COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	5	4	6	7	5

COMPANY NAME

CEBU AIR, INC. AND SUBSIDIARIES

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

2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	(632) 802-7060	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
100	5/25	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Robin C. Dui	Robin.Dui@cebupacificair.com	(632) 802-7060	N/A

CONTACT PERSON's ADDRESS

Cebu Pacific Building, Domestic Road, Barangay 191, Zone 20, Pasay City 1301, Philippines

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2018**

2. SEC Identification No.**154675**

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

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

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

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

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

   (632) 802-7060
8. Issuer's telephone number, including area code

   Not Applicable
9. Former name, former address and former fiscal year, if changed since last report

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

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

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

    Yes [x] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [x] No [ ]

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

    Yes [x] No [ ]

PART I–FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

The Parent Company has nine special purpose entities (SPE) that it controls, namely: Boracay Leasing Limited, Surigao Leasing Limited, Vector Aircraft Leasing Limited, Panatag One Aircraft Leasing Limited, Panatag Two Aircraft Leasing Limited, Panatag Three Aircraft Leasing Limited, Summit A Aircraft Leasing Limited, Summit B Aircraft Leasing Limited and Summit C Aircraft Leasing Limited.

On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines (TAP), including 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited (TAH). On April 27, 2015, with the approval of the Securities and Exchange Commission (SEC), TAP was rebranded and now operates as CEBGO, Inc.

On March 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary.

The Parent Company, its nine SPEs, CEBGO, Inc. and 1Aviation (collectively known as "the Group") are consolidated for financial reporting purposes.

In May 2017, the Parent Company lost control over Ibon Leasing Limited (ILL) due to loss of power to influence the relevant activities of ILL as the result of sale of aircraft to third party. Accordingly, the Parent Company derecognized its related assets and liabilities in its consolidated financial statements.

In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties.

On July 1, 2018, the Parent Company sold 60% of its shares in 1Aviation to the Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng.

As of June 30, 2018, the Group operates an extensive route network serving 65 domestic routes and 36 international routes with a total of 2,618 scheduled weekly flights. It operates from seven hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 and Terminal 4 both located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (DMIA) located in Clark, Pampanga; Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; and Kalibo International Airport in Kalibo, Aklan and Laguindingan Airport in Misamis Oriental

As of June 30, 2018, the Group operates a fleet of 67 aircraft which comprises of 36 Airbus A320, 5 Airbus A321 CEO, 8 Airbus A330, 8 ATR 72-500 aircraft and 10 ATR 72-600. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 and ATR 72-600 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the Group's fleet is approximately 4.85 years as of June 30, 2018.

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

On May 16, 2016, the Group and seven other market champions in Asia Pacific, announced the formation of the world's first, pan-regional low cost carrier alliance, the Value Alliance. The Group, together with Jeju Air (Korea), Nok Air (Thailand), NokScoot (Thailand), Scoot (Singapore), Tigerair Singapore, Tigerair Australia and Vanilla Air (Japan) will deliver greater value, connectivity and choice for travel throughout Southeast Asia, North Asia and Australia, as the airlines bring their extensive networks together. The Value Alliance airlines collectively fly to more than 160 destinations from 17 hubs in the region

Results of Operations

Six Months Ended June 30, 2018 Versus June 30, 2017

Revenues

The Group earned revenues amounting to ₱37.835 billion for the six months ended June 30, 2018, 6.1% higher than the ₱35.656 billion revenues generated in the same period last year. Growth in revenues is accounted for as follows:

Passenger
Passenger revenues went up by ₱1.683 billion or 6.3% to ₱28.303 billion for the six months ended June 30, 2018 from ₱26.620 billion reported in the six months ended June 30, 2017. This increase was mainly due to the 3.7% increase in average fares to ₱2,734 for the six months ended June 30, 2018 from ₱2,637 for the same period last year. The growth in passenger volume by 2.6% to 10.354 million from 10.094 million last year also contributed to the increase in revenues.

Cargo
Cargo revenues grew by ₱581.138 million or 28.1 % to ₱2.652 billion for the six months ended June 30, 2018 from ₱2.071 billion for the six months ended June 30, 2018 following the increase in the volume of cargo transported in 2018.

Ancillary
Ancillary revenues declined by ₱85.452 million or 1.2% to ₱6.879 billion for the six months ended June 30, 2018 from ₱6.965 billion reported in the same period last year consequent to the decline in average ancillary revenue per passenger mainly due to the lower baggage and pre-ordered meals in line with the suspension of Middle East operations in 2017.

Expenses
The Group incurred operating expenses of ₱33.060 billion for the six months ended June 30, 2018, higher by 14.0% than the ₱29.004 billion operating expenses reported for the six months ended June 30, 2017. The increase was mostly attributable to the rise in fuel prices in 2018 coupled with the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱51.98 per U.S. dollar for the six months ended June 30, 2018 from an average of ₱49.93 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates. The growth in the airline's seat capacity from the acquisition of new aircraft also contributed to the increase in expenses.

Flying Operations
Flying operations expenses increased by ₱2.231 billion or 18.1% to ₱14.527 billion for the six months ended June 30, 2018 from ₱12.296 billion incurred in the same period last year. This was largely brought about by the 22.7% increase in aviation fuel expenses to ₱12.337 billion for the six months ended June 30, 2018 from ₱10.054 billion for the same period last year consequent to the increase in jet fuel prices as referenced by the increase in the average published fuel MOPS price of U.S. $84 per barrel in the six months ended June 30, 2018 from U.S. $63 per barrel in 2017. The increase in fuel cost was further augmented by the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱51.98 per U.S. dollar for the six months ended June 30, 2018 from an average of ₱49.93 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates.

Aircraft and Traffic Servicing
Aircraft and traffic servicing expenses increased by ₱137.978 million or 3.6% to ₱4.019 billion for the six months ended June 30, 2018 from ₱3.881 billion recorded in the same period in 2017. This was driven by the increase in ground handling costs offset by lower overfly and air navigational charges in line with the suspension of Middle East operations in 2017 and re-deployment of A330 aircraft to short haul routes. The weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱51.98 per U.S. dollar for the six months ended June 30, 2018 from an average of ₱49.93 per U.S. dollar last year also contributed to the increase.

Depreciation and Amortization
Depreciation and amortization expenses went up by ₱217.686 million or 6.5% to ₱3.542 billion for the six months ended June 30, 2018 from ₱3.324 billion for the six months ended June 30, 2017. Depreciation and amortization expenses increased consequent to the arrival of five ATR 72-600 and five Airbus A321 CEO throughout 2017 and 2018, net of four Airbus A319 aircraft sold in 2017 and 2018 and four Airbus A320 aircraft placed under operating lease in 2017.

Repairs and Maintenance
Repairs and maintenance expenses grew by 18.1% to ₱4.380 billion for the six months ended June 30, 2018 from ₱3.709 billion posted in the six months ended June 30, 2017. This was mostly accounted for by the increase in provision for return cost by ₱419.223 million to ₱1.024

billion for the period ended June 30, 2018 from ₱604.708 million for the same period last year with the increase in the number of aircraft under operating leases. Higher maintenance costs were also consequent to the growth of the Group's fleet from 61 to 67 aircraft. The weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱51.98 per U.S. dollar for the six months ended June 30, 2018 from an average of ₱49.93 per U.S. dollar last year also contributed to the increase in repairs and maintenance expense.

Aircraft and Engine Lease
Aircraft and engine lease expenses moved up by ₱454.584 million or 20.5% to ₱2.670 billion in the six months ended June 30, 2018 from ₱2.216 billion charged for the six months ended June 30, 2017. Increase was due to additional operating leases on four Airbus A320 aircraft, coupled with the effect of the depreciation of the Philippine peso against the U.S. dollar during the current period.

Reservation and Sales
Reservation and sales expenses increased by ₱70.906 million or 4.0% to ₱1.830 billion for the six months ended June 30, 2018 from ₱1.760 billion for the six months June 30, 2017. This was primarily attributable to higher commission expenses relative to the increase in online bookings and cargo sales year on year.

General and Administrative
General and administrative expenses grew by ₱256.543 million or 25.2% to ₱1.275 billion for the six months ended June 30, 2018 from ₱1.019 billion incurred in the six months ended June 30, 2017. Growth in general and administrative expenses was primarily attributable to additional costs incurred for various information technology projects to improve operational efficiency.

Passenger Service
Passenger service expenses slightly increased by ₱16.6 million or 2.1% to ₱815.297 million for the six months ended June 30, 2018 from ₱798.705 million reported for the six months ended June 30, 2017. This was primarily caused by additional cabin crew hired for new aircraft acquired during the period and the annual increase in crew salary rates. This was partially offset, however, by the decrease in passenger food and supplies due to the suspension of flights in the Middle East.

Operating Income
As a result of the foregoing, the Group finished the period with an operating income of ₱4.775 billion for the six months ended June 30, 2018, 28.2% lower than the ₱6.652 billion operating income earned in the same period last year.

Other Income (Expenses)

Interest Income
Interest income increased by ₱94.098 million or 107.3% to ₱181.794 million for the six months ended June 30, 2018 from ₱87.695 million earned in the same period last year due to the increase in the balance of cash in bank and short term placements year on year and to higher interest rates for short term placements.

Hedging Gains (Losses)
The Group incurred a hedging gain of ₱1.342 billion for the six months ended June 30, 2018, an increase by ₱2.490 billion from a hedging loss of ₱1.147 billion in the same period last year as a result of higher mark-to-market valuation on fuel hedging positions in 2018.

Foreign Exchange Gains (Losses)
Net foreign exchange losses of ₱1.584 billion for the six months ended June 30, 2018 resulted from the weakening of the Philippine peso against the U.S. dollar as referenced by the

depreciation of the Philippine peso to ₱53.34 per U.S. dollar for the six months ended June 30, 2018 from ₱49.93 per U.S. dollar for the twelve months ended December 31, 2017 based on PDEx closing rates. The Group's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in Net Income (Loss) of Joint Venture
The Group had equity in net income of joint venture of ₱50.692 million for the six months ended June 30, 2018, ₱0.663 million lower than the ₱51.355 million equity in net income of joint venture earned in the same period last year. The decrease was attributable to lower net income of Aviation Partnership (Philippines) Corporation (A-plus) and net loss incurred by Philippine Academy for Aviation Training, Inc. (PAAT) during the period.

Interest Expense
Interest expense increased by ₱302.697 million or 45.8% to ₱963.921 million for the six months ended June 30, 2018 from ₱661.224 million for the six months ended June 30, 2017. Increase was due to higher interest bench mark rates such as libor and PDSTR2 coupled with the effect of the weakening of the Philippine peso against the U.S. dollar during the current period.

Gain(Loss) on sale of aircraft
In April 2018, the Group sold and delivered one Airbus A319 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱156.652 million.

In May 2017, the Group entered into a Lease Amendment Agreement with IBON Leasing Limited (ILL), which transferred economic ownership of two Airbus A320 aircraft to the counterparty and resulted in a gain of ₱302.497 million.

<u>Income before Income Tax</u>
As a result of the foregoing, the Group recorded income before income tax of ₱3.645 billion for the six months ended June 30, 2018, lower by 19.7% or ₱895.648 million than the ₱4.540 billion income before income tax posted for the six months ended June 30, 2017.

<u>Provision for Income Tax</u>
Provision for income tax for the six months ended June 30, 2018 amounted to ₱335.549 million, of which, ₱373.236 million pertains to provision for current income tax recognized as a result of the taxable income earned for 2018. Benefit from deferred income tax amounted to ₱37.687 million resulting from the recognition of deferred tax assets on future deductible amounts during the period.

<u>Net Income</u>
Net income for the six months ended June 30, 2018 amounted to ₱3.309 billion, a decrease of 23.6% from the ₱4.334 billion net income earned in the same period last year.

As of June 30, 2018, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Group with unconsolidated entities or other persons created during the reporting period that would have a significant impact on the Group's operations and/or financial condition.

Financial Position

June 30, 2018 versus December 31, 2017

As of June 30, 2018 the Group's consolidated balance sheet remains solid, with net debt to equity of 0.83 [total debt after deducting cash and cash equivalents (including financial assets held-for-

trading at fair value and available-for-sale assets) divided by total equity]. Consolidated assets grew to ₱128.229 billion from ₱109.077 billion as of December 31, 2017 as the Group added aircraft to its fleet. Equity grew to ₱40.368 billion from ₱39.786 billion in 2017, while book value per share amounted to ₱66.62 as of June 30, 2018 from ₱65.66 as of December 31, 2017.

The Group's cash requirements have been mainly sourced through cash flow from operations and from borrowings. Net cash from operating activities amounted to ₱9.209 billion. As of June 30, 2018, net cash used in investing activities amounted to ₱16.010 billion which included payments in connection with the purchase of aircraft. Net cash from financing activities amounted to ₱10.693 billion which comprised of proceeds from long-term debt of ₱25.905 billion net of repayments of long-term debt amounting to ₱15.212 billion.

As of June 30, 2018, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

Financial Ratios

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

Liquidity and Capital Structure Ratios

	June 30, 2018	December 31, 2017
Current Ratio	**0.82:1**	0.74:1
Debt-to-Equity Ratio	**1.32:1**	1.03:1
Asset-to-Equity Ratio	**3.18:1**	2.74:1
Interest Coverage Ratio	**4.95:1**	7.13:1

Profitability Ratios

	June 30, 2018	June 30, 2017
Return on Asset	**2.8%**	4.1%
Return on Equity	**8.3%**	12.4%
Return on Sales	**8.7%**	12.2%

Material Changes in the 2018 Financial Statements
(Increase/Decrease of 5% or more versus 2017)

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

Consolidated Statements of Financial Position –June 30, 2018 versus December 31, 2017

29.0% increase in Cash and Cash Equivalents
Due to increase in collections relative to the 6.1% growth in revenues and receipt of proceeds from long-term debt

21.4% increase in Receivables
Due to increased trade receivables relative to the growth in revenues

214.1% increase in Financial Assets at fair value through profit or loss (FVPL)
Due to improved mark-to-market valuation of fuel derivative contracts

58.6% increase in Expendable Parts, Fuel, Materials and Supplies
Due to higher level of fuel inventory and increased volume of parts and supplies relative to the larger fleet size during the period.

9.8% increase in Other Current Assets
Due to increase in advances to suppliers

12.8% increase in Property and Equipment
Due to the acquisition of two ATR 72-600 and five Airbus A321 CEO aircraft, offset by the sale of one Airbus A319 in 2018

3.4% decrease in Investment in Joint Ventures
Due to dividends declared offset by share in net income (loss) of joint ventures during the period

26.1% decrease in Deferred Tax Assets-net
Due mainly to increase in future taxable amounts on unrealized hedging gains and application of excess MCIT against income tax due

51.1% increase in Other Noncurrent Assets
Due to advance payments for Airbus A330 life limited engine parts and prepayment of power by the hour charges

16.4% increase in Accounts Payable and other accrued liabilities
Due to increase in trade payables and accruals of certain operating expenses as a result of increased passenger activity during the period.

7.0% decrease in Due to Related Parties
Due to payments made during the period.

1.3% decrease in Unearned Transportation Revenue
Due to lesser forward bookings as of June 30, 2018 compared to December 31, 2017

30.5% increase in Long term debt (including Current Portion)
Due to additional loans availed to finance the purchase of two ATR 72-600 and five Airbus A321 CEO aircraft during the period partially offset by the repayment of certain outstanding long-term debt in accordance with the repayment schedule.

528.4% increase in Income Tax Payable
Due to higher income tax due after deducting available creditable withholding tax and prior year excess Minimum Corporate Income Tax (MCIT) credits during the period

17.4% decrease in Retirement Liability
Due to the payment of benefits and actual contributions during the period

27.8% increase in Other Noncurrent Liabilities
Due to the provision for asset retirement obligation and recognition of deferred revenues from unredeemed customer loyalty points during the period

1.9% increase in Retained Earnings
Due to net income during the period net of dividends declared and payable to stockholders

As of June 30, 2018, there are no significant elements of income that did not arise from the Group’s continuing operations.

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

KEY PERFORMANCE INDICATORS

The Group sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are major performance measures, which the Group has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2018 and December 31, 2017 and for six months ended June 30, 2018 and 2017:

Key Financial Indicators	**2018**	2017
Total Revenue	**₱37.835 billion**	₱35.656 billion
Pre-tax Core Net Income	**₱4.043 billion**	₱6.130 billion
EBITDAR Margin	**31.7%**	35.9%
Cost per Available Seat Kilometre (ASK) (Php)	**2.56**	2.09
Cost per ASK (U.S. cents)	**4.93**	4.19
Seat Load Factor	**86.3%**	85.1%

The manner by which the Group calculates the above key performance indicators for both 2018 and 2017 is as follows:

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

As of June 30, 2018, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no known trends, demands, commitments, events or uncertainties that may have a material impact on the Group's liquidity.

As of June 30, 2018, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that would have a material adverse impact on the Group's net sales, revenues and income from operations and future operations.

PART II - OTHER INFORMATION

NONE.

SIGNATURES

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

CEBU AIR, INC.

LANCE Y. GOKONGWEI
President and Chief Executive Officer
Date: AUG 09 2018

ANDREW L. HUANG
Chief Finance Officer
Date: AUG 09 2018

ROBIN C. DUI
Vice President - Comptroller
Date: AUG 09 2018

CEBU AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2018
(With Comparative Audited Figures as of December 31, 2017)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 8)	**₱20,142,930,531**	₱15,613,544,506
Receivables (Note 10)	**2,306,531,363**	1,900,482,578
Financial assets at fair value through profit or loss (Note 9)	**1,427,315,103**	454,400,088
Expendable parts, fuel, materials and supplies (Note 11)	**2,559,234,952**	1,613,690,533
Other current assets (Note 12)	**2,315,256,447**	2,108,954,919
Total Current Assets	**28,751,268,396**	21,691,072,624
Noncurrent Assets		
Property and equipment (Notes 13, 18 and 29)	**91,685,692,831**	81,279,292,387
Investments in joint ventures and in an associate (Note 14)	**812,209,458**	840,972,438
Goodwill (Notes 7 and 15)	**566,781,533**	566,781,533
Deferred tax assets - net	**658,731,865**	891,004,853
Other noncurrent assets (Notes 7 and 16)	**5,753,974,007**	3,807,544,443
Total Noncurrent Assets	**99,477,389,694**	87,385,595,654
	₱128,228,658,090	₱109,076,668,278
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 17)	**₱16,508,511,825**	₱14,182,785,839
Unearned transportation revenue	**8,929,040,219**	9,050,351,455
Current portion of long-term debt (Notes 13 and 18)	**7,019,522,742**	5,969,257,624
Due to related parties (Note 26)	**36,025,580**	38,716,423
Dividends payable	**2,726,789,985**	–
Income tax payable	**29,828,045**	4,746,325
Total Current Liabilities	**35,249,718,396**	29,245,857,666
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13 and 18)	**46,466,958,012**	35,012,953,128
Retirement liability (Note 24)	**526,407,081**	636,961,076
Other noncurrent liabilities (Note 19)	**5,617,546,065**	4,395,317,042
Total Noncurrent Liabilities	**52,610,911,158**	40,045,231,246
Total Liabilities	**87,860,629,554**	69,291,088,912
Equity		
Common stock (Note 20)	**613,236,550**	613,236,550
Capital paid in excess of par value (Note 20)	**8,405,568,120**	8,405,568,120
Treasury stock (Note 20)	**(529,319,321)**	(529,319,321)
Remeasurement loss on retirement liability (Note 24)	**(147,193,496)**	(147,193,496)
Retained earnings (Note 20)	**32,025,736,683**	31,443,287,513
Total Equity	**40,368,028,536**	39,785,579,366
	₱128,228,658,090	₱109,076,668,278

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES,

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Quarters Ended		Six Months Ended	
	2018	2017	**2018**	2017
REVENUES				
Sale of air transportation services (Note 4)				
Passenger	**₱14,627,221,764**	₱14,343,474,952	**₱28,303,137,351**	₱26,620,021,223
Cargo	**1,373,616,580**	1,056,550,661	**2,652,514,093**	2,071,375,626
Ancillary revenues (Note 21)	**3,573,374,926**	3,392,175,323	**6,879,233,450**	6,964,685,035
	19,574,213,270	18,792,200,936	**37,834,884,894**	35,656,081,884
EXPENSES				
Flying operations (Note 22)	**7,616,972,458**	6,302,664,959	**14,527,217,974**	12,296,082,335
Repairs and maintenance (Note 19 and 22)	**2,201,899,192**	1,836,523,565	**4,380,298,878**	3,709,531,507
Aircraft and traffic servicing (Note 22)	**2,061,689,183**	1,982,431,230	**4,019,157,970**	3,881,180,119
Depreciation and amortization (Note 13)	**1,818,331,482**	1,661,385,701	**3,542,067,148**	3,324,381,300
Aircraft and engine lease (Note 29)	**1,352,083,208**	1,120,054,032	**2,670,294,686**	2,215,710,933
Reservation and sales (Note 22)	**848,955,568**	853,915,460	**1,830,465,770**	1,759,559,858
General and administrative (Note 23)	**738,784,830**	534,711,678	**1,275,394,212**	1,018,850,863
Passenger service	**424,893,769**	410,163,601	**815,297,042**	798,705,454
	17,063,609,690	14,701,850,226	**33,060,193,680**	29,004,002,369
OPERATING INCOME	**2,510,603,580**	4,090,350,710	**4,774,691,214**	6,652,079,515
OTHER INCOME (EXPENSE)				
Hedging gains (losses) (Note 9)	**1,051,994,918**	(462,143,082)	**1,342,276,470**	(1,147,319,091)
Foreign exchange gains (losses)	**(745,472,937)**	(297,994,879)	**(1,584,091,956)**	(744,647,900)
Interest expense (Note 18)	**(600,845,504)**	(353,155,979)	**(963,921,253)**	(661,223,960)
Gain (Loss) on sale of aircraft (Note 13)	**(156,651,969)**	302,497,366	**(156,651,969)**	302,497,366
Interest income (Note 8)	**101,441,650**	45,929,321	**181,793,811**	87,695,435
Equity in net income (loss) of joint venture (Note 14)	**16,806,931**	15,029,544	**50,691,937**	51,355,058
	(332,726,911)	(749,837,709)	**(1,129,902,960)**	(2,111,643,092)
INCOME BEFORE INCOME TAX	**2,177,876,669**	3,340,513,001	**3,644,788,254**	4,540,436,423
PROVISION FOR INCOME TAX	**305,486,332**	289,537,160	**335,549,099**	206,474,738
NET INCOME	**1,872,390,337**	3,050,975,841	**3,309,239,155**	4,333,961,685
OTHER COMPREHENSIVE INCOME, NET OF TAX	–	–	–	–
TOTAL COMPREHENSIVE INCOME	**₱1,872,390,337**	₱3,050,975,841	**₱3,309,239,155**	₱4,333,961,685
Basic/Diluted Earnings Per Share (Note 25)			**₱5.46**	₱7.15

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(With Comparative Unaudited Figures as of June 30, 2017)

	For the Six Months Ended June 30, 2018						
	Common Stock (Note 20)	**Capital Paid in Excess of Par Value** (Note 20)	**Treasury Stock** (Note 20)	**Remeasurement Loss on Pension Liability** (Note 24)	**Appropriated Retained Earnings** (Note 20)	**Unappropriated Retained Earnings** (Note 20)	**Total Equity**
Balance at January 1, 2018	**₱613,236,550**	**₱8,405,568,120**	**(₱529,319,321)**	**(₱147,193,496)**	**₱18,300,000,000**	**₱13,143,287,513**	**₱39,785,579,366**
Net income	–	–	–	–	–	**3,309,239,155**	**3,309,239,155**
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	**3,309,239,155**	**3,309,239,155**
Cash dividends declared	–	–	–	–	–	**(2,726,789,985)**	**(2,726,789,985)**
Balance at June 30, 2018	**₱613,236,550**	**₱8,405,568,120**	**(₱529,319,321)**	**(₱147,193,496)**	**₱18,300,000,000**	**₱13,725,736,683**	**₱40,368,028,536**

	For the Six Months Ended June 30, 2017						
	Common Stock (Note 20)	Capital Paid in Excess of Par Value (Note 20)	Treasury Stock (Note 20)	Remeasurement Loss on Pension Liability (Note 24)	Appropriated Retained Earnings (Note 20)	Unappropriated Retained Earnings (Note 20)	Total Equity
Balance at January 1, 2017	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱186,025,376)	₱14,516,762,000	₱10,685,050,546	₱33,505,272,519
Net income	–	–	–	–	–	4,333,961,685	4,333,961,685
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	4,333,961,685	4,333,961,685
Cash dividends declared	–	–	–	–	–	(1,666,371,658)	(1,666,371,658)
Balance at June 30, 2017	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱186,025,376)	₱14,516,762,000	₱13,352,640,573	₱36,172,862,546

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,644,788,254**	₱4,540,436,423
Adjustments for:		
Depreciation and amortization (Note 13)	**3,542,067,148**	3,324,381,300
Interest expense (Note 18)	**963,921,253**	661,223,960
Unrealized foreign exchange (gains) losses	**1,137,473,786**	387,992,865
(Gain) Loss on sale of aircraft (Note 13)	**156,651,969**	(302,497,366)
Provision for return cost (Note 19)	**1,023,930,779**	604,708,167
Hedging (gains) losses (Note 9)	**(1,342,276,470)**	1,147,319,091
Equity in net income of joint ventures (Note 14)	**(50,691,937)**	(51,355,058)
Interest income (Note 8)	**(181,793,811)**	(87,695,435)
Operating income before working capital changes	**8,894,070,971**	10,224,513,947
Decrease (increase) in:		
Receivables	**(514,083,949)**	440,298,963
Other current assets	**(277,203,864)**	(356,709,018)
Expendable parts, fuel, materials and supplies	**(944,725,419)**	(170,294,479)
Financial assets at fair value through profit or loss (derivatives) (Note 9)	**369,361,455**	(192,286,246)
Increase (decrease) in:		
Accounts payable and other accrued liabilities	**2,242,076,075**	11,775,834
Unearned transportation revenue	**(121,311,236)**	(154,483,403)
Due to related parties	**201,061,937**	12,687,028
Pension liability	**(110,553,995)**	72,187,057
Noncurrent liabilities	**198,298,245**	197,769,113
Net cash generated from operations	**9,936,990,220**	10,085,458,796
Interest paid	**(897,359,202)**	(651,099,272)
Interest received	**175,720,502**	86,603,902
Income taxes paid	**(5,828,176)**	(56,417,607)
Net cash provided by operating activities	**9,209,523,344**	9,464,545,819
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other noncurrent assets	**(1,946,429,562)**	(2,059,259,562)
Acquisition of property and equipment	**(14,536,124,977)**	(9,673,661,054)
Proceeds from sale of asset	**430,186,416**	2,382,860,572
Dividends received from a joint venture	**42,063,833**	61,625,190
Net cash used in investing activities	**(16,010,304,290)**	(9,288,434,854)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**25,904,871,005**	6,289,217,500
Repayments of long-term debt	**(15,211,821,052)**	(4,331,591,287)
Net cash provided by (used in) financing activities	**10,693,049,953**	1,957,626,213
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**637,117,018**	139,933,366
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,529,386,025**	2,273,670,544
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**15,613,544,506**	10,296,242,304
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱20,142,930,531**	₱12,569,912,848

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The Parent Company has nine special purpose entities (SPE) that it controls, namely: Boracay Leasing Limited (BLL), Surigao Leasing Limited (SLL), Vector Aircraft Leasing Limited (VALL), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL), Summit A Aircraft Leasing Limited (SAALL), Summit B Aircraft Leasing Limited (SBALL) and Summit C Aircraft Leasing Limited (SCALL). BLL, SLL, VALL, POALL, PTALL and PTHALL are SPEs in which the Parent Company does not have equity interest. BLL, SLL, VALL, POALL, PTALL, PTHALL, SAALL, SBALL and SCALL acquired the passenger aircraft for lease to the Parent Company under finance lease arrangements (Notes 13 and 29) and funded the acquisitions through long-term debt (Note 18).

On March 20, 2014, the Parent Company acquired 100% ownership of CEBGO, Inc. (CEBGO) (Note 7). On March 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary. The Parent Company, its nine SPEs, CEBGO and 1Aviation (collectively known as the Group) are consolidated for financial reporting purposes (Note 2).

In May 2017, the Parent Company lost control over Ibon Leasing Limited (ILL) due to loss of power to influence the relevant activities of ILL as the result of sale of aircraft to third party (Note 13). Accordingly, the Parent Company derecognized its related assets and liabilities in its consolidated financial statements.

In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties (Note 13).

On July 1, 2018, the Parent Company sold 60% of its shares in 1Aviation to the Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng.

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

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

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

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

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

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

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

a. The franchise tax of the Parent Company is abolished;
b. The Parent Company shall be subject to corporate income tax;
c. The Parent Company shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges;
d. Change in corporate income tax 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; and
e. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

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

2. Basis of Preparation

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

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

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

Basis of Consolidation
The consolidated financial statements as of June 30, 2018 and December 31, 2017 represent the consolidated financial statements of the Parent Company, the SPEs that it controls and its wholly owned subsidiaries, CEBGO and 1Aviation. Consolidation of CEBGO started on March 20, 2014 when the Group gained control (Note 7).

The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of the subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

3. Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements which are effective beginning on or after January 1, 2017. Except as otherwise indicated, the adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 30 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

4. **Summary of Significant Accounting Policies**

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Classification of financial instruments

Financial instruments within the scope of PAS 39 are classified as:

a. Financial assets and financial liabilities at FVPL;
b. Loans and receivables;
c. Held-to-maturity investments;
d. Available-for-sale financial assets; and
e. Other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates at every reporting period. The financial instruments of the Group as of June 30, 2018 and December 31, 2017 consist of loans and receivables, financial assets and liabilities at FVPL and other financial liabilities.

Date of recognition of financial instruments

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provision 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 the trade date basis.

In case where fair value is determined using 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.

Fair Value Measurement

The Group measures derivatives at fair value at each reporting period. Also, for assets and liabilities which are not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed, are included in Note 28.

The fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the measurement is directly or indirectly observable.
- Level 3: Valuation techniques for the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss. The Group uses commodity swaps, zero cost collar and foreign currency forwards to hedge its exposure to fuel price fluctuations and foreign currency fluctuations, respectively. Such are accounted for as non-hedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether an embedded derivative is 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.

The Group's financial assets and liabilities at FVPL consist of derivative assets and derivative liabilities as of June 30, 2018 and December 31, 2017, respectively.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on the acquisition, and fees or costs that are an integral part of the EIR and transaction costs. Gains and losses are recognized in profit or loss, when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's cash and cash equivalents (excluding cash on hand), receivables and certain refundable deposits.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR.

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

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to 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. The Group assesses that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derecognition of Financial Instruments
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangements; and either:
  - The Group has transferred substantially all the risks and rewards of the asset; or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lowest level of the original carrying amount of the asset and the maximum amount of consideration the Group could be required pay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. 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.

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. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), 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 debtors or a group of debtors 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows that is discounted at the asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the profit or loss. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment is recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in profit or loss.

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.

Expendable Parts, Fuel, Materials and Supplies

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

Property and Equipment

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

Subsequent costs are capitalized as part of 'Property and equipment' account only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent costs such as actual costs of heavy maintenance visits for airframe and engine 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 (5) to six (6) years for airframe and ten (10) years or 20,000 flight cycles, whichever comes first, for landing gear. All other repairs and maintenance expenses are charged to profit or loss as incurred.

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

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

Passenger aircraft*	15 years
Engines	15 years
Rotables	15 years
Ground support equipment	5 years
EDP Equipment, mainframe and peripherals	3 years
Transportation equipment	5 years

Furniture, fixtures and office equipment	5 years
Communication equipment	5 years
Special tools	5 years
Maintenance and test equipment	5 years
Other equipment	5 years

**With residual value of 15.00%*

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

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

The methods of depreciation and amortization, EUL and residual values of property and equipment are reviewed annually and adjusted prospectively.

Fully depreciated property and equipment are returned in the account until they are no longer in use and no further depreciation or amortization is charged to profit or loss in the consolidated statement of comprehensive income.

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 has not capitalized any borrowing costs for the six months ended June 30, 2018 and 2017 as all borrowing costs from outstanding long-term debt relate to assets that are ready for intended use.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included under 'General and administrative' account in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses.

Investments in Joint Ventures and an Associate

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. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture.

The Parent Company's 60.00%, 49.00% and 35.00% investments in Philippine Academy for Aviation Training, Inc. (PAAT), Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP), respectively, are classified as investments in joint ventures. The Parent Company's 15.00% investment in Air Block Box Asia Pacific Pte. Ltd. (ABB) is classified as an investment in associate. These investments in JVs and an associate are accounted for under the equity method. Under the equity method, the investments in JVs and an associate 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 JVs, 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 JVs. Dividends received are treated as a revaluation of the carrying value of the investment.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost, less any accumulated impairment loss.

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

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

The intangible assets of the Group have indefinite useful lives.

Impairment of Nonfinancial Assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal (FVLCD) and its value-in-use (VIU). The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assuming VIU, 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exist, the Group estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine that asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value is impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment loss relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Aircraft Maintenance and Overhaul Cost
The Group recognizes aircraft maintenance and overhaul expenses in accordance with the contractual terms.

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

Asset Retirement Obligation (ARO)
The Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the

end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

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

Advance payment for materials for the restoration of the aircraft is initially recorded under 'Advances to suppliers' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability.

Liability Under Lifestyle Rewards Program

The Group operates a lifestyle rewards program called 'Getgo.' A portion of passenger revenue attributable to the award of Getgo points, which is estimated based on expected utilization of these benefits, is deferred until utilized. The fair value of the consideration received in respect of the initial sale is allocated to the award credits based on its fair value. The deferred revenue is included under 'Other noncurrent liabilities' in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

Common Stock

Common stock is classified as equity and recorded at par. Proceeds in excess of par value are recorded under 'Capital paid in excess of par value' account in the consolidated statement of financial position. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

Treasury Stock

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

Retained Earnings

Retained earnings represent accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for purposes of the Parent Company's re-fleeting program. Dividends on common shares are recognized as liability and deducted from equity when approved and declared by the Parent Company's Board of Directors (BOD), in the case of cash dividends; or by the Parent Company's BOD and shareholders, in the case of stock dividends.

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, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted.

Ancillary revenue
Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and cancellation fees are recognized when the services are provided.

Interest income
Interest on cash in banks, short-term cash placements and debt securities classified as financial assets at FVPL is recognized as the interest accrues using the EIR method.

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

The commission related to the sale of air transportation services is recognized as outright expense upon receipt of the payment from customers, and is included under 'Reservation and sales' account in the consolidated statement of comprehensive income.

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded in the Parent Company and subsidiaries' functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Philippine Dealing and Exchange Corp. closing rate prevailing at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

Retirement Costs
The Group maintains defined benefit plans covering substantially all of its employees. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The 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 the option to accelerate when significant changes to underlying assumptions occur.

Retirement expense comprises the following:

a. Service cost; and
b. Net interest on retirement liability.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on retirement liability is the change during the period in the retirement liability that arises from the passage of time, which is determined by applying the discount rate based on high quality corporate bonds to the retirement liability. Net interest on retirement liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, excess of actual return on plan assets over interest income and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement liability is the aggregate of the present value of defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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

Income Taxes

Current tax

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions, when appropriate.

Deferred tax

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

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 regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT over RCIT 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.

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 future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax liabilities associated with investments in subsidiaries, branches and associates, and interests in joint arrangements are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Leases

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

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

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

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included under ‘Property and equipment’ account with the corresponding liability to the lessor included under

‘Long-term debt’ account in the consolidated statement of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

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

A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a loss on the sale.

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.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When 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 in the notes to consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income applicable to common stockholders 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 common stockholders of the Group by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

For the six months ended June 30, 2018 and 2017, 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 segment, has been identified as the President and Chief Executive Officer (CEO). The nature of the operating segment is set out in Note 6.

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

5. Significant Accounting Judgements and Estimates

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

Judgments

a. *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.

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 (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The Group determined that it has no risks relating to changing economic conditions since the Group does not own the leased aircraft. These leases are classified as operating leases. These lease agreements also include aircraft from sale and operating leaseback transactions entered by the Group as discussed in Note 29.

b. *Consolidation of SPEs*
The Group periodically undertakes transactions that may involve obtaining the rights to variable returns from its involvement with the SPEs. These transactions include the purchase of aircraft and assumption of certain liabilities. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Parent Company's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

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

1. 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);
2. The currency in which funds from financing activities are generated; and
3. The currency in which receipts from operating activities are usually retained.

Management determined that Philippine Peso is the functional currency for the Group, after considering the criteria stated in PAS 21.

d. *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 internal counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these will have a material adverse effect on the Group's consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 29).

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

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

g. *Assessment of intangible assets with indefinite useful lives*
The Group has intangible assets representing costs to establish brand and market opportunities under the strategic alliance with CEBGO (Note 7). Management assessed that these assets have indefinite useful lives because there is no foreseeable limit to the period over which these assets are expected to generate net cash inflows to the Group.

Estimates and Assumptions

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

a. *Recognition of deferred tax assets*

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

As of June 30, 2018 and December 31, 2017, the Group has deferred tax assets amounting to ₱658.7 million and ₱891.0 million, respectively.

b. *Estimation of Asset Retirement Obligation (ARO)*

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

Assumptions used to compute ARO are reviewed and updated annually by the Group. As of June 30, 2018 and December 31, 2017, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

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

As of June 30, 2018 and December 31, 2017, the Group's ARO liability (included under 'Other noncurrent liabilities' account in the consolidated statement of financial position) has a carrying value of ₱4,699.0 million and ₱3,675.1 million, respectively (Note 19). The related repairs and maintenance expense for the six months ended June 30, 2018 and 2017 amounted to ₱1,023.9 million and ₱604.7 million, respectively (Note 22).

c. *Impairment of goodwill and intangible assets*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. The impairment testing is performed annually as at December 31 and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amounts, which is the FVLCD or VIU of the CGU whichever is higher, to which the goodwill and intangibles with indefinite useful lives are allocated.

In determining the recoverable amount of these assets, the management estimates the VIU of the CGU to which goodwill and intangible assets are allocated. Estimating the VIU requires management to make an estimate of the expected future cash flows from the asset or CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

As of June 30, 2018 and December 31, 2017, the Group has determined that goodwill and intangibles with indefinite useful lives are recoverable based on VIU. Goodwill amounted to

₱566.8 million as of June 30, 2018 and December 31, 2017 (Notes 7 and 15). Brand and market opportunities, which are recorded under 'Other noncurrent assets' account amounted to ₱852.2 million as of June 30, 2018 and December 31, 2017 (Notes 7 and 16).

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

The fair values of the Group's financial instruments are presented in Note 28.

e. *Fair values of aircraft at sale and operating leaseback transaction*
The Group determines the fair values of its aircraft by relying on a third party's valuation which has a global view of all area of the market which brings essential context of changes in the market and the opportunities and risks. The judgment includes determination whether the difference between the fair value of the aircraft and its selling price should be accounted as immediate gain in the profit or loss or be deferred over the operating lease term. The Group entered into sale and operating leaseback transactions in 2017 (Notes 13 and 29).

f. *Estimation of useful lives 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 EULs 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 the recorded depreciation and amortization expense and decrease noncurrent assets.

As of June 30, 2018 and December 31, 2017, the carrying values of the Group's property and equipment amounted to ₱91,685.7 million and ₱81,279.3 million, respectively (Note 13).

The Group's depreciation and amortization expense amounted to ₱3,542.1 million and ₱3,324.4 million for the six months ended June 30, 2018 and 2017, respectively (Note 13).

g. *Estimation of allowance for credit losses on receivables*
The Group maintains allowance for credit 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 collectability 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 balances of receivables and allowance for credit losses as of June 30, 2018 and December 31, 2017 are disclosed in Note 10.

h. *Determination of NRV of expendable parts, fuel, materials and supplies*
The Group's estimates of the NRV of expendable parts, fuel, materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that

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

The related balances as of June 30, 2018 and December 31, 2017 are discussed in Note 11.

i. *Estimation of liability under the Lifestyle Rewards Program*
A portion of passenger revenue attributable to the award of lifestyle reward program points, estimated based on expected utilization on these benefits, is deferred until utilized. The points expected to be redeemed are measured at fair value which is estimated using the Peso value of the points. Deferred revenue included as part of 'Other noncurrent liabilities' account amounted to ₱918.5 million and ₱720.2 million as of June 30, 2018 and December 31, 2017, respectively (Note 19). The rewards program started in 2015. Any remaining unredeemed points are recognized as revenue upon expiration.

j. *Estimation of retirement costs*
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (Note 24).

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

The Group's retirement liability amounted to ₱526.4 million and ₱637.0 million as of June 30, 2018 and December 31, 2017, respectively (Note 24).

6. Segment Information

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

The revenue of the operating segment was mainly derived from rendering transportation services.

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

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

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

	2018	2017
Revenue	**₱39,409,647,112**	₱36,097,629,743
Earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)	**12,010,983,827**	12,796,879,915
Depreciation and amortization	**3,542,067,148**	3,324,381,300
Interest expense	**963,921,253**	661,223,960
Interest income	**181,793,811**	87,695,435
Earnings before interest and taxes (EBIT)	**₱4,774,691,214**	₱6,652,079,515
Pre-tax core net income	**4,043,255,709**	6,129,906,048
Net income	**3,309,239,155**	4,333,961,685
Capital expenditures	**14,536,124,977**	9,673,661,054
Hedging gains (losses) - net	**1,342,276,470**	(1,147,319,091)
Share in net income of JVs	**50,691,937**	51,355,058
Income tax expense (benefit)	**335,549,099**	206,474,738

Pre-tax core net income, EBIT and EBITDAR are considered as non-PFRS measures.

Pre-tax core net income is the operating income after deducting net interest expense and adding equity income/loss of joint venture.

EBIT is the operating income before interest and taxes.

EBITDAR is the operating income after adding depreciation and amortization, provision for ARO and aircraft and engine lease expenses.

Capital expenditure is the total paid acquisition of property and equipment for the period.

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

	2018	2017
Total segment revenue of reportable operating segment	**₱37,834,884,894**	₱35,656,081,884
Nontransport revenue and other income	**1,574,762,218**	441,547,859
Total revenue	**₱39,409,647,112**	₱36,097,629,743

Nontransport revenue and other income include interest income, share in net income of JVs, gain on sale of aircraft and hedging gains.

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

	2018	2017
Total segment income of reportable segment	**₱4,774,691,214**	₱6,652,079,515
Add (deduct) unallocated items:		
Nontransport revenue and other income	**1,574,762,218**	441,547,859
Nontransport expenses and other charges	**(2,704,665,178)**	(2,553,190,951)
Benefit from (provision for) income tax	**(335,549,099)**	(206,474,738)
Net income	**3,309,239,155**	4,333,961,685
Other comprehensive gain (loss), net of tax	**–**	–
Total comprehensive income	**₱3,309,239,155**	₱4,333,961,685

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

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

7. Business Combination

On February 10, 2014, the Parent Company signed a Sale and Purchase Agreement (SPA) to acquire 100% shares of CEBGO, as part of the strategic alliance between the Parent Company and Tiger Airways Holding Limited (TAH). Under the terms of the SPA, the closing of the transaction is subject to the satisfaction or waiver of each of the conditions contained in the SPA. On March 20, 2014, all the conditions precedent have been satisfactorily completed. The Parent Company has paid the purchase price covering the transfer of shares from TAH. Consequently, the Parent Company gained control of CEBGO on the same date. The total consideration for the transaction, at post-closing settlement date, amounted to ₱265.1 million.

The fair values of the identifiable assets and liabilities of CEBGO at the date of acquisition follow:

	Amount
Total cash, receivables and other assets	₱1,234,084,305
Total accounts payable, accrued expenses and unearned income	1,535,756,691
Net liabilities	(301,672,386)
Goodwill	566,781,533
Acquisition cost at post-closing settlement date	₱265,109,147

The goodwill arising from this business combination amounted to ₱566.8 million (Note 15). The Parent Company also identified intangible assets representing costs to establish brand and market opportunities under the strategic alliance with TAH (Note 16). The related deferred tax liability on this business combination amounted to ₱185.6 million. The total purchase price after closing settlement date amounted to ₱488.6 million.

8. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱27,442,946**	₱31,950,406
Cash in banks	**6,611,683,619**	3,757,409,913
Short-term placements	**13,503,803,966**	11,824,184,187
	₱20,142,930,531	₱15,613,544,506

Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods depending on the immediate cash requirements of the Group. Short-term placements denominated in Peso earn an average annual interest of 3.4% and 1.8% in 2018 and 2017, respectively. Moreover, short-term placements in US dollar (USD) earn interest on an average annual interest rate of 2.3% and 1.6% in 2018 and 2017, respectively.

Interest income earned on cash in banks and short-term placements, presented in the consolidated statements of comprehensive income, amounted to ₱181.8 million and ₱87.7 million in 2018 and 2017, respectively.

9. Financial Assets at Fair Value through Profit or Loss

This account consists of derivative financial assets and liabilities in as of June 30, 2018 and December 31, 2017 that are not designated as accounting hedges. Derivative assets amounted to ₱1,427.3 million and ₱454.4 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, this account consists of zero cost collars contract. As of December 31, 2017, this account consists of zero cost collars and a foreign currency forward contract.

Commodity Swaps and Zero Cost Collars

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 charges against or credit to profit or loss. As of June 30, 2018 and December 31, 2017, the Group has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through December 31, 2020.

For the six months ended June 30, 2018 and 2017, the Group recognized net changes in fair value of derivatives amounting to ₱1,375.9 million gain and ₱1,147.3 million loss, respectively. These are recognized in 'Hedging gains (losses) - net' account under the consolidated statements of comprehensive income.

Foreign Currency Forwards

In 2018, the Group entered into foreign currency forward transactions with one of its counterparties where it recognized net changes in fair value of derivatives amounting to ₱33.6 million loss.

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

	2018	2017
Balance at beginning of year		
Derivative assets	**₱454,400,088**	₱758,876,862
Derivative liabilities	–	317,102,957
	454,400,088	441,773,905
Net changes in fair value of derivatives	**1,342,276,470**	(132,570,164)
	1,796,676,558	309,203,741
Fair value of settled instruments	**(369,361,455)**	145,196,347
Balance at end of year	**₱1,427,315,103**	₱454,400,088
Attributable to:		
Derivative assets	**₱1,427,315,103**	₱454,400,088
Derivative liabilities	**₱–**	₱–

The net changes in fair value of derivatives is inclusive of realized loss on foreign currency forwards amounting to ₱33.6 million in 2018 and realized gains on foreign currency forwards amounting to ₱3.3 million in 2017.

10. Receivables

This account consists of:

	2018	2017
Trade receivables	**₱1,737,697,057**	₱1,512,258,048
Due from related parties (Note 26)	**113,811,888**	121,520,658
Interest receivable	**16,265,341**	10,192,032
Others	**798,022,308**	594,502,513
	2,665,796,594	2,238,473,251
Less allowance for credit losses	**359,265,231**	337,990,673
	₱2,306,531,363	₱1,900,482,578

Trade receivables are noninterest-bearing and generally have 30 to 90-day term.

Interest receivable pertains to accrual of interest income from short-term placements.

Others include receivable from insurance, employees and fuel hedge counterparties.

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

	2018						
	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	**₱1,729,087,011**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,610,046**	**₱1,737,697,057**
Due from related parties	**113,811,888**	–	–	–	–	–	**113,811,888**
Interest receivable	**16,265,341**	–	–	–	–	–	**16,265,341**
Others*	**447,367,122**	–	–	–	–	**350,655,186**	**798,022,308**
	₱2,306,531,362	**₱–**	**₱–**	**₱–**	**₱–**	**₱359,265,232**	**₱2,665,796,594**

**Include nontrade receivables from insurance, employees and counterparties*

	2017						
	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	₱1,503,741,119	₱–	₱–	₱–	₱–	₱8,516,929	₱1,512,258,048
Due from related parties	121,520,658	–	–	–	–	–	121,520,658
Interest receivable	10,192,032	–	–	–	–	–	10,192,032
Others*	265,028,769	–	–	–	–	329,473,744	594,502,513
	₱1,900,482,578	₱–	₱–	₱–	₱–	₱337,990,673	₱2,238,473,251

**Include nontrade receivables from insurance, employees and counterparties*

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

	2018		
	Trade Receivables	**Others**	**Total**
Balance at beginning of year	**₱8,516,928**	**₱329,473,745**	**₱337,990,673**
Unrealized foreign exchange gain on allowance for credit losses	**93,117**	**21,181,441**	**21,274,558**
Balance at end of year	**₱8,610,045**	**₱350,655,186**	**₱359,265,231**

	2017		
	Trade Receivables	Others	Total
Balance at beginning of year	₱8,511,194	₱322,818,729	₱331,329,923
Unrealized foreign exchange gain on allowance for credit losses	5,734	6,655,016	6,660,750
Balance at end of year	₱8,516,928	₱329,473,745	₱337,990,673

11. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2018	2017
At NRV:		
Expendable parts	**₱1,280,532,579**	₱1,226,659,598
At cost:		
Fuel	**1,236,167,665**	349,633,742
Materials and supplies	**42,534,708**	37,397,193
	1,278,702,373	387,030,935
	₱2,559,234,952	₱1,613,690,533

The cost of expendable parts amounted to ₱1,282.0 million and ₱1,247.1 million as of June 30, 2018 and December 31, 2017, respectively. The allowance for inventory write down amounted to ₱20.5 million as of June 30, 2018 and December 31, 2017. There are no additional provisions for inventory write down in 2018 and 2017. No expendable parts, fuel, material and supplies are pledged as security for liabilities.

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under ‘Repairs and maintenance’ account in the consolidated statements of comprehensive income) for the six months ended June 30, 2018 and 2017 amounted to ₱384.8 million and ₱275.7 million, respectively (Note 22). The cost of fuel reported as expense under ‘Flying operations’ account amounted to ₱12,336.8 million and ₱10,054.2 million in 2018 and 2017, respectively (Note 22).

12. Other Current Assets

This account consists of:

	2018	2017
Advances to suppliers	**₱1,563,207,211**	₱1,434,662,986
Prepaid rent	**418,157,318**	432,121,335
Prepaid insurance	**113,793,847**	45,458,573
Others	**220,098,071**	196,712,025
	₱2,315,256,447	₱2,108,954,919

Advances to suppliers include advances made for the purchase of various aircraft parts, service maintenance for regular maintenance and restoration costs of the aircraft. Advances for regular maintenance are recouped from progress billings, which occurs within one year from the date the advances arose, whereas, advance payment for restoration costs is recouped when the expenses for restoration of aircraft have been incurred. These advances are unsecured and noninterest-bearing (Note 29).

Prepaid rent pertains to advance rental on aircraft under operating lease and on office spaces in airports (Note 29).

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

Deposit to counterparties pertains to collateral deposits provided to counterparties for fuel hedging transactions.

Others include housing allowance and prepayments to other suppliers.

13. Property and Equipment

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Acquisition Costs		
Passenger aircraft	**₱83,258,277,195**	₱70,335,605,503
Pre-delivery payments	**13,692,305,426**	15,918,395,746
Engines	**10,005,672,737**	9,397,746,368
Rotables	**4,718,331,820**	4,134,606,491
Ground support equipment	**1,189,643,842**	745,781,213
Leasehold improvements	**1,173,340,369**	1,351,688,889
EDP equipment, mainframe and peripherals	**1,114,770,430**	1,025,754,799
Transportation equipment	**375,806,130**	322,192,737
Construction in-progress	**320,655,981**	110,366,631
Furniture, fixtures and office equipment	**269,905,693**	211,575,586
Communication equipment	**30,912,976**	29,440,487
Special tools	**16,328,179**	15,799,420
Maintenance and test equipment	**6,542,926**	6,542,926
Other equipment	**125,098,144**	119,003,303
Total	**116,297,591,848**	103,724,500,099
Accumulated depreciation	**(24,611,899,017)**	(22,445,207,712)
Net book value	**₱91,685,692,831**	₱81,279,292,387

Passenger Aircraft and Engines Held as Securing Assets Under Various Loans
The Group entered into various Export Credit Agency (ECA) and commercial loan facilities to finance the purchase of its aircraft and engines. As of June 30, 2018 and December 31, 2017, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

	2018		2017	
	ECA Loans	**Commercial Loans**	ECA Loans	Commercial Loans
Airbus A320	**6**	**17**	6	17
Airbus A321 CEO	**–**	**5**	–	–
ATR 72-500	**4**	**–**	7	–
ATR 72-600	**–**	**10**	–	8
Airbus A330	**–**	**2**	–	2
Engines	**–**	**5**	–	5
	10	**39**	13	32

Under the terms of the ECA loan and commercial loan facilities (Note 18), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by the SPEs or by the guarantors, which are CPAHI and JGSHI. CPAHI and JGSHI are guarantors to loans entered into by BLL and SLL. Under the terms of commercial loan facilities from local banks, upon event of default, the outstanding amount of loan will be payable, including interest accrued by the Parent Company. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of June 30, 2018 and December 31, 2017, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱65.9 billion and ₱54.9 billion, respectively.

Forward Sale Agreement
On February 23, 2015, the Group signed a forward sale agreement with Sunrise Asset Management, a subsidiary of Allegiant Travel Company (collectively known as "Allegiant"), covering the Group's sale of six (6) Airbus A319 aircraft. The aircraft are scheduled for delivery on various dates in 2015 until 2016.

In 2015, the Parent Company delivered the first two (2) out of six (6) Airbus A319 aircraft to Allegiant and recognized ₱80.3 million loss on sale in the consolidated statements of comprehensive income.

In 2016, the Parent Company delivered the remaining four (4) out of six (6) airbus A319 aircraft to Allegiant and recognized ₱962.6 million loss on sale in the consolidated statements of comprehensive income.

In 2016, the Parent Company signed another forward sale agreement with Allegiant covering the last remaining four (4) A319 aircraft. The aircraft are scheduled for delivery on various dates in 2017 and 2018.

In 2017, the Parent Company delivered the first three (3) out of four (4) Airbus A319 to Allegiant and recognized ₱532.9 million loss on sale in the consolidated statements of comprehensive income.

In 2018, the Parent Company delivered the last remaining Airbus A319 to Allegiant and recognized ₱156.7 million loss on sale in the consolidated statements of comprehensive income.

Sale and Operating Leaseback
In May and November 2017, the Group entered into a sale and operating leaseback transactions with Ibon Leasing Limited (ILL) and JPA No. 78/79/80/81 Co., Ltd. covering two (2) and four (4) Airbus A320, respectively (Note 29).

Operating Fleet
As of June 30, 2018 and December 31, 2017, the Group's operating fleet follows:

	2018	2017
Owned (Note 18):		
Airbus A320	**23**	23
Airbus A321 CEO	**5**	–
ATR 72-500	**8**	8
ATR 72-600	**10**	8
Airbus A330	**2**	2
Airbus A319	**–**	1
Under operating lease (Note 29):		
Airbus A320	**13**	13
Airbus A330	**6**	6
	67	61

Construction in-progress represents the cost of airframe and engine construction in-progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of June 30, 2018 and December 31, 2017, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱13,692.3 million and ₱15,918.4 million, respectively (Note 29).

As of June 30, 2018 and December 31, 2017, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱2,212.5 million and ₱1,654.1 million, respectively.

As of June 30, 2018 and December 31, 2017, there are no temporarily idle property and equipment.

14. **Investments in Joint Ventures and in an Associate**

Investments in Joint Ventures
The Parent Company has numerous investments in joint arrangements that are accounted for as joint ventures. These represent the 60.00%, 49.00% and 35.00% interests in PAAT, A-plus and SIAEP, respectively.

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

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

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

Investment in an Associate
In May 2016, the Parent Company entered into Value Alliance Agreement with other low cost carriers (LCCs), namely, Scoot Pte. Ltd, Nok Airlines Public Company Limited, CEBGO, and Vanilla Air Inc. The alliance aims to increase passenger traffic by creating interline partnerships and parties involved have agreed to create joint sales and support operations to expand services and products available to passengers. This is achieved through LCCs' investment in ABB.

In November 2016, the Parent Company acquired shares of stock in ABB amounting to ₱43.7 million. ABB is an entity incorporated in Singapore in 2016 to manage the ABB settlement system, which facilitates the settlement of sales proceeds between the issuing and carrying airlines, and of the transaction fee due to ABB.

The investment gave the Parent Company a 15% shareholding proportion to ABB which is classified as an investment in an associate and is accounted for at equity method. However, since ABB is still non-operational as of June 30, 2018 and December 31, 2017, the investment is recognized at cost and is subject to any remeasurement within the measurement period. As of June 30, 2018 and December 31, 2017, the net carrying amount of the Group's investment with ABB amounted to ₱43.7 million.

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

	2018			
	A-plus	**SIAEP**	**PAAT**	**Total**
Cost				
Balance at beginning of year	**₱87,012,572**	**₱486,168,900**	**₱134,873,645**	**₱708,055,117**
Accumulated Equity in Net Income (Loss)				
Balance at beginning of year	**142,323,570**	**(106,944,858)**	**53,824,686**	**89,203,398**
Equity in net income during the year	**42,465,667**	**20,526,397**	**(12,300,127)**	**50,691,937**
Dividends declared	**(79,454,917)**			**(79,454,917)**
Balance at end of year	**105,334,320**	**(86,418,461)**	**41,524,559**	**60,440,418**
Net Carrying Value	**₱192,346,892**	**₱399,750,439**	**₱176,398,204**	**₱768,495,535**

	2017			
	A-plus	SIAEP	PAAT	Total
Cost				
Balance at beginning of year	₱87,012,572	₱486,168,900	₱134,873,645	₱708,055,117
Accumulated Equity in Net Income (Loss)				
Balance at beginning of year	143,617,164	(120,852,015)	31,267,183	54,032,332
Equity in net income during the year	103,865,989	13,907,157	22,557,503	140,330,649
Dividends declared	(105,159,583)	–	–	(105,159,583)
Balance at end of year	142,323,570	(106,944,858)	53,824,686	89,203,398
Net Carrying Value	₱229,336,142	₱379,224,042	₱188,698,331	₱797,258,515

Selected financial information of A-plus, SIAEP and PAAT as of June 30, 2018 and December 31, 2017 follow:

	2018		
	A-plus	**SIAEP**	**PAAT**
Total current assets	**₱702,234,176**	**₱919791,993**	**₱206,012,483**
Noncurrent assets	**246,816,633**	**1,720,038,043**	**756,210,443**
Current liabilities	**(556,506,131)**	**(730,563,046)**	**(54,175,391)**
Noncurrent liabilities	–	**(767,122,879)**	**(555,251,128)**
Equity	**392,544,678**	**1,142,144,111**	**352,796,407**
Proportion of the Group's ownership	**49%**	**35%**	**50%**
Carrying amount of the investments	**₱192,346,892**	**₱399,750,439**	**₱176,398,204**

	2017		
	A-plus	SIAEP	PAAT
Total current assets	₱647,609,652	₱844,054,548	₱236,515,967
Noncurrent assets	236,491,515	1,633,406,976	761,202,139
Current liabilities	(416,068,224)	(630,064,750)	(46,069,909)
Noncurrent liabilities	–	(763,899,511)	(574,251,536)
Equity	468,032,943	1,083,497,263	377,396,661
Proportion of the Group's ownership	49%	35%	50%
Carrying amount of the investments	₱229,336,142	₱379,224,042	₱188,698,331

Summary of statements of comprehensive income of A-plus, SIAEP and PAAT for the six months ended June 30 follow:

	2018		
	A-plus	**SIAEP**	**PAAT**
Revenue	**₱515,301,903**	**₱873,547,556**	**₱96,945,728**
Expenses	**(420,018,614)**	**(794,108,716)**	**(80,630,402)**
Other income (expenses)	**29,333,858**	**(8,995,869)**	**(39,519,274)**
Income before tax	**124,617,147**	**70,442,971**	**(23,203,948)**
Income tax expense	**37,952,520**	**11,796,123**	**1,396,305**
Net income	**₱86,664,627**	**₱58,646,848**	**(₱24,600,253)**
Group's share of profit for the year	**₱42,465,667**	**₱20,526,397**	**(₱12,300,127)**

	2017		
	A-plus	SIAEP	PAAT
Revenue	₱519,933,179	₱683,707,333	₱160,398,193
Expenses	(385,611,896)	(690,621,394)	(125,733,220)
Other income (expenses)	19,924,923	(14,553,986)	(18,273,735)
Income before tax	154,246,206	(21,468,047)	16,391,238
Income tax expense	44,738,071	3,244,099	3,700,592
Net income	₱109,508,135	(₱24,712,146)	₱12,690,646
Group's share of profit for the year	₱53,658,986	(₱8,649,251)	₱6,345,323

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

The share of the Parent Company in the net income of A-plus included in the consolidated retained earnings amounted to ₱105.3 million and ₱142.3 million as of June 30, 2018 and December 31, 2017 , respectively, which is not currently available for dividend distribution unless declared by A-plus.

The share of the Parent Company in the net income of PAAT included in the consolidated retained earnings amounted to ₱41.5 million and ₱53.8 million as of June 30, 2018 and December 31, 2017, respectively, which is not currently available for dividend distribution unless declared by PAAT.

As of June 30, 2018 and December 31, 2017, SIAEP's accumulated losses amounted to ₱86.4 million and ₱106.9 million, respectively.

15. Goodwill

This account, which has a balance of ₱566.8 million as of June 30, 2018 and December 31, 2017, represents the goodwill arising from the acquisition of CEBGO (Note 7). Goodwill is attributed to the following:

Achievement of Economies of Scale
Using the Parent Company's network of suppliers and other partners to improve cost and efficiency of CEBGO, thus, improving CEBGO's overall profit, given its existing market share.

Defensive Strategy
Acquiring a competitor enables the Parent Company to manage overcapacity in certain geographical areas/markets.

Impairment testing of Goodwill and Intangible Assets with Indefinite Useful Lives
For purposes of impairment testing of these assets, CEBGO was considered as the CGU. In 2018 and 2017, management assessed that no impairment losses should be recognized for these intangible assets with indefinite useful lives. These intangible assets pertain to establish brand and market opportunities under the strategic alliance with CEBGO (Note 16).

Key assumptions used in the VIU calculation
As of June 30, 2018 and December 31, 2017, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenue, profit margins and revenue growth rates: These assumptions are based on the past performance of CEBGO, market developments and expectations in the industry.
- Discount rates: The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the acquisition of CEBGO to materially exceed their recoverable amounts.

16. Other Noncurrent Assets

This account includes noncurrent portion of advances to suppliers, security deposits provided to lessors and maintenance providers and other refundable deposits to be applied against payments for future aircraft deliveries. It also includes intangible assets representing costs to establish brand and market opportunities under the strategic alliance with CEBGO amounting to ₱852.2 million as of June 30, 2018 and December 31, 2017 (Note 7).

Advances to suppliers refer to pre-purchase of Airbus A330 life limited engine parts and pre-payment of Power by the hour charges amounting to ₱4,601.8 million and ₱2,682.5 million as of June 30, 2018 and December 31, 2017, respectively.

Refer to Note 15 for the impairment test of these intangible assets with indefinite useful lives.

17. Accounts Payable and Other Accrued Liabilities

This account consists of:

	2018	2017
Accounts payable (Note 27)	**₱6,824,763,684**	₱4,348,772,864
Accrued expenses	**5,062,554,429**	5,626,405,247
Airport and other related fees payable	**3,589,979,151**	3,255,283,618
Advances from agents and others	**488,515,801**	483,419,341
Accrued interest payable (Note 18)	**286,553,291**	219,991,240
Other payables	**256,145,469**	248,913,529
	₱16,508,511,825	₱14,182,785,839

Accrued Expenses
The Group's accrued expenses include accruals for:

	2018	2017
Maintenance (Note 29)	**₱1,542,926,724**	₱1,594,899,506
Compensation and benefits	**1,141,922,751**	1,288,053,955
Advertising and promotion	**758,942,773**	808,520,772
Navigational charges	**490,433,569**	512,565,815
Repairs and services	**412,849,677**	392,949,302
Rent (Note 29)	**119,162,816**	121,871,445
Catering supplies	**92,450,320**	53,736,429
Training costs	**88,645,500**	80,830,272
Fuel	**56,142,680**	173,828,180
Landing and take-off fees	**39,336,503**	119,171,719
Reservation costs	**28,329,332**	34,648,276
Ground handling charges	**23,311,597**	296,891,238
Professional fees	**24,549,888**	23,310,422
Aircraft insurance	**7,155,916**	9,730,292
Others	**236,394,383**	115,397,624
	₱5,062,554,429	₱5,626,405,247

Others represent accrual of security, utilities, insurance and other expenses.

Accounts Payable
Accounts payable consists mostly of payables related to the purchase of inventories, are noninterest-bearing and are normally settled on a 60-day term. These inventories are necessary for the daily operations and maintenance of the aircraft, which include aviation fuel, expendables parts, equipment and in-flight supplies. It also includes other nontrade payables.

Airport and Other Related Fees Payable
Airport and other related fees payable are amounts payable to the Philippine Tourism Authority, Air Transportation Office, Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents. These also include commitment fees received for the sale and purchase agreement of four (4) A319 aircraft amounting to nil and ₱49.9 million (US$1.0 million) as of June 30, 2018 and December 31, 2017, respectively.

Accrued Interest Payable

Accrued interest payable pertains to accrual of interest expense, which is related to long-term debt and normally settled quarterly throughout the year.

Other Payables

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

18. Long-term Debt

This account consists of:

	Annual Interest Rates Range (Note 27)	Maturities	**2018** US Dollar	**2018** Philippine Peso Equivalent
ECA loans	3.00% to 5.00%	Various dates through 2024	**US$20,752,713**	**₱1,106,949,728**
	2.00% to 5.00% (US Dollar LIBOR)		**93,344,741**	**4,979,008,466**
			114,097,454	**6,085,958,194**
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025	**428,751,166**	**22,869,587,196**
	2.00% to 5.00% (US Dollar LIBOR)		**82,299,271**	**4,389,843,115**
Philippine Peso commercial loans	3.00% to 5.00% (PDST-R2)	2016 through 2026		**20,141,092,249**
			511,050,437	**47,400,522,560**
			US$625,147,891	**₱53,486,480,754**

	Annual Interest Rates Range (Note 27)	Maturities	2017 US Dollar	2017 Philippine Peso Equivalent
ECA loans	3.00% to 5.00%	Various dates through 2024	US$28,434,642	₱1,419,741,691
	2.00% to 5.00% (US Dollar LIBOR)		101,568,931	5,071,336,717
			130,003,573	6,491,078,408
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025	86,000,000	4,293,980,000
	2.00% to 5.00% (US Dollar LIBOR)		333,493,848	16,651,347,844
Philippine Peso commercial loans	3.00% to 5.00% (PDST-R2)	2016 through 2026	–	13,545,804,500
			419,493,848	34,491,132,344
			US$549,497,421	₱40,982,210,752

The current and noncurrent portions of long-term debt are shown below:

	2018	
	US Dollar	**Philippine Peso Equivalent**
Current		
US Dollar loans	**US$86,247,958**	**₱4,600,466,102**
Philippine Peso loans	**–**	**2,419,056,639**
	86,247,958	**7,019,522,741**
Noncurrent		
US Dollar loans	**538,899,933**	**28,744,922,403**
Philippine Peso loans	**–**	**17,722,035,610**
	538,899,933	**46,466,958,013**
	US$625,147,891	**₱53,486,480,754**

	2017	
	US Dollar	Philippine Peso Equivalent
Current		
US Dollar loans	US$90,548,405	₱4,521,081,874
Philippine Peso loans	–	1,448,175,750
	90,548,405	5,969,257,624
Noncurrent		
US Dollar loans	458,949,016	22,915,324,378
Philippine Peso loans	–	12,097,628,750
	458,949,016	35,012,953,128
	US$549,497,421	₱40,982,210,752

Long-term debt rollforward follows:

	2018			
	US Dollar loans	**Philippine Peso Equivalent**	**Philippine Peso Loans**	**Total**
Balances at beginning of year	**US$549,497,421**	**₱27,436,406,252**	**₱13,545,804,500**	**₱40,982,210,752**
Availments	**352,608,250**	**18,563,078,881**	**7,341,792,124**	**25,904,871,005**
Payments	**(276,957,780)**	**(14,465,316,677)**	**(746,504,375)**	**(15,211,821,052)**
	US$625,147,891	**31,534,168,456**	**20,141,092,249**	**51,675,260,705**
Unrealized foreign exchange loss		**1,811,220,049**	**–**	**1,811,220,049**
Balances at end of year		**₱33,345,388,505**	**₱20,141,092,249**	**₱53,486,480,754**

	2017			
	US Dollar loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at beginning of year	US$748,832,414	₱37,231,947,630	₱5,578,490,000	₱42,810,437,630
Availments	–	–	8,903,267,500	8,903,267,500
Payments	(199,334,993)	(10,048,126,753)	(935,953,000)	(10,984,079,753)
	US$549,497,421	27,183,820,877	13,545,804,500	40,729,625,377
Unrealized foreign exchange loss		252,585,375	–	252,585,375
Balances at end of year		₱27,436,406,252	₱13,545,804,500	₱40,982,210,752

ECA Loans

On various dates from 2005 to 2012, the Parent Company entered into ECA-backed loan facilities to partially finance the purchases of ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft. The security trustee of these ECA loans established SPEs, namely CALL, BLL, SLL, VALL and POALL, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to (a) ten-year finance lease arrangement for the

ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft. The quarterly and semi-annual payments made by the Parent Company to these SPEs correspond to the principal and interest payments made by the SPEs to the ECA-backed lenders. The quarterly and semi-annual lease rentals to the SPEs are guaranteed by CPAHI and JGSHI. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2017 and 2016, the Parent Company exercised the option to purchase three and four of the ten Airbus A319 aircraft, respectively, which were subsequently sold to a third party as part of a forward sale arrangement (Note 13). The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft.

The terms of the remaining ECA-backed facilities, which are the same for the six (6) Airbus A320 aircraft and four (4) ATR 72-500 turboprop aircraft, follow:

- Term of twelve (12) years starting from the delivery date of each Airbus A320 aircraft and Ten (10) years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments for the ATR 72-500 turboprop aircraft and Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for A320 aircraft.
- Interest on loans from the ECA lenders are a mix of fixed and variable rates. Fixed annual interest rates ranges from 2.00% to 5.00% and variable rates are based on US dollar LIBOR plus margin.
- As provided under the ECA-backed facility, the SPEs cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. SPEs 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 SPEs becomes insolvent, (e) failure to discharge any attachment or sequestration order against SPEs' assets, (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands, (g) sale of any aircraft under ECA financing prior to discharge date, (h) cessation of business, (i) revocation or repudiation by the SPEs, the Group, JGSHI or CPAHI of any transaction document or security interest, and (j) occurrence of an event of default under the lease agreement with the Parent Company.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on secured assets, namely the aircraft (Note 13).
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

As of June 30, 2018 and December 31, 2017, the total outstanding balance of the ECA loans amounted to ₱6,086.0 million (US$114.1 million) and ₱6,491.1 million (US$130.0 million), respectively. Interest expense amounted to ₱96.7 million and ₱154.3 million in 2018 and 2017, respectively.

US Dollar Commercial Loans
On various dates from 2007 to 2016, the Group entered into a commercial loan facility to partially finance the purchase of nineteen (19) Airbus A320 aircraft, one CFM 565B4/P engine and two CFM 565B5/P engines. The security trustee of the commercial loan facility established SPEs, namely PTALL, PTHALL, SAALL, SBALL and SCALL, which purchased the aircraft from the Parent Company pursuant to (a) ten-year finance lease arrangement for the Airbus A320 aircraft; and (b) six-year finance lease arrangement for the engines. The quarterly and semi-annual payments made by the Parent Company to these SPEs correspond to the principal and interest payments made by the SPEs to the ECA-backed lenders. The Parent Company has the option to purchase the aircraft and the engines for a nominal amount at the end of such leases.

The terms of the remaining commercial loans follow:

- Term of ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a quarterly and semi-annual basis for the aircraft and engines.
- Interests on loans are a mix of fixed and variable rates. Interest rates ranges from 2.00% to 5.00%.
- The facilities provide for material breach as an event of default, upon which, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

As of June 30, 2018 and December 31, 2017, the total outstanding balance of the US dollar commercial loans amounted to ₱27,259.4 million (US$511.0 million) and ₱20,945.3 million (US$419.5 million), respectively. Interest expense amounted to ₱504.7 million and ₱382.2 million in 2018 and 2017, respectively.

Philippine Peso Commercial Loans
In 2016, the Group entered into a Philippine peso commercial loan facility to partially finance the acquisition of two ATR 72-600 aircraft and one Airbus A330 aircraft.

In 2017, the Group entered into a Philippine peso commercial loan facility to partially finance the acquisition of six ATR 72-600 aircraft and one Airbus A330 aircraft.

In 2018, the Group entered into a Philippine peso commercial loan facility to partially finance the acquisition of two ATR 72-600 aircraft and five Airbus A321 CEO aircraft.

The terms of the commercial loans follow:

- Term of ten years starting from the delivery date of each aircraft.
- Forty equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates. Interest rates ranges from 3.00% to 5.00%.
- The facilities provide that, upon event of default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose mortgaged assets, namely the aircraft.

As of June 30, 2018 and December 31, 2017, the total outstanding balance of Peso commercial loans amounted to ₱20,141.1 million and ₱13.545.8 million, respectively. Interest expense incurred from these loans amounted to ₱362.5 million and ₱124.7 million in 2018 and 2017, respectively.

The Group is required to comply with affirmative and negative covenants until termination of loans. As of June 30, 2018 and December 31, 2017, the Group is not in breach of any loan covenants.

19. Other Noncurrent Liabilities

This account consists of:

	2018	2017
Asset Retirement Obligation (ARO)	**₱4,699,018,245**	₱3,675,087,466
Deferred revenue on rewards program	**918,527,820**	720,229,576
	₱5,617,546,065	₱4,395,317,042

ARO
The Group is contractually required under various lease contracts to restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. These costs are accrued based on estimates made by the Group's engineers, which include estimates of future aircraft utilization and certain redelivery costs at the end of the lease period.

The rollforward analysis of the Group's ARO follow:

	2018	2017
Balance at beginning of year	**₱3,675,087,466**	₱2,465,671,139
Provision for ARO	**1,023,930,779**	1,209,416,327
Balance at end of year	**₱4,699,018,245**	₱3,675,087,466

In 2018 and 2017, ARO expenses included as part of repairs and maintenance amounted to ₱1,023.9 million and ₱604.7 million, respectively (Note 22).

Deferred Revenue on Rewards Program
This account pertains to estimated liability under the Getgo lifestyle rewards program.

20. Equity

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

	2018	2017
Authorized - at ₱1 par value	**1,340,000,000**	1,340,000,000
Beginning and end of year	**605,953,330**	605,953,330

Common Stock
On October 26, 2010, the Parent Company listed with the PSE its common stock, by way of primary and secondary share offerings, wherein it offered 212,419,700 shares to the public at ₱ 125.00 per share. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting to ₱3,800.0 million. The Parent Company's share in the total transaction costs incurred incidental to the IPO amounted to ₱100.4 million, which is charged against 'Capital paid in excess of par value' in the consolidated statements of financial position. The registration statement was approved on October 11, 2010. After its listing with the PSE, there have been no subsequent offerings of common stock. The Group has 100 and 91 existing certified shareholders as of June 30, 2018 and December 31, 2017, respectively.

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

The Parent Company has 7,283,220 shares held in treasury costing ₱529.3 million as of December 31, 2017 and 2016, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings
On December 15, 2017, November 10, 2016 and December 3, 2015, the Parent Company's BOD appropriated ₱18.3 billion, ₱6.6 billion and ₱1.0 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. The appropriated amount will be used for the settlement of pre-delivery payments and aircraft lease commitments (Note 29). As of June 30, 2018 and December 31, 2017, the Group has appropriated retained earnings totaling ₱18,300.0 million.

Project name	BOD approval	Expected Receipt Date
Re-fleeting program		
2017	**December 15, 2017**	**2018-2021**
2016	November 10, 2016	2017-2021
2015	December 3, 2015	2016-2021

Unappropriated Retained Earnings
The income of the subsidiaries and JVs that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and JVs (Note 14). Likewise, retained earnings are restricted for the payment of dividends to the extent of the cost of common stock held in treasury amounting to ₱529.3 million.

On May 21, 2018, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱1,745.1 million or ₱2.88 per share and a special cash dividend in the amount of ₱981.6 million or ₱1.62 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 14, 2018 and payable on July 10, 2018. Total dividends declared amounted to ₱2,726.8 million for the period ended June 30, 2018.

On May 19, 2017, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share and a special cash dividend in the amount of ₱1,060.4 million or ₱1.75 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 9, 2017 and payable on July 5, 2017. Total dividends declared amounted to ₱1,666.4 million for the period ended December 31, 2017.

On May 20, 2016, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share and a special cash dividend in the amount of ₱605.9 million or ₱1.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 9, 2016 and payable on July 5, 2016. Total dividends declared amounted to ₱1,211.9 million for the period ended December 31, 2016.

On June 24, 2015, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share and a special cash dividend in the amount of ₱302.9 million or ₱0.50 per share from the unrestricted retained earnings of the Parent

Company to all stockholders of record as of July 16, 2015 and payable on August 11, 2015. Total dividends declared amounted to ₱908.9 million for the period ended December 31, 2015.

After reconciling items which include fair value adjustments on financial instruments, unrealized foreign exchange loss, recognized deferred tax assets and others, and cost of common stocks held in treasury, the amount of retained earnings that is available for dividend declaration as of June 30, 2018 amounted to ₱5,171.3 million.

Capital Management

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

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

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

	2018	2017
(a) Long-term debt (Note 18)	**₱53,486,480,754**	₱40,982,210,752
(b) Equity	**40,368,028,536**	39,785,579,366
(c) Debt-to-equity ratio (a/b)	**1.3:1**	1.0:1

The JGSHI Group's policy is to keep the debt-to-equity ratio at the 2:1 level as of June 30, 2018 and December 31, 2017. Such ratio is currently being managed on a group level by the Group's ultimate parent.

21. Ancillary Revenue

Ancillary revenue consists of:

	2018	2017
Baggage fees	**₱3,102,218,970**	₱3,332,662,501
Rebooking, refunds, cancellation fees, etc.	**2,655,312,248**	2,562,109,350
Others	**1,121,702,231**	1,069,913,185
	₱6,879,233,450	₱6,964,685,035

Others pertain to revenue from in-flight sales, advanced seat selection fees, reservation booking fees and others (Note 26).

22. **Operating Expenses**

Flying Operations
This account consists of:

	2018	2017
Aviation fuel expense (Note 11)	**₱12,336,803,450**	₱10,054,162,005
Flight deck	**1,802,408,540**	1,893,433,325
Aviation insurance	**117,514,028**	111,637,332
Others	**270,491,956**	236,849,673
	₱14,527,217,974	₱12,296,082,335

Aircraft and Traffic Servicing
This account consists of:

	2018	2017
Airport charges	**₱2,169,045,302**	₱2,282,271,500
Ground handling	**1,432,907,609**	1,290,136,128
Others	**417,205,059**	308,772,491
	₱4,019,157,970	₱3,881,180,119

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

Repairs and Maintenance
Repairs and maintenance expenses relate to the cost of maintaining, repairing and overhauling of all aircraft and engines, technical handling fees on pre-flight inspections and cost of aircraft spare parts and other related equipment. The account includes related costs of other contractual obligations under aircraft operating lease agreements (Note 29). These amounted to ₱1,023.9 million and ₱604.7 million in 2018 and 2017, respectively (Note 19).

Reservation and Sales
Reservation and sales relate to the cost to sell or distribute airline tickets and other ancillaries provided to passengers such as costs to maintain the Group's web-based booking channel, reservation ticketing office costs and advertising expenses. These amounted to ₱1,830.5 million and ₱1,759.6 million in 2018 and 2017, respectively.

23. **General and Administrative Expenses**

This account consists of:

	2018	2017
Staff costs	**₱392,407,179**	₱372,736,449
Security and professional fees	**451,812,169**	276,135,240
Utilities	**68,514,477**	72,200,489
Rent expense	**46,823,925**	50,871,826
Travel and transportation	**16,696,025**	25,225,335
Others	**299,140,437**	221,681,524
	₱1,275,394,212	₱1,018,850,863

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

24. Employee Benefits

Employee Benefit Cost

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

Defined Benefit Plans

The Group has funded, noncontributory, defined benefit plans covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

25. Earnings Per Share

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

	2018	2017
(a) Net income attributable to common shareholders	**₱3,309,239,155**	₱4,333,961,685
(b) Weighted average number of common shares for basic EPS	**605,953,330**	605,953,330
(c) Basic/diluted earnings per share	**₱5.46**	₱7.15

The Group has no dilutive potential common shares in 2018 and 2017.

26. Related Party Transaction

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

The Group has entered into transactions with its ultimate parent, its JVs and affiliates principally consisting of advances, sale of passenger tickets, reimbursement of expenses, regular banking transactions, maintenance and administrative service agreements. In addition to the related information disclosed elsewhere in the consolidated financial statements, the following are the year-end balances in respect of transactions with related parties, which were carried out in the normal course of business on terms agreed with related parties during the year.

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

27. **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, 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 and foreign currency forward contracts to manage its exposure to fuel price and foreign exchange rate fluctuations, respectively.

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

Risk Management Structure

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

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

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

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

Audit Committee

The Group's Audit Committee assists the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and the internal audit functions of the Group. Furthermore, it is the Audit Committee's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The Audit Committee also aims to ensure that:

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

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

- Formulation of risk policies, strategies, principles, framework and limits;
- Management of the fundamental risk issues and monitoring of relevant risk decisions;
- Support to management in implementing the risk policies and strategies; and
- Development of a risk awareness program.

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

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

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

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

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

1. Internal Environmental Scanning - It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the business unit.
2. Objective Setting - The Group's BOD mandates the Group's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Risk Assessment - The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
4. Risk Response - The Group's BOD, through the oversight role of the ERMG, approves the Group's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.

5. Control Activities - Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
6. Information and Communication - Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
7. Monitoring - The ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

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

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

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

Credit risk
Credit risk is defined as the risk of loss due to uncertainty in a third party's ability to meet its obligation to the Group. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are being subjected to credit verification procedures. In addition, receivable balances are monitored on a continuous basis resulting in an insignificant exposure in bad debts.

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

Collateral or credit enhancements
As collateral against trade receivables from sales ticket offices or agents, the Group requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Group's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of June 30, 2018 and December 31, 2017, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statements of financial position) amounted to ₱340.3 million and ₱237.9 million, respectively (Note 17).

There are no collaterals for impaired receivables.

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

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

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

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

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

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

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

Financial liabilities
The relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in installments, each installment is allocated to the earliest period in which the Group 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 exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of June 30, 2018 and December 31, 2017 follow:

	2018	2017
US dollar	**₱53.3400 to US$1.00**	₱49.9300 to US$1.00
Singapore dollar	**₱39.1386 to SGD1.00**	₱37.3228 to SGD1.00
Hong Kong dollar	**₱6.8200 to HKD1.00**	₱6.3882 to HKD1.00

The following table sets forth the impact of the range of reasonably possible changes in the USD - Peso exchange value on the Group's pre-tax income for the six months ended June 30, 2018 and 2017 (in thousands).

	2018		2017	
Changes in foreign exchange value	**₱2**	**(₱2)**	₱2	(₱2)
Change in pre-tax income	**(₱908,421)**	**₱908,421**	(₱1,279,915)	₱1,279,915

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 ₱1,263.6 million and ₱1,275.1 million for the six months ended June 30, 2018 and 2017, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Interest rate risk
Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated statements of financial position and on some financial instruments not recognized in the consolidated statements of financial position (i.e., some loan commitments, if any). The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt (Note 18).

The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Group's pre-tax income for the six months ended June 30, 2018 and 2017.

	2018		2017	
Changes in interest rates	**1.50%**	**(1.50%)**	1.50%	(1.50%)
Changes in pre-tax income	**(₱614,141,498)**	**₱614,141,498**	(₱240,736,982)	₱240,736,982

Fair value interest rate risk
Fair value interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at fair value through profit or loss.

28. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of financial assets and other financial liabilities are:

Refundable deposits
The fair values are determined based on the present value of estimated future cash flows using prevailing market rates. The Group used discount rates of 3% to 4% in 2018 and 2017, respectively.

Long-term debt
The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount rates used range from 2% to 6% as of June 30, 2018 and December 31, 2017, respectively.

29. Commitments and Contingencies

Operating Aircraft Lease Commitments
The Group entered into operating lease agreements with certain leasing companies, which cover the following aircraft:

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

Date of Lease Agreement	Lessors	No. of Units	Lease Expiry
April 2007	Inishcrean Leasing Limited (Inishcrean)	1	October 2019
March 2008	GY Aviation Lease 0905 Co. Limited	2	January 2019
March 2008	APTREE Aviation Trading 2 Co. Ltd	1	October 2019
	Wells Fargo Bank Northwest National Assoc.	1	October 2019
July 2011	SMBC Aviation Capital Limited	2	March 2020
May 2017	Ibon Leasing Limited (ILL)	2	January 2019 and February 2019
November 2017	JPA No. 78 Co., Ltd	1	August 2020
November 2017	JPA No. 79 Co., Ltd	1	October 2020
November 2017	JPA No. 80 Co., Ltd	1	January 2021
November 2017	JPA No. 81 Co., Ltd	1	February 2021

In 2007, the Group entered into operating lease agreement with Inishcrean for the lease of one (1) Airbus A320, which was delivered in 2007, and with CIT Aerospace International for the

lease of four (4) Airbus A320 aircraft, which were delivered in 2008. In 2015, the Group extended the lease agreement with Inishcrean for another three years.

In March 2008, the Parent Company entered into operating lease agreements with GY Aviation Lease 0905 Co. Limited (GY Aviation) for the lease of two (2) Airbus A320 aircraft, which were delivered in 2009, and two Airbus A320 aircraft with two other lessors, which were received in 2012. In November 2010, the Parent Company signed an amendment to the operating lease agreements, advancing the delivery of the two Airbus A320 aircraft to 2011 from 2012.

In 2016, the Group extended the lease agreement with GY Aviation Lease 0905 Co. Limited for another two years pursuant to a letter of intent (LOI) signed in the first quarter of the same year.

In July 2011, the Group entered into an operating lease agreement with RBS Aerospace Ltd. (RBS) for the lease of two (2) Airbus A320 aircraft, which were delivered in March 2012. The lease agreement with RBS was amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

In May 2017, the Group entered into lease agreements with ILL for two Airbus A320 (Note 13).

In November 2017, the Group entered into lease agreement with JPA No. 78/79/80/81 Co., Ltd for four Airbus A320 (Note 13).

A330 aircraft
The following table summarizes the specific lease agreements on the Group's Airbus A330 aircraft:

Date of Lease Agreement	Lessors	No. of Units	Lease Term
February 2012	CIT Aerospace International	4	12 years with pre-termination option
July 2013	A330 MSN 1552 Limited and A330 MSN 1602 Limited*	2	12 years with pre-termination option

**New lessors per Deed of Novation and Amendment signed on August 2014 and March 2015*

On February 21, 2012, the Group entered into a lease agreement with CIT Aerospace International for four (4) Airbus A330-300 aircraft. The lease term of the aircraft is 12 years with an early pre-termination option.

On July 19, 2013, the Group entered into an aircraft operating lease agreements with Intrepid Aviation for the lease of two (2) Airbus A330-300 aircraft, which were delivered in September 2014 and March 2015.

As of June 30, 2018, the Group has six (6) Airbus A330 aircraft under operating lease (Note 13).

The first two (2) A330 aircraft were delivered in June 2013 and September 2013. Three (3) A330 aircraft were delivered in February 2014, May 2014 and September 2014. One (1) A330 aircraft was delivered in March 2015.

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱2,670.3 million and ₱2,215.7 million in 2018 and 2017, respectively.

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

	2018		2017	
	US Dollar	**Philippine Peso Equivalent**	US Dollar	Philippine Peso Equivalent
Within one year	**US$101,717,295**	**₱5,425,600,515**	US$90,759,088	₱4,580,611,189
After one year but not more than five years	**307,337,001**	**16,393,355,633**	339,194,934	17,119,168,298
Over five years	**178,241,587**	**9,507,406,251**	174,397,121	8,801,822,721
	US$587,295,883	**₱31,326,362,399**	US$604,351,143	₱30,501,602,208

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

Future minimum lease payments under these noncancellable operating leases follow:

	2018	2017
Within one year	**₱203,688,204**	₱200,296,527
After one year but not more than five years	**838,788,700**	799,934,513
Over five years	**3,933,867,670**	3,860,399,763
	₱4,976,344,574	₱4,860,630,803

Lease expenses relating to both cancellable and noncancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱355.2 million and ₱344.1 million in 2018 and 2017, respectively.

Service Maintenance Commitments
On June 21, 2012, the Parent Company has entered into a 10-year charge per aircraft landing (CPAL) agreement with Messier-Bugatti-Dowty (Safran group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, the Parent Company has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last A330.

On March 28, 2017, the Parent Company entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its A319, A320 and A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis and repairs of aircraft parts and components.

Aircraft and Spare Engine Purchase Commitments
In August 2011, the Group entered in a commitment with Airbus S.A.S. to purchase firm orders of thirty-two new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2018 to 2022.

On June 28, 2012, the Group has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 32 firm and ten options A321 NEO aircraft to be delivered beginning 2018. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

On October 20, 2015, the Group entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to ten additional option ATR 72-600 aircraft. These aircraft are scheduled to be delivered from 2016 to 2020. Two ATR 72-600 were received during 2016 and six ATR-600 during 2017.

On June 6, 2017, the Group placed an order with Airbus S.A.S to purchase seven (7) new A321 CEO Aircraft to be delivered starting 2018.

As of June 30, 2018, the Group will take delivery of two (2) Airbus A321 CEO, thirty-two (32) Airbus A321 NEO and six (6) ATR 72-600 aircraft starting 2018.

The above-indicated commitments relate to the Group's re-fleeting and expansion programs. These agreements remained in effect as of June 30, 2018.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱94,216.6 million and ₱127,323.3 million as of June 30, 2018 and December 31, 2017, respectively.

	2018	
	US Dollar	**Philippine Peso Equivalent**
Within one year	**US$533,687,430**	**₱28,466,887,516**
After one year but not more than five years	**1,752,341,644**	**93,469,903,291**
	US$2,286,029,074	**₱121,936,790,807**

	2017	
	US Dollar	Philippine Peso Equivalent
Within one year	US$541,112,509	₱27,017,747,591
After one year but not more than five years	2,008,923,295	100,305,540,083
	US$2,550,035,804	₱127,323,287,674

Contingencies

The Group has pending suits, claims and contingencies which are either pending decisions by the courts or being contested or under evaluation, the outcome of which are not presently determinable. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position (Note 17).

30. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The changes in liabilities arising from financing activities in 2018 follow:

	January 1, 2018	Cash Flows	Foreign Exchange Movement	Others*	June 30, 2018
Current interest-bearing loans and borrowings	₱5,969,257,624	(₱15,211,821,052)	₱249,883,322	₱16,012,202,848	₱7,019,522,742
Noncurrent interest-bearing loans and borrowings	35,012,953,128	25,904,871,005	1,561,336,727	(16,012,202,848)	46,466,958,012
Dividends payable					
Total liabilities from financing activities	₱40,982,210,752	₱10,693,049,953	₱1,811,220,049	₱-	₱53,486,480,754

**Others consist of reclassification of loans and borrowings from noncurrent to current and the declaration of cash dividend*

The principal noncash investing and financing activities of the Group include:

a. Application of creditable withholding taxes against income tax payable amounting to ₱72.4 million and ₱29.0 million in 2018 and 2017, respectively; and

31. Events After the Statement of Financial Position Date

In August 2018, the Parent Company has decided to resume the share buyback program that was approved by the Board of Directors on February 28, 2011 involving up to ₱2.000.0 million worth of the Parent Company's common shares. From 2011 up to present, the Parent Company has only bought back 7,283,220 shares costing ₱529.3 million (Note 20).

Similar to the terms and conditions set forth in 2011, the above-mentioned share buyback program shall continue to have the following terms and conditions:

a.) The objectives of the share buyback program are to enhance shareholder value and to manifest confidence in the Parent Company's value and prospects through the repurchase of the common shares of the Parent Company and through the return of a portion of the Parent Company's capital to its shareholders.
b.) The share buyback program will not involve any active and widespread solicitation from the stockholders and will be implemented in the open market through the trading facilities of the Philippine Stock Exchange.
c.) The share buyback program will not affect any of the Parent Company's prospective and existing projects and investments.
d.) Any significant development in the share buyback program will be duly disclosed to the Securities and Exchange Commission and the Philippine Stock Exchange.

32. Standards issued but not yet Effective

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

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group is still assessing the potential impact of adopting PFRS 9 in 2018.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

  The Group is still assessing the impact of adopting PFRS 15 in 2018.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period

<u>Effective beginning on or after January 1, 2019</u>

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers)

and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The

amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.