*
The standard has mandatory effectivity on January 1, 2013, earlier application is permitted for financial statements beginning on or after January 1, 2010. The revised standard introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. It represents the completion of the first part of a three-part project of the IASB to replace PAS 39 with a new standard – IFRS 9, *Financial Instruments*. The second part of the project will address proposals on the impairment methodology for financial assets and the third part, on hedge accounting.

Amendments to Standards

Effective in 2011

PAS 32, *Financial Instruments: Presentation*
The amended standard is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted. Amendment to PAS 32, *Classification of Rights Issues*, addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

PFRS 1, *Limited Exemptions from Comparative IFRS 7 Disclosure for First-Time Adopters*
The amended standard is effective July 1, 2010 with earlier application permitted. The amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced in Amendments to IFRS 7: *Improving Disclosures about Financial Instruments*. It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. Additionally, the amendment to IFRS 1 clarifies the IASB's conclusions and intended transition for Amendments to IFRS 7.

Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
The amended interpretation is effective for annual periods beginning on or after January 1, 2011. This interpretation applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

The Group will assess the impact of these amendments when they become effective.

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in accordance with PFRS requires the Group to make certain estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Significant accounting judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

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 instruments in accordance with the substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instruments. 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 on 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.

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 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 Notes 5 and 7.

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.

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 25).

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 25).

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.

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.

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:

Estimation of allowance for impairment 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 Group has no provision for impairment losses on receivables during the nine months ended September 30, 2010 and 2009, respectively (Note 8). The net carrying values of receivables amounted to ₱705.7 million and ₱936.5 million as of September 30, 2010 and December 31, 2009, respectively (Note 8).

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 provided 100.00% for nonmoving items for more than one year. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused expendable parts, fuel, materials and supplies to be written-down below cost no longer exist or when there is a clear evidence of an increase in NRV because of 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.

As of September 30, 2010 and December 31, 2009, expendable parts, fuel, materials and supplies amounted to ₱349.0 million.

Estimation of ARO

The Group is legally 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. 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 part of the related Property and Equipment accounts and depreciates such on a straight-line basis over the useful life of the related asset. The present value of dismantling costs is computed based on an average credit adjusted risk free rate of 10.00%. Assumptions used to compute ARO are reviewed and updated annually.

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 accretion expense.

The Group's ARO (included under Other Noncurrent Liabilities account in the statement of financial position) has a carrying value of ₱1.3 billion and ₱1.2 billion as of September 30, 2010 and December 31, 2009, respectively (Note 16).

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 reviews annually the EUL 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 of property and equipment would increase recorded depreciation and amortization expense and decrease noncurrent assets.

As of September 30, 2010 and December 31, 2009, the carrying amount of the Group's property and equipment, net of accumulated depreciation amounted to ₱30.1 billion and ₱ 29.2 billion, respectively (Note 11).

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.

Deferred tax assets amounted to ₱630.7 million and ₱536.3 million as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010 and December 31, 2009, the Group had certain gross deductible and taxable temporary differences which are expected to expire or reverse within the ITH period, and for which deferred tax assets and deferred tax liabilities were not set up on account of the Group's ITH.

Impairment of nonfinancial assets

The Group assesses the impairment of nonfinancial assets, particularly property and equipment and investments in JV, whenever events or changes in circumstances indicate that the carrying amount of an 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. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

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

As of September 30, 2010 and December 31, 2009, the carrying value of the Group's investments in JV amounted to ₱362.1 million and ₱366.4 million, respectively (Note 12). As of September 30, 2010 and December 31, 2010, the carrying value of the Group's property and equipment amounted to ₱30.1 billion and ₱29.2 billion, respectively. There was no allowance for impairment loss on investments in JV and property and equipment was recorded as of September 30, 2010 and
December 31, 2009.

Estimation of pension and other 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.

Pension expense amounted to ₱24.3 million for nine months ended September 30, 2010 and 2009.

Passenger revenue recognition

Passenger sales are recognized as revenue when the transportation is provided. The value of unused tickets is included as unearned transportation revenue in the consolidated statement of financial position and recognized in 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 estimates were made.

As of September 30, 2010 and December 31 2009, the balances of the Group's unearned transportation revenue amounted to ₱4.7 billion and ₱3.5 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.

Aircraft maintenance costs

The Group has maintenance agreements with several maintenance service providers, including SIA Engineering Company Limited (SIAEC), whose services were subcontracted to A-plus and SIAEP. The proportion of the amount to be expensed out and capitalized is determined based on the best estimate as if the aircraft maintenance costs are accounted for under the time and material basis. Total repairs and maintenance costs amounted to ₱1.7 billion and ₱1.6 billion during the nine months ended September 30, 2010 and 2009, respectively.

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, receivables (excluding advances to suppliers), 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 below, 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 Group and the ultimate parent with its other subsidiaries (JGSHI Group) created the following separate board-level independent committees at the ultimate parent level with explicit authority and responsibility for managing and monitoring risks.

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;
- providing 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.
   Support - this group includes back office personnel who support the line personnel.
3. 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 ultimate parent. 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.
   Corporate Management Services (CMS) - the CMS is responsible for the formulation of enterprise-wide policies and procedures.
3. Corporate Planning (CORPLAN) - the CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of the business units.
4. 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 third party's ability to meet its obligation. 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 an ongoing basis with the 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.

Risk concentrations of the maximum exposure to credit risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. In order to avoid excessive concentrations of risk, identified concentrations of credit risks are controlled and managed accordingly.

Credit quality per class of financial assets

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten banks in terms of resources and profitability.

High grade accounts are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Designated financial assets at FVPL and AFS investments which consist of government debt securities and private debt and equity securities are considered high grade investments. Government debt securities are considered virtually risk-free investments since these are issued and guaranteed by the respective government. Private debt and equity securities denotes the smallest degree of investment risk since the interest or dividend payments are protected by large or by an exceptionally stable margin and principal is secured.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

Past due or individually impaired accounts consist of past due but not impaired receivables amounting to ₱28.8 million and ₱86.5 million as of September 30, 2010 and December 31, 2009, respectively, and past due and impaired receivables amounting to ₱245.5 million as of September 30, 2010 and December 31, 2009 (Note 8). Past due but not impaired receivables are secured by cash bonds from major sales and ticket offices recorded under Accounts Payable and Other Accrued Liabilities account in the consolidated statement of financial position. For the past due and impaired receivables, specific allowance for impairment losses amounted to ₱232.8 and ₱245.5 million as of September 30, 2010 and December 31, 2009 (Note 8).

Collateral or credit enhancements
As a 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 September 30, 2010 and December 31, 2009, outstanding cash bonds (included under Accounts Payable and Other Accrued Liabilities account in the consolidated statement of financial position) amounted to ₱101.5 million and ₱83.6 million, respectively (Note 14).

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 with other factors, 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 imp airment. 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 evidence or no objective 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 been 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 September 30, 2010 and December 31, 2009 follow:

	2010	2009
US Dollar	**₱43.88to US$1.00**	₱46.20 to US$1.00
Singapore Dollar	**₱ 33.4to SGD1.00**	₱33.11 to SGD1.00
Hong Kong Dollar	**₱5.66to HKD1.00**	₱5.99 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 nine months ended September 30, 2010 and 2009 and the year ended December 31, 2009 (in thousands).

	September 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
Changes in foreign exchange value	**₱5**	**(₱5)**	₱5	(₱5)
Change in pre-tax income	**(₱2,009,038)**	**₱2,009,038**	(₱2,152,887)	₱2,152,887

Other than the potential impact on the Group's pre-tax income, 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 ₱736.4 million and ₱938.3 million as of September 30, 2010 and December 31, 2009 respectively, on each of the covered period, assuming no change in volume of fuel is consumed.

The Group manages its commodity price risk through fuel surcharges which are approved by the CAB that protects the Group's fuel usage from volatile price fluctuations, and certain operational adjustments in order to conserve fuel use in the way the aircraft is operated.

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 .

The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Group's pre-tax income as of September 30, 2010, December 31, 2009 and September 30, 2009.

	September 30, 2010 (Unaudited)		December 31, 2009 (Audited)		September 30, 2009 (Unaudited)	
	Nine months		One year		Nine Months	
Changes in interest rates	**1.50%**	**(1.50%)**	1.50%	(1.50%)	1.50%	(1.50%)
Change in pre-tax income	**(₱12,768,054)**	**₱12,768,054**	(₱28,876,171)	₱28,876,171	(₱17,751,656)	₱17,751,656

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 unquoted debt securities

Since the market prices are not readily available, the Group estimated the fair values using adjusted quoted market prices of comparable investments, estimates provided by counterparties or using the discounted cash flow methodology.

Investments in quoted equity securities

Fair values are based on quoted prices published in markets.

Investments in unquoted equity securities
Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost.

Amounts due from and due to related parties
Carrying amounts of due from/to related parties, which are 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 rate of 8.64% and 8.72% in 2010 and 2009, respectively.

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

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

(a) Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities;
(b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

(c) Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial liabilities carried at amortized cost
The carrying values of other borrowings and liabilities approximate their fair values due to the demand nature of these liabilities. The fair value of other noncurrent liabilities is determined using the discounted cash flow methodology.

Long-term debt
The fair value 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 6.06% to 6.29% as of September 30, 2010 and from 6.14% to 6.88% as of December 31, 2009.

6. Cash and Cash Equivalents

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)	September 30, 2009 (Unaudited
Cash on hand	**₱14,147,671**	₱14,308,223	₱14,815,363
Cash in banks	**200,420,285**	2,021,058,418	122,665,564
Cash equivalents	**3,710,449,944**	1,805,492,814	368,518,696
	₱3,925,017,900	₱3,840,859,455	₱505,999,623

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents, which represent money market placements, are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn an average interest of 3.20% for the nine months ended September 30, 2010 and 0.50% for the nine months ended September 30, 2009. Interest income on cash and cash equivalents, presented under Interest Expense -net in the consolidated statement of comprehensive income, amounted to ₱58.8 million and ₱7.3 million for the nine months ended September 30, 2010 and 2009, respectively.

7. Investment Securities

Financial Assets at FVPL
This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Designated at FVPL:		
Quoted debt securities:		
Private	**₱2,115,266,884**	₱–
Government	**1,063,361,811**	–
	3,178,628,695	–
Quoted equity securities	**297,822,337**	–
	3,476,451,032	–
Derivative financial instruments		
Not designated as accounting hedge	**163,544,758**	227,794,364
	₱3,639,995,790	₱227,794,364

There was no interest income and unrealized fair value changes on financial assets designated at FVPL since these financial assets were only acquired in 2010.

At inception, the Company designated group of debt and equity securities that are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and where information about these financial instruments is reported to management on that basis.

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 or credit against current operations. As of September 30, 2010 and December 31, 2009, the Group has outstanding fuel hedging transactions with notional quantity of 935,000 US barrels and 420,000 US barrels, respectively. 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, 2011.

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

	September 30, 2010 (Nine Months Unaudited)	December 31, 2009 (One Year Audited)	September 30, 2009 (Nine Months Unaudited)
Balance at beginning of period			
Derivative assets	**₱227,794,364**	₱–	₱–
Derivative liabilities	**–**	(1,945,985,534)	(1,945,985,534)
	227,794,364	(1,945,985,534)	(1,945,985,534)
Net changes in fair value of derivatives	**71,511,173**	685,574,528	533,712,541
	299,305,537	(1,260,411,006)	(1,412,272,993)
Fair value of settled instruments	**(135,760,779)**	1,488,205,370	1,349,270,193
Balance at end of period	**₱163,544,758**	₱227,794,364	(₱63,002,800)
Attributable to:			
Derivative assets	**₱163,544,758**	₱227,794,364	₱115,087,920
Derivative liabilities	**–**	–	(178,090,720)
	₱163,544,758	₱227,794,364	(₱63,002,800)

Available-for-sale
This account consists of investment in unquoted equity security. This is carried at cost due to the unpredictability of future cash flows on the instruments and the lack of suitable methods of arriving at a reliable fair value. As of September 30, 2010, the carrying value of AFS investment amounted to ₱115.7 million. No impairment loss on AFS investments was recognized in 2010.

8. Receivables

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Trade receivables	**₱483,995,798**	₱571,116,566
Advances to suppliers	**35,313,524**	141,523,959
Interest receivable	**70,348,332**	–
Due from related parties	**35,536,798**	40,389,601
Others	**313,275,054**	428,945,323
	938,469,506	1,181,975,449
Less allowance for impairment losses	**232,789,826**	245,516,809
	₱705,679,680	₱936,458,640

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

Others mainly consist of receivable under a sublease agreement with another airline company. This account is fully provided with allowance for credit losses.

The following tables show the aging analysis of the Group's receivables (excluding advances to suppliers):

September 30, 2010

	Neither Past Due Nor Impaired	**Past Due But Not Impaired**				**Past Due and Impaired**	**Total**
		31-60 days	**61-90 days**	**91-180 days**	**Over 180 d:**		
Trade receivables	**₱449,340,079**	**₱22,571,531**	**₱5,974,458**	**₱ –**	**₱244,679**	**₱ 5,865,052**	**₱ 483,995,798**
Interest receivable	**70,348,332**						**70,348,332**
Due from related parties	**35,536,798**						**35,536,798**
Others	**313,275,053**						**313,275,053**
	₱868,500,262	**₱22,571,531**	**₱5,974,458**	**₱ –**	**₱244,679**	**₱ 5,865,052**	**₱903,155,982**

December 31, 2009

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Past Due and Impaired	Total
		31-60 days	61-90 days	91-180 days	Over 180 days		
Trade receivables	₱481,749,690	₱45,462,279	₱13,771,807	₱17,361,412	₱6,440,503	₱6,330,875	₱571,116,566
Due from related parties	40,389,601	–	–	–	–	–	40,389,601
Others	186,328,128	3,431,261	–	–	–	239,185,934	428,945,323
	₱708,467,419	₱48,893,540	₱13,771,807	₱17,361,412	₱6,440,503	₱245,516,809	₱1,040,451,490

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

	September 30, 2010 (Nine Months Unaudited)	December 31, 2009 (One Year Audited)
Balance at beginning of year	**₱245,516,809**	₱35,854,382
Provision for impairment losses	**–**	209,662,427
Foreign exchange losses	**(12,726,983)**	–
Balance at end of year	**₱232,789,826**	₱245,516,809

As of September 30, 2010 and December 31, 2009, the specific allowance for impairment losses on trade receivables and other receivables amounted to ₱6.3 million and ₱225.6 million, respectively. The provision for impairment loss in 2009 relates to other receivables.

9. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
At cost:		
Expendable parts	**₱212,198,356**	₱172,061,131
Fuel	**112,936,543**	155,635,257
Materials and supplies	**23,816,160**	21,276,100
	₱348,951,059	₱348,972,488

The cost of expendable parts, and materials and supplies recognized as expense (included under Repairs and Maintenance account in the consolidated statement of comprehensive income) amounted to ₱131.0 million and ₱60.3 million for the nine months ended September

30, 2010 and 2009, respectively. While the cost of fuel reported as expense under Flying Operations amounted to ₱7.2 billion and ₱5.1 billion for the nine months ended September 30, 2010 and 2009, respectively.

10. Other Current Assets

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Prepaid rent	**₱141,443,572**	₱127,689,069
Prepaid insurance	**43,608,108**	42,014,640
Prepaid fuel tax	**4,763,410**	23,456,483
Others	**3,945,760**	6,454,765
	₱193,760,850	₱199,614,957

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

11. Property and Equipment

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Acquisition Costs		
Passenger aircraft	**₱29,083,145,898**	₱29,082,449,841
Engines	**1,696,912,279**	1,861,014,616
Rotables	**798,911,847**	645,242,966
Ground support equipment	**282,793,577**	226,290,672
EDP equipment, mainframe and peripherals	**452,481,121**	401,958,225
Leasehold improvements	**151,289,271**	123,328,105
Transportation equipment	**131,821,186**	132,976,761
Furniture, fixtures and office equipment	**60,658,287**	54,222,266
Communication equipment	**7,085,940**	6,174,321
Special tools	**12,360,383**	11,933,090
Maintenance and test equipment	**6,405,917**	5,697,385
Other equipment	**65,858,584**	59,654,657
Construction in-progress	**5,688,834,408**	3,409,527,269
Total	**38,438,558,698**	36,020,470,174
Accumulated depreciation	**8,340,645,806**	6,865,298,784
Net book value	**₱30,097,912,892**	₱29,155,171,390

Passenger Aircraft Held as Securing Assets Under Various Loans

In 2005 and 2006, the Group entered into Export credit agency (ECA)-backed loan facilities (the ECA loan) 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 ATR 72-500 turboprop aircraft. Then in 2009, ECA loans were availed to finance the purchase of two ATR 72-500 turboprop aircraft.

Under the terms of the ECA loan and the commercial loan facilities, 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 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 September 30, 2010 and December 31, 2009, the carrying amounts of the securing assets (included under the Property and Equipment account) amounted to ₱22.3 billion and ₱23.2 billion, respectively.

Operating Fleet

As of September 30, 2010 and December 31, 2009, the Group's operating fleet follows:

Owned :	
Airbus A319	10
Airbus A320	2
ATR 72-500	8
Under operating lease :	
Airbus A320	9
	29

Construction in-progress represents the cost of aircraft and engine modifications 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. For the nine months ended September 30, 2010, the Company capitalized pre-delivery payments as construction-in-progress amounting to ₱2.3 billion.

As of September 30, 2010 and December 31, 2009, the gross amount of fully depreciated property and equipment which are in use by the Group amounted to ₱397.1 million and ₱345.0 million, respectively.

12. Investments in Joint Venture

The Group has a 49.00% and 35.00% interest in A-plus and SIAEP, respectively, which are jointly controlled entities which were established for the purpose of providing line and light 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:

	September 30, 2010 (Unaudited)		
	A-plus	**SIAEP**	**Total**
Cost			
Balance at beginning of period	**₱87,012,572**	**₱304,763,900**	**₱391,776,472**
Balance at end of period	**87,012,572**	**304,763,900**	**391,776,472**
Accumulated Equity in Net Income (Loss)			
Balance at beginning of period	**21,590,662**	**(47,011,448)**	**(25,420,786)**
Equity in net income (loss) for the period	**21,803,712**	**(4,162,272)**	**17,657,440**
Dividends received	**(21,959,482)**	**–**	**(21,959,482)**
Balance at end of period	**21,434,892**	**(51,157,720)**	**(29,738,828)**
Net Carrying Value	**₱108,447,464**	**₱253,606,180**	**₱362,053,644**

	December 31, 2009 (Audited)		
	A-plus	SIAEP	Total
Cost			
Balance at beginning of period	₱87,012,572	₱270,950,400	₱357,962,972
Additions	–	33,813,500	33,813,500
Balance at end of period	87,012,572	304,763,900	391,776,472
Accumulated Equity in Net Income (Loss)			
Balance at beginning of period	24,157,910	(4,660,978)	19,496,932
Equity in net income (loss) for the period	16,876,347	(42,350,470)	(25,474,123)
Dividends received	(19,443,595)	–	(19,443,595)
Balance at end of period	21,590,662	(47,011,448)	(25,420,786)
Net Carrying Value	₱108,603,234	₱257,752,452	₱366,355,686

Selected financial information of A-plus and SIAEP follows:

	September 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
	A-plus	**SIAEP**	A-plus	SIAEP
Total current assets	**₱434,915,655**	**₱193,951,888**	₱320,311,261	₱180,571,520
Total assets	**497,637,411**	**832,292,520**	395,640,695	824,131,114
Total current liabilities	**275,096,910**	**136,958,608**	163,605,255	79,651,426
Total liabilities	**275,096,910**	**136,958,608**	172,079,904	79,651,426
Net income (loss)	**38,272,913**	**(15,022,586)**	34,441,525	(121,001,344)

The undistributed earnings of A-plus included in the consolidated retained earnings amounted to ₱67.6 million and ₱45.7 million as of September 30,2010 and December 31, 2009, respectively, which is not currently available for dividend distribution unless declared by A-plus.

The Company has no share of any contingent liabilities or capital commitments as of September 30, 2010 and December 31, 2009.

13. **Other Noncurrent Assets**

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Creditable withholding tax	**₱108,448,026**	₱106,718,423
Other deposits	**159,715,230**	91,082,794
Refundable deposits	**9,240,000**	9,240,000
Others	**48,975,518**	40,707,705
	₱326,378,774	₱247,748,922

Other deposits include rental deposits and non-refundable commitment option fee paid by the Group for the option to purchase seven Airbus A320, for which option period extends until 2012.

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

14. **Accounts Payable and Other Accrued Li abilities**

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Accrued expenses	**₱2,946,886,838**	₱2,680,026,500
Trade payables	**1,522,886,183**	1,653,174,194
Airport and other related fees payable	**400,409,349**	330,026,161
Interest payable	**140,150,359**	160,873,352
Advances from agents and others	**153,811,087**	116,676,592
Other payables	**110,270,186**	59,034,908
	₱5,274,414,002	₱4,999,811,707

Trade Payables
Trade pay ables 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 aviat ion 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, termi nal 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 payables such as withholding taxes and output VAT.

15. Long-term Debt

This account consists of:

	Interest Rates	Maturities	September 30, 2010 (Unaudited) US Dollar	Philippine Peso Equivalent
ECA loans	3.37% to 5.83%	Various dates through 2018	**US$275,614,088**	**₱12,093,946,180**
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	**56,178,193**	**2,465,099,093**
	4.75% to 5.25% (US Dollar LIBOR + 1.25%)		**7,727,363**	**339,076,686**
			339,519,644	**14,898,121,959**
Less current portion			**41,122,211**	**1,804,442,622**
			US$298,397,433	**₱13,093,679,337**

	Interest Rates	Maturities	December 31, 2009 (Audited) US Dollar	Philippine Peso Equivalent
ECA loans	3.37% to 5.83%	Various dates through 2018	US$300,086,362	₱13,863,989,944
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	61,266,782	2,830,525,329
	4.75% to 5.25% (US Dollar LIBOR + 1.25%)		8,995,919	415,611,458
			370,349,063	17,110,126,731
Less current portion			40,319,559	1,862,763,608
			US$330,029,504	₱15,247,363,123

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 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 loans 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 Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the 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 Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2009, the Group entered into ECA loans 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 Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the 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 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 and eight ATR 72-500 turboprop aircraft, follow:

- Term of 12 years and ten years starting from the delivery date of each Airbus A319 aircraft and ATR 72-500 turboprop aircraft, respectively.
- Annuity style principal repayments for the first four Airbus A319 aircraft and eight ATR 72-500 turboprop aircraft, and equal principal repayments for the last six Airbus A319 aircraft. Principal repayments shall be made on a quarterly and semi-annual basis for Airbus A319 aircraft and ATR 72-500 turboprop aircraft, respectively.
- Interest shall be fixed at the option of the borrower on the first interest payment date, based on relevant swap rate plus an agreed-upon margin. Fixed interest rates range from 3.37% to 5.83% and from 3.78% to 5.83% and from 4.89% to 5.83% in 2009, 2008 and 2007, respectively.
- As provided under the ECA-backed facility, CALL, BLL and SLL 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 and SLL 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 CALL or BLL or SLL becomes insolvent, (e) failure to discharge any attachment or sequestration order against CALL's, BLL's and SLL's assets, (f) and 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, 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 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 September 30, 2010 and December 31, 2009, the total outstanding balance of the ECA loan amounted to ₱12.1 billion (US$275.6 million) and ₱13.9 billion (US$300.1 million), respectively. Interest expense amounted to ₱482.8 million and ₱556.8 million for the nine months ended September 30, 2010 and 2009, 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 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 Company correspond to the principal and interest payments made by ILL to the commercial lenders and are guaranteed by JGSHI. The 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 loans, 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 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 loan from foreign banks follow:

- Term of ten years starting from the delivery date of each Airbus A320 aircraft.
- Term 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 1.15% plus 3-month LIBOR.
- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be 1.25% plus 6-month LIBOR.
- 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.

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%.

As of September 30, 2010 and December 31, 2009, the total outstanding balance of the commercial loan from foreign banks amounted to ₱2.8 billion (US$63.9 million) and ₱3.2 billion (US$70.3 million), respectively. Interest expense amounted to ₱110.5 million and ₱131.4 million for the nine months ended September 30, 2010 and 2009, respectively.

16. **Other Noncurrent Liabilities**

This account consists of:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ARO	**₱1,283,647,861**	₱1,194,091,048
Accrued maintenance	**923,451,376**	910,665,374
Pension liability	**195,603,596**	172,317,200
	₱2,402,702,833	₱2,277,073,622

ARO

The Group is legally 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. 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 rollforward analysis of the Group's ARO follows:

	September 30, 2010 (Nine Months Unaudited)	December 31, 2009 (One Year Audited)	September 30, 2009 (Nine Months Unaudited
Balance at beginning of period	**₱1,194,091,048**	₱1,258,139,119	₱1,258,139,119
Capitalized during the year	**–**	211,006,826	211,006,826
Accretion expense*	**89,556,813**	106,955,190	79,776,795
Payment of restorations during the period	**–**	(382,010,087)	(377,120,302)
Balance at end of year	**₱1,283,647,861**	₱1,194,091,048	₱1,171,802,438

**Included under Interest Expense account in the consolidated statements of comprehensive income.*

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.

17. **Equity**

The details of the Group's common stock follow:

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Par value per share	**₱1.00**	₱1.00
Authorized shares	**1,340,000,000**	1,340,000,000
Issued and outstanding shares	**582,574,750**	582,574,750

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 monitors its use of capital structure using a debt-to-total capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing borrowings, while capital represents total equity, less any net unrealized gains reserve, if any.

The Group's debt-to-capital ratios as of September 30, 2010 and December 31, 2009 follow:

		September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
(a)	Gross debt (Note 15)	**₱14,898,121,959**	₱17,110,126,731
(b)	Capital	**12,090,525,730**	7,254,961,854
(c)	Debt-to-capital ratio (a/b)	**1.2:1**	2.4:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of September 30, 2010 and December 31, 2009. Such ratio is currently being managed on a group-level by the Group's ultimate parent. The Group expects to further improve the debt-to-capital ratio through the issuance of capital securities.

18. Ancillary Revenue

Ancillary revenue consists of excess baggage fees, rebooking, refunds and cancellation fees, inflight sales and other services provided through reservation system such as advance seat selection, website administration as well as commissions earned on travel insurance and from hotel partners.

19. Operating Expenses

Flying Operations
Flying operations consists of aviation fuel, flight deck and aviation insurance expenses.

Aircraft and Traffic Servicing
Aircraft and traffic servicing consists mainly of landing and take-off fees, air navigational and ground handling charges.

Repairs and maintenance
Repairs and maintenance expenses relate to the cost of maintaining, repairing and overhauling all of aircraft and engines, technical handling fees on pre-flight inspections and cost of aircraft spare parts and other related equipment.

20. General and Administrative Expenses

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

21. Employee Benefits

Employee Benefit Expense

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 Group 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.

22. Other Expenses

This account consists mainly of bank charges.

23. Earnings Per Share

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

	Nine Months Ended September 30 (Unaudited)	
	2010	2009
(a) Net income attributable to common shareholders	**₱4,831,918,269**	₱1,904,147,988
(b) Weighted average number of common shares for basic EPS	**582,574,750**	582,574,750
(c) Basic/diluted earnings per share (a/b)	**₱8.29**	₱3.27

The Group has no dilutive potential common shares during the nine months ended September 30, 2010 and 2009.

24. Related Party Transactions

The Group has entered into transactions with its ultimate parent, its JV and certain related parties principally consisting of advances, reimbursement of expenses, regular banking transactions, maintenance and administrative service agreements. During the period ended September 30, 2010, the Group made advances to JGSHI amounting to ₱3.7 billion which was settled first half of 2010.

25. **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

On March 14, 2008, the Group entered into 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.

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.

Lease expenses relating to aircraft leases (included in Aircraft and Engine Lease account in the consolidated statements of comprehensive income) amounted to ₱1.2 billion and ₱1.3 billion for the nine months ended September 30, 2010 and 2009, respectively.

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 ₱183.7 million and ₱177.1 million for the nine months ended September 30, 2010 and 2009, respectively.

Aircraft and Spare Engine Purchase Commitments
As of December 31, 2009, the Group has existing commitments to purchase 15 new Airbus A320 aircraft, which are scheduled to be delivered 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 option aircraft and entered into new commitment to purchase two Airbus A320 aircraft to be delivered between 2011 and 2014.

Also in 2007, the Group has commitment 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.

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 estimat e 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.

26. Supplemental Disclosures on Unaudited Interim Consolidated Statement of Cashflow

The principal noncash activities of the Group were as follows:

a. Settlement of Receivables from JGSHI and URC through transfer of high-grade and quoted debt, and quoted and unquoted equity securities amounting to ₱3.7 billion and accrued interest receivable amounting to ₱71.4 million. The transfer price was at fair value. These investments are classified by the Group as designated financial assets at FVPL and AFS investments amounting to ₱3.5 billion and ₱115.7 million, respectively.

b. On February 28, 2010, the Group sold an engine for ₱89.5 million with a book value ₱72.2 million to a third party maintenance service provider (buyer). The transaction was settled through direct offset against the Group's US-dollar denominated liability to buyer amounting to ₱88.3 million.

c. The additions in Passenger Aircraft account includes capitalized asset retirement obligation amounting to ₱211.0 million for the year ended December 31, 2009 and none during the nine months ended September 30, 2010.

27. Events After the Reporting Period

Initial Public Offering

On August 20, 2010, the respective Board of Directors of the Company and the Parent Company approved resolutions authorizing the offer of up to 214,632,800 common shares with a par value of ₱1.00 subject to the registration requirement of the SEC.

On August 23, 2010, the Company initially filed the Registration Statement together with the prospectus with the SEC. On March 1, 2010, the Company filed an application for listing the common shares with the PSE. The Company subsequently filed an amended application with the PSE on August 27, 2010.

On September 15, 2010, the PSE approved the application of the Company for the initial listing of 613,235,550 common shares.

The IPO of the Company's shares with an offer price of ₱125.00 per share, consisted of the following:

a. Primary Offering . 30, 661,800 common shares were offered to the public on a primary basis;
b. Secondary Offering. 155,975,400 common shares were offered to the public on a secondary basis;
c. Over-Allotment Option of up to 27,995,600 common shares. The Selling Shareholder has granted the Stabilizing Agent an option, exercisable in whole or in part, to purchase up to 27,995,600 Optional Shares at an Offer Price, on the same terms and conditions as the Firm Shares solely to cover over-allotments, if any. The Over-Allotment Option is exercisable from and

including the Listing Date and ending on the date 30 days from the date of the Prospectus.

On October 11, 2010, the SEC approved the Company's registration statement. The listing ceremony was held on October 26, 2010, the Company's stock symbol, CEB officially entered into the electronic board of the PSE marking the start of the public trading of it's common shares through the stock market.