C O V E R   S H E E T
for
UNAUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	5	4	6	7	5					

C O M P A N Y   N A M E

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

C O M P A N Y   I N F O R M A T I O N

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)
95	5/24	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 **March 31, 2019**

2. SEC Identification No.**154675**

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

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

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

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

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 Par Value	**601,284,740 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, Panatag One Aircraft Leasing Limited, Panatag Two Aircraft Leasing Limited, Summit C Aircraft Leasing Limited, Tikgi Aviation One Designated Activity Company, Summit D Aircraft Leasing Limited, CAI Limited and Sampaguita Leasing Co., Ltd. Other than CAI Limited, these are SPEs in which the Parent Company does not have equity interest, but have entered into finance lease arrangements with for funding of various aircraft deliveries.

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 before the sale of 60% equity ownership to Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng. The subsequent sale has resulted to a joint venture between the aforementioned parties.

The Parent Company, its nine SPEs and CEBGO, Inc. (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.

In October 2018, Panatag Three Aircraft Leasing Limited (PTHALL) was dissolved due to refinancing of the related loans.

In December 2018, Summit A Aircraft Leasing Limited (SAALL) and Summit B Aircraft Leasing Limited (SBALL) were dissolved due to refinancing of the related loans. Vector Aircraft Leasing Limited (VALL) was subsequently dissolved due to sale of three (3) A320 aircraft to third parties that have been leased back by the Parent Company.

As of March 31, 2019, the Group operates an extensive route network serving 68 domestic routes and 38 international routes with a total of 2,733 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 March 31, 2019, the Group operates a fleet of 70 aircraft which comprises of 34 Airbus A320, 7 Airbus A321 CEO, 1 Airbus A321 NEO, 8 Airbus A330, 8 ATR 72-500 and 12 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 5.12 years as of March 31, 2019.

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

Three Months Ended March 31, 2019 Versus March 31, 2018

Revenues

The Group earned revenues amounting to ₱21.177 billion for the three months ended March 31, 2019, 16.0% higher than the ₱18.261 billion revenues generated in the same period last year. Growth in revenues is accounted for as follows:

Passenger
Passenger revenues increased by ₱2.003 billion or 14.6% to ₱15.679 billion for the three months ended March 31, 2019 from ₱13.676 billion reported in the three months ended March 31, 2018. This increase was mainly attributable to the 8.5% growth in passenger volume to 5.289 million from 4.876 million last year as the Group added bigger A321 aircraft to its fleet. The increase in average fares by 5.7% to ₱2,965 for the three months ended March 31, 2019 from ₱2,805 also contributed to the increase in revenues.

Cargo
Cargo revenues grew by ₱162.858 million or 12.7% to ₱1.442 billion for the three months ended March 31, 2019 from ₱1.279 billion for the three months ended March 31, 2019 following the increase in both yield and volume of cargo transported in 2019.

Ancillary
Ancillary revenues increased by ₱750.536 million or 22.7% to ₱4.056 billion for the three months ended March 31, 2019 from ₱3.306 billion reported in the same period last year attributable to the increase in average ancillary revenue per passenger by 13.1% from pricing adjustments and increased volume of certain ancillary products and services.

Expenses
The Group incurred operating expenses of ₱17.345 billion for the three months ended March 31, 2019, higher by 8.4% than the ₱15.997 billion operating expenses reported for the three months ended March 31, 2018. The increase was driven by its expanded operations, growth in seat capacity from the acquisition of new aircraft and the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱52.36 per U.S. dollar for the three months ended March 31, 2019 from an average of ₱51.49 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates.

Flying Operations
Flying operations expenses increased by ₱262.311 million or 3.8% to ₱7.173 billion for the three months ended March 31, 2019 from ₱6.910 billion incurred in the same period last year. This was mainly accounted for by the increase in pilot training costs. Fuel expense was also higher due to the 7.9% increase in fuel volume offset by lower average published fuel MOPS price of U.S. $76.50 per barrel for three months ended March 31, 2019 from U.S. $79.99 per barrel in 2018. The weakening of the Philippine Peso against the U.S. Dollar as referenced by the depreciation of the Philippine Peso to an average of ₱52.36 per U.S. dollar for the three months ended March 31, 2019 from an average of ₱51.49 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates also contributed to the increase.

Aircraft and Traffic Servicing
Aircraft and traffic servicing expenses grew by ₱163.354 million or 8.3% to ₱2.121 billion for the three months ended March 31, 2019 from ₱1.957 billion posted in the same period in 2018. This was driven by the increase in ground handling costs due to the use of bigger Airbus A330, A321 CEO and

A321 NEO 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 ₱52.36 per U.S. dollar for the three months ended March 31, 2019 from an average of ₱51.49 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates also contributed to the increase.

Depreciation and Amortization
Depreciation and amortization expenses grew by ₱515.021 million or 29.9% to ₱2.239 billion for the three months ended March 31, 2019 from ₱1.724 billion for the three months ended March 31, 2018. Depreciation and amortization expenses increased consequent to the arrival of six (6) A321 CEO, three (3) ATR 72-600 and one (1) A321 NEO aircraft throughout 2019 and 2018, net of one (1) Airbus A319 aircraft sold and three (3) Airbus A320 aircraft placed under operating lease in 2018 and one (1) Airbus A320 aircraft sold in 2019.

Repairs and Maintenance
Repairs and maintenance expenses decreased by 7.3% to ₱2.020 billion for the three months ended March 31, 2019 from ₱2.178 billion posted in the three months ended March 31, 2018. This was primarily attributable to the negotiated decrease in rates of some maintenance providers, offset 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 ₱52.36 per U.S. dollar for the three months ended March 31, 2019 from an average of ₱51.49 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates.

Aircraft and Engine Lease
Aircraft and engine lease expenses moved up by ₱137.285 million or 10.4% to ₱1.455 billion in the three months ended March 31, 2019 from ₱1.318 billion charged for the three months ended March 31, 2018. Increase was due to additional operating leases on three 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 ₱77.340 million or 7.9% to ₱1.059 billion for the three months ended March 31, 2019 from ₱981.510 million for the three months ended March 31, 2018. 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 ₱290.175 million or 54.1% to ₱826.785 million for the three months ended March 31, 2019 from ₱536.609 million incurred in the three months ended March 31, 2018. 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 increased by ₱61.432 million or 15.7% to ₱451.836 million for the three months ended March 31, 2019 from ₱390.403 million reported for the three months ended March 31, 2018. This was mainly caused by higher passenger food and supplies, together with additional cabin crew hired for new aircraft acquired during the period and the annual increase in crew salary rates.

<u>Operating Income</u>
As a result of the foregoing, the Group finished the period with an operating income of ₱3.832 billion for the three months ended March 31, 2019, 69.3% higher than the ₱2.264 billion operating income earned in the same period last year.

Other Income (Expenses)

Interest Income
Interest income increased by ₱103.722 million or 129.1% to ₱184.074 million for the three months ended March 31, 2019 from ₱80.352 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 USD short term placements.

Hedging Gains (Losses)
The Group incurred a hedging gain of ₱1.014 billion for the three months ended March 31, 2019, an improvement of ₱724.007 million from a hedging gain of ₱290.282 million in the same period last year as a result of higher mark-to-market valuation on fuel hedging positions in 2019.
Foreign Exchange Gains (Losses)
Net foreign exchange losses of ₱108.347 million for the three months ended March 31, 2019 resulted from the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to ₱52.50 per U.S. dollar for the three months ended March 31, 2019 from ₱52.58 per U.S. dollar for the twelve months ended December 31, 2018 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 ₱20.846 million for the three months ended March 31, 2019, ₱13.039 million lower than the ₱33.885 million equity in net income of joint venture earned in the same period last year. The decrease was attributable to net loss incurred by Aviation Partnership (Philippines) Corporation (A-plus) and 1Aviation in 2019.

Interest Expense
Interest expense increased by ₱339.345 million or 93.5% to ₱702.421 million for the three months ended March 31, 2019 from ₱363.076 million for the three months ended March 31, 2018. Higher interest expense incurred during the year was due to the additional loans availed to finance the acquisition of the additional aircraft delivered throughout 2018 and 2019, higher interest bench mark rates such as LIBOR and PDSTR2 and the effect of the weakening of the Philippine peso against the U.S. dollar during the current period.

Loss on sale of aircraft
In March 2019, the Group sold and delivered one Airbus A320 aircraft as part of a three-aircraft sale transaction, to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱178.1 million.

Income before Income Tax
As a result of the foregoing, the Group reported income before income tax of ₱4.063 billion for the three months ended March 31, 2019, higher by 177.0% or ₱2.596 billion than the ₱1.467 billion income before income tax posted for the three months ended March 31, 2018.

Provision for (Benefit from) Income Tax
Provision for income tax for the three months ended March 31, 2019 amounted to ₱636.995 million, of which, ₱ 49.675 million pertains to provision for current income tax recognized as a result of the taxable income earned for 2019. Provision for deferred income tax amounted to ₱587.320 million resulting from the recognition of deferred tax liabilities on future taxable amounts during the period.

Net Income
Net income for the three months ended March 31, 2019 amounted to ₱3.426 billion, an increase of 138.4% from the ₱1.437 billion net income earned in the same period last year.

As of March 31, 2019, 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

March 31, 2019 versus December 31, 2018

As of March 31, 2019 the Group's consolidated balance sheet remains solid, with net debt to equity of 0.72 [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 ₱134.342 billion from ₱129.391 billion as of December 31, 2018 as the Group added aircraft to its fleet. Equity grew to ₱43.439 billion from ₱40.102 billion in 2018, while book value per share amounted to ₱72.24 as of March 31, 2019 from ₱66.57 as of December 31, 2018.

The Group's cash requirements have been mainly sourced through cash flow from operations and from borrowings. Net cash from operating activities amounted to ₱8.873 billion. As of March 31, 2019, net cash used in investing activities amounted to ₱3.317 billion which included payments in connection with the purchase of aircraft. Net cash from financing activities amounted to ₱79.011 million which comprised of proceeds from long-term debt of ₱2.965 billion net of repayments of long-term debt amounting to ₱2.798 billion.

As of March 31, 2019, 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

	March 31, 2019	December 31, 2018
Current Ratio	**0.83:1**	0.75:1
Debt-to-Equity Ratio	**1.24:1**	1.34:1
Asset-to-Equity Ratio	**3.09:1**	3.23:1
Interest Coverage Ratio	**5.46:1**	3.35:1

Profitability Ratios

	March 31, 2019	March 31, 2018
Return on Asset	**2.6%**	1.3%
Return on Equity	**8.2%**	3.5%
Return on Sales	**16.2%**	7.9%

Material Changes in the 2019 Financial Statements
(Increase/Decrease of 5% or more versus 2018)

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 –March 31, 2019 versus December 31, 2018

33.3% increase in Cash and Cash Equivalents
Due to increase in collections relative to the 16.0% growth in revenues and receipt of proceeds from long-term debt.

20.1% increase in Receivables
Due to increased trade receivables relative to the growth in revenues

100.0% increase in Financial Assets at fair value through profit or loss (FVPL)
Due to improved mark-to-market valuation of fuel derivative contracts

7.5% 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.

44.2% decrease in Other Current Assets
Due to decrease in advances to suppliers

1.0% increase in Property and Equipment
Due to the acquisition of one Airbus A321 NEO, offset by the sale of one Airbus A320 in 2019

2.2% increase in Investment in Joint Ventures
Due to share in net income (loss) of joint ventures during the period

39.6% decrease in Deferred Tax Assets-net
Due mainly to decrease in future deductible amounts such as unrealized foreign exchange losses and provision for return cost

4.2% 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.

5.7% decrease in Due to Related Parties
Due to payments made during the period.

16.6% increase in Unearned Transportation Revenue
Due to higher forward bookings as of March 31, 2019 compared to December 31, 2018.

100.0% decrease in Financial Assets at fair value through profit or loss (FVPL)
Due to improved mark-to-market valuation of fuel derivative contracts resulting to a net derivative asset position as of March 31, 2019

137.0% increase in Income Tax Payable
Due to higher income tax due after deducting available creditable withholding tax credits during the period

5.6% increase in Retirement Liability
Due to the provisions during the period

4.3% decrease in Other Noncurrent Liabilities
Due to payments made for aircraft restorations during the year applied against asset retirement obligation (ARO) liability.

11.3% increase in Treasury stock
Due to additional treasury shares in line with the resumption of the Parent Company's share buyback program

10.7% increase in Retained Earnings
Due to net income earned during the period

As of March 31, 2019, 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 March 31, 2019 and December 31, 2018 and for three months ended March 31, 2019 and 2018:

Key Financial Indicators	**2019**	2018
Total Revenue	**₱21.177 billion**	₱18.261 billion
Pre-tax Core Net Income	**₱3.335 billion**	₱2.015 billion
EBITDAR Margin	**37.9%**	31.8%
Cost per Available Seat Kilometre (ASK) (Php)	**2.46**	2.50
Cost per ASK (U.S. cents)	**4.69**	4.86
Seat Load Factor	**84.2%**	82.6%

The manner by which the Group calculates the above key performance indicators for both 2019 and 2018 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 March 31, 2019, 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 March 31, 2019, 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: MAY 09 2019

ANDREW L. HUANG
Chief Finance Officer
Date: MAY 09 2019

ROBIN C. DUI
Vice President - Comptroller
Date: MAY 09 2019

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2019
(With Comparative Audited Figures as of December 31, 2018)

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**₱22,512,171,833**	₱16,892,650,545
Receivables (Note 9)	**3,131,886,430**	2,607,900,691
Financial assets at fair value through profit or loss (Note 8)	**201,975,012**	–
Expendable parts, fuel, materials and supplies (Note 10)	**2,160,354,984**	2,010,145,500
Other current assets (Note 11)	**2,472,390,140**	4,433,968,752
Total Current Assets	**30,478,778,399**	25,944,665,488
Noncurrent Assets		
Property and equipment (Notes 12 and 29)	**96,089,765,524**	95,099,591,115
Investments in joint ventures and an associate (Note 13)	**964,627,314**	943,781,695
Goodwill (Note 14)	**566,781,533**	566,781,533
Deferred tax assets - net	**896,698,706**	1,484,018,621
Other noncurrent assets (Note 15)	**5,345,295,324**	5,352,644,064
Total Noncurrent Assets	**103,863,168,401**	103,446,817,028
TOTAL ASSETS	**₱134,341,946,800**	₱129,391,482,516
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 16)	**₱17,027,607,829**	₱16,341,313,165
Unearned transportation revenue (Note 17)	**12,951,829,585**	11,110,518,032
Current portion of long-term debt (Note 18)	**6,544,510,737**	6,615,195,647
Current portion of financial liabilities at fair value through profit or loss (Note 8)	**–**	585,770,498
Due to related parties (Note 26)	**38,414,997**	40,719,770
Income tax payable	**22,195,655**	9,366,597
Total Current Liabilities	**36,584,558,803**	34,702,883,709
Noncurrent Liabilities		
Financial liabilities at fair value through profit or loss - net of current portion (Note 8)	**–**	177,214,864
Long-term debt - net of current portion (Note 18)	**47,350,667,572**	47,182,350,614
Retirement liability (Note 24)	**518,969,754**	491,456,336
Other noncurrent liabilities (Note 19)	**6,448,464,607**	6,735,443,714
Total Noncurrent Liabilities	**54,318,101,933**	54,586,465,528
Total Liabilities	**90,902,660,736**	89,289,349,237
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)	**(874,120,271)**	(785,536,714)
Remeasurement loss on retirement liability (Note 24)	**(140,286,079)**	(140,286,079)
Retained earnings (Note 20)	**35,434,887,744**	32,009,151,402
Total Equity	**43,439,286,064**	40,102,133,279
TOTAL LIABILITIES AND EQUITY	**₱134,341,946,800**	₱129,391,482,516

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	2019	2018
REVENUE		
Sale of air transportation services		
Passenger	**₱15,679,315,740**	₱13,675,915,587
Cargo	**1,441,755,584**	1,278,897,513
Ancillary revenue (Note 21)	**4,056,394,438**	3,305,858,523
	21,177,465,762	18,260,671,623
EXPENSES		
Flying operations (Notes 10 and 22)	**7,172,556,150**	6,910,245,516
Aircraft and traffic servicing (Note 22)	**2,120,822,982**	1,957,468,786
Depreciation and amortization (Note 12)	**2,238,756,707**	1,723,735,666
Repairs and maintenance (Notes 10 and 22)	**2,019,996,566**	2,178,399,686
Aircraft and engine lease (Note 29)	**1,455,496,458**	1,318,211,478
Reservation and sales (Note 22)	**1,058,850,152**	981,510,202
General and administrative (Note 23)	**826,784,695**	536,609,382
Passenger service	**451,835,593**	390,403,272
	17,345,099,303	15,996,583,988
	3,832,366,459	2,264,087,635
OTHER INCOME (EXPENSES)		
Interest income (Note 7)	**184,074,051**	80,352,161
Equity in net income of joint ventures (Note 13)	**20,845,619**	33,885,007
Loss on sale of aircraft (Note 12)	**(178,075,992)**	–
Hedging gains (losses) - net (Note 8)	**1,014,288,631**	290,281,552
Foreign exchange losses - net	**(108,346,514)**	(838,619,019)
Interest expense (Note 18)	**(702,420,904)**	(363,075,749)
	230,364,891	(797,176,048)
INCOME BEFORE INCOME TAX	**4,062,731,350**	1,466,911,587
PROVISION FOR (BENEFIT FROM) INCOME TAX	**636,995,008**	30,062,767
NET INCOME	**3,425,736,342**	1,436,848,820
OTHER COMPREHENSIVE INCOME, NET OF TAX	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱3,425,736,342**	₱1,436,848,820
Basic/Diluted Earnings Per Share (Note 25)	**₱5.76**	₱2.37

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(With Comparative Unaudited Figures as of March 31, 2018)

For the Three Months Ended March 31, 2019

					Retained Earnings			
	Common Stock (Note 20)	**Capital Paid in Excess of Par Value** (Note 20)	**Treasury Stock** (Note 20)	**Remeasurement Loss on Retirement Liability** (Note 24)	**Appropriated** (Note 20)	**Unappropriated** (Note 20)	**Total**	**Total Equity**
Balance at January 1, 2019	**₱613,236,550**	**₱8,405,568,120**	**(₱785,536,714)**	**(₱140,286,079)**	**₱22,000,000,000**	**₱10,009,151,402**	**₱32,009,151,402**	**₱40,102,133,279**
Net income	–	–	–	–	–	**3,425,736,342**	**3,425,736,342**	**3,425,736,342**
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	**3,425,736,342**	**3,425,736,342**	**3,425,736,342**
Treasury stock	–	–	**(88,583,557)**	–	–	–	–	**(88,583,557)**
Balance at March 31, 2019	**₱613,236,550**	**₱8,405,568,120**	**(₱874,120,271)**	**(₱140,286,079)**	**₱22,000,000,000**	**₱13,434,887,744**	**₱35,434,887,744**	**₱43,439,286,064**

For the Three Months Ended March 31, 2018

					Retained Earnings			
	Common Stock (Note 20)	Capital Paid in Excess of Par Value (Note 20)	Treasury Stock (Note 20)	Remeasurement Loss on Retirement Liability (Note 24)	Appropriated (Note 20)	Unappropriated (Note 20)	Total	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	₱31,443,287,513	₱39,785,579,366
Net income	–	–	–	–	–	1,436,848,820	1,436,848,820	1,436,848,820
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	1,436,848,820	1,436,848,820	1,436,848,820
Balance at March 31, 2018	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱147,193,496)	₱18,300,000,000	₱14,580,136,333	₱32,880,136,336	₱41,222,428,186

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,062,731,350**	₱1,466,911,587
Adjustments for:		
Depreciation and amortization (Note 12)	**2,238,756,707**	1,723,735,666
Provision for asset retirement obligation (Note 19)	**503,636,597**	509,492,127
Interest expense (Note 18)	**702,420,904**	363,075,749
Unrealized foreign exchange losses - net	**(71,801,411)**	632,514,882
Net changes in fair value of derivatives (Note 8)	**(1,014,288,631)**	(290,281,552)
Loss on sale of aircraft (Note 12)	**178,075,992**	−
Equity in net income of joint ventures (Note 13)	**(20,845,619)**	(33,885,007)
Interest income (Note 7)	**(184,074,051)**	(80,352,161)
Operating income before working capital changes	**6,394,611,838**	4,291,211,291
Decrease (increase) in:		
Receivables	**(482,957,825)**	(360,639,990)
Expendable parts, fuel, materials and supplies	**(150,209,483)**	(211,869,108)
Financial assets at fair value through profit or loss	**49,328,257**	82,362,366
Other current assets	**1,934,099,175**	(174,681,018)
Increase (decrease) in:		
Accounts payable and other accrued liabilities	**613,097,807**	2,786,232,105
Unearned transportation revenue	**1,841,311,553**	622,084,799
Retirement liability	**27,513,418**	(118,008,171)
Amounts of due to related parties	**(2,304,773)**	(629,332)
Other noncurrent liabilities	**(790,615,704)**	91,223,443
Net cash generated from operations	**9,433,874,263**	7,007,286,385
Interest paid	**(720,261,202)**	(401,262,360)
Income tax paid with creditable withholding taxes (Note 30)	**(9,366,598)**	(4,746,325)
Interest received	**169,251,752**	76,245,185
Net cash provided by operating activities	**8,873,498,215**	6,677,522,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 12)	**(4,414,709,394)**	(4,109,855,965)
Proceeds from sale of property and equipment	**1,059,896,817**	−
Dividends received from a joint venture	**30,581,955**	42,063,833
Increase in advances to suppliers and other noncurrent assets	**7,348,740**	(2,014,576,553)
Net cash used in investing activities	**(3,316,881,882)**	(6,082,368,685)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt:		
Availments (Notes 18 and 30)	**2,965,351,311**	3,279,862,258
Payments of long-term debt (Note 18)	**(2,797,756,267)**	(1,776,208,571)
Purchase of treasury stock (Note 20)	**(88,583,557)**	−
Net cash provided by financing activities	**79,011,487**	1,503,653,687
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(16,106,532)**	538,825,771
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,619,521,288**	2,637,633,658
CASH AND CASH EQUIVALENTS AT JANUARY 1	**16,892,650,545**	15,613,544,507
CASH AND CASH EQUIVALENTS AT DECEMBER 31 (Note 7)	**₱22,512,171,833**	₱18,251,178,165

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), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL), CAI Limited (CL) and Sampaguita Leasing Co. Ltd (SLCL). Other than CL, these are SPEs in which the Parent Company does not have equity interest, but have entered into finance lease arrangements with for funding of various aircraft deliveries (Notes 12, 18 and 30).

On March 20, 2014, the Parent Company acquired 100% ownership of CEBGO, Inc. (CEBGO) (Note 14). The Parent Company, its nine SPEs and CEBGO (collectively known as the Group) are consolidated for financial reporting purposes (Note 2).

On March 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary before the sale of 60% equity ownership to Philippine Airport Ground Support Solutions, Inc. (PAGSS) and an individual on July 1, 2018. As of March 31, 2019, the remaining 40% equity stake owned by the Parent Company in 1Aviation is accounted for as joint venture with equity method accounting treatment (Note 13).

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 the sale of aircraft to third party (Note 12). 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 12).

In October 2018, Panatag Three Aircraft Leasing Limited (PTHALL) was dissolved due to refinancing of the related loans.

In December 2018, Summit A Aircraft Leasing Limited (SAALL) and Summit B Aircraft Leasing Limited (SBALL) were dissolved due to refinancing of the related loans. Vector Aircraft Leasing Limited (VALL) was subsequently dissolved due to sale of three (3) A320 aircraft to third parties that have been leased back by the Parent Company (Note 12).

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) (Note 20).
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 (Notes 25 and 32).

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.

2. Basis of Preparation and Statement of Compliance

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 March 31, 2019 and December 31, 2018 represent the consolidated financial statements of the Parent Company, the SPEs that it controls and its wholly owned subsidiary CEBGO.

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 accounting policies adopted are consistent with those of the previous financial year. Except as otherwise indicated, the Group has applied for the first time new standards and amendments effective as of January 1, 2019. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless stated otherwise. The

Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

- 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 (for example, personal computers) and short-term leases (that is, 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 (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, 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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

- 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, *Income Taxes,* 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
    - 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.

- *Annual Improvements to PFRSs* 2015-2017 Cycle:

    - Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

4. Summary of Significant Accounting Policies

<u>Current versus Noncurrent Classification</u>
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 equivalents, 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.

<u>Fair Value Measurement</u>
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 reassessing 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.

<u>Cash and Cash Equivalents</u>
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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement (Beginning January 1, 2018)</u>
Classification of financial instruments
Financial instruments are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, financial assets and financial liabilities at FVPL and other financial liabilities.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.

a. Financial Assets at Amortized Cost
   The Group measures financial assets at amortized cost if both of the following conditions are met:

   - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
   - The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

   Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains or losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

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

b. Financial Assets and Financial Liabilities at FVPL
   FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

   FVPL are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

   The Group's financial assets and liabilities at FVPL consist of derivative liabilities as of March 31, 2019.

c. 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.

   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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement (Before January 1, 2018)</u>

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 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.

a. 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 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.

b. 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 as of March 31, 2019.

c. 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; or
- 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 (Upon adoption of PFRS 9 beginning January 1, 2018)

The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For other debt financial instruments e.g. cash and cash equivalents (excluding cash on hand) and refundable deposits ECLs, the Group applies the general approach of which it track changes in credit risk at every reporting date. The probability of default (PD) and loss given defaults (LGD) are estimated using external and benchmark approaches for listed and non-listed financial institutions, respectively. For listed financial institutions, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. For non-listed financial institutions, the Group uses benchmark approach where the Group finds comparable companies in the same industry having similar characteristics. The Group obtains the credit rating of comparable companies to determine the PD and determines the average LGD of the selected comparable companies to be applied as LGD of the non-listed financial institutions.

<u>Impairment of Financial Assets (Before January 1, 2018)</u>
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:

Category	EUL (in Years)
Passenger aircraft*	15
Engines	15
Rotables	15
Ground support equipment	5
EDP Equipment, mainframe and peripherals	3
Transportation equipment	5
Furniture, fixtures and office equipment	5
Communication equipment	5
Special tools	5
Maintenance and test equipment	5
Other equipment	5

**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 three months ended March 31, 2019 and 2018 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 PFRS 9 or PAS 39, 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 PFRS 9 or 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%, 49%, 35% and 40% investments in Philippine Academy for Aviation Training, Inc. (PAAT), Aviation Partnership (Philippines) Corporation (A-plus) SIA Engineering (Philippines) Corporation (SIAEP) and 1Aviation, 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 include 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' account in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

There have been no changes in the accounting policy on the deferral and subsequent recognition of passenger revenue related to the award of Getgo points as effect of the adoption of PFRS 15.

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 (Upon adoption of PFRS 15 beginning January 1, 2018)
The Group is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Group expects to be entitled to.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of air transportation services
Passenger ticket and cargo waybill sales are initially recorded as unearned passenger revenue 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 or flown.

Ancillary revenue
Flight and booking services
Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and website administration fees are initially recognized as deferred ancillary revenue under 'Unearned transportation revenue' account in the consolidated statement of financial position until the services are rendered.

Other ancillary revenue
Other ancillary revenue such as refund surcharges, service income and cancellation fees are recognized upon booking.

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.

Revenue Recognition (Prior to adoption of PFRS 15)
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
Flight and booking services
Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and cancellation fees are recognized upon booking.

Other ancillary revenue
Other ancillary revenue such as refund surcharges, service income and cancellation fees are recognized upon booking.

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 Bankers Association of the Philippines (BAP) and Philippine Dealing and Exchange Corporation (PDEX) closing rate prevailing as of March 31, 2019 and 2018, respectively. 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, 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 (that is, 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 three months ended March 31, 2019 and 2018, 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 Judgments and Estimates**

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

Judgments

a. 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 (for example, 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 and investment in associate*
The Group's investments in JVs are structured in separate incorporated entities (Note 13). 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.

The Group's investment in ABB is considered as an investment in associate and significant influence is evident on the Group's representation in the board of directors.

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. 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 March 31, 2019 and December 31, 2018, the Group has deferred tax assets amounting to ₱3,141.7 million and ₱3,534.6 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, the Group's ARO (included under 'Other noncurrent liabilities' account in the consolidated statement of financial position) has a carrying value of ₱5,451.4 million and ₱5,781.4 million, respectively (Note 19). The related repairs and maintenance expense for three months ended March 31, 2019 and 2018 amounted to ₱503.6 million and ₱509.5 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 March 31, 2019 and 2018, 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 March 31, 2019 and December 31, 2018 (Note 14). Brand and market opportunities, which are recorded under 'Other noncurrent assets' account amounted to ₱852.2 million as of March 31, 2019 and December 31, 2018 (Notes 14 and 15).

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 2019 and 2018 (Notes 12 and 30).

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 March 31, 2019 and December 31, 2018, the carrying values of the Group's property and equipment amounted to ₱96,089.8 million and ₱95,099.6 million, respectively (Note 12).

The Group's depreciation and amortization expense amounted to ₱2,238.8 million and ₱1,723.7 million in 2019 and 2018, respectively (Note 12).

The balances of receivables and allowance for credit losses as of March 31, 2019 and December 31, 2018 are disclosed in Note 9.

g. *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 March 31, 2019 and December 31, 2018 are discussed in Note 10.

h. *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 ₱997.1 million and ₱954.1 million as of March 31, 2019 and December 31, 2018, respectively (Note 19). The rewards program started in 2015. Any remaining unredeemed points are recognized as revenue upon expiration.

i. *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 ₱519.0 million and ₱491.5 million as of March 31, 2019 and December 31, 2018, 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:

	2019	2018
Revenue	**₱22,396,674,063**	₱18,665,190,343
Earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)	**8,030,256,221**	5,815,526,906
Depreciation and amortization	**2,238,756,707**	1,723,735,666
Interest expense	**702,420,904**	363,075,749
Interest income	**184,074,051**	80,352,161
Earnings before interest and taxes (EBIT)	**3,832,366,459**	2,264,087,635
Pre-tax core net income	**3,334,865,225**	2,015,249,054
Net income	**3,425,736,342**	1,436,848,820
Capital expenditures	**4,414,709,394**	4,109,855,965
Hedging gains (losses) - net	**1,014,288,631**	290,281,552
Equity in net income of JVs and an associate	**20,845,619**	33,885,007
Income tax expense (benefit)	**636,995,008**	30,062,767

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:

	2019	2018
Total segment revenue of reportable operating segment	**₱21,177,465,762**	₱18,260,671,623
Nontransport revenue and other income	**1,219,208,301**	404,518,720
Total revenue	**₱22,396,674,063**	₱18,665,190,343

Nontransport revenue and other income include interest income, share in net income of JVs and an associate and fuel 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:

	2019	2018
Total segment income of reportable segment	**₱3,832,366,459**	₱2,264,087,635
Add (deduct) unallocated items:		
Nontransport revenue and other income	**1,219,208,301**	404,518,720
Nontransport expenses and other charges	**(988,843,410)**	(1,201,694,768)
Benefit from (provision for) income tax	**(636,995,008)**	(30,062,767)
Net income	**3,425,736,342**	1,436,848,820
Other comprehensive gain, net of tax	**–**	–
Total comprehensive income	**₱3,425,736,342**	₱1,436,848,820

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

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

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱46,781,426**	₱45,551,426
Cash in banks	**4,868,006,837**	2,997,401,427
Short-term placements	**17,597,383,570**	13,849,697,692
	₱22,512,171,833	₱16,892,650,545

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 5.9% and 6.5% in 2019 and 2018, respectively. Moreover, short-term placements in US dollar (USD) earn interest on an average annual interest rate of 2.9% and 2.8% in 2019 and 2018, respectively.

Interest income earned on cash in banks and short-term placements, presented in the consolidated statements of comprehensive income, amounted to ₱184.1 million and ₱80.4 million in 2019 and 2018, respectively.

8. Financial Assets and Financial Liabilities at Fair Value through Profit or Loss (FVPL)

This account consists of derivative financial assets as of March 31, 2019 and derivative financial liabilities as of December 31, 2018 that are not designated as accounting hedges. Derivative assets amounted to ₱202.0 million as of March 31, 2019 and net derivative liabilities amounted to ₱763.0 million as of December 31, 2018.

As of March 31, 2019, this account consists of zero cost collars, commodity swaps and foreign currency forward contract. As of December 31, 2018, this account consists of zero cost collars and commodity swaps.

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 March 31 2019 and December 31, 2018, 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 2019 until 2020.

For the three months ended March 31, 2019 and 2018, the Group recognized net changes in fair value of derivatives amounting to ₱905.8 million and ₱323.9 million gains, respectively. These are recognized in 'Hedging gains (losses) - net' account under the consolidated statements of comprehensive income.

Foreign Currency Forwards
For the three months ended March 31, 2019 and 2018, the Group recognized net changes in fair value of derivatives amounting to ₱108.4 million gain and ₱33.6 million loss, respectively.

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

	2019	2018
Balance at January 1:		
Derivative assets	**₱–**	₱454,400,088
Derivative liabilities	**(762,985,362)**	–
	(762,985,362)	454,400,088
Net changes in fair value of derivatives	**1,014,288,631**	(322,579,940)
	251,303,269	131,820,148
Fair value of settled instruments	**(49,328,257)**	(894,805,510)
Balance at end:		
Derivative assets	**₱201,975,012**	₱11,217,175
Derivative liabilities	–	(774,202,537)
	201,975,012	(₱762,985,362)

9. Receivables

This account consists of:

	2019	2018
Trade receivables	**₱2,051,018,728**	₱1,865,625,762
Due from related parties (Note 26)	**419,333,104**	371,643,140
Interest receivable	**36,833,722**	22,011,422
Others	**708,900,935**	431,846,335
	3,216,086,489	2,691,126,659
Less allowance for expected credit losses (ECL)	**84,200,059**	83,225,968
	₱3,131,886,430	₱2,607,900,691

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:

	2019						
	Neither Past Due Nor Impaired	**Past Due But Not Impaired**				**Past Due and Impaired**	
		31-60 Days	**61-90 Days**	**91-180 Days**	**Over 180 Days**		**Total**
Trade receivables	**₱2,042,431,620**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,587,108**	**₱2,051,018,728**
Due from related parties	**419,333,104**	–	–	–	–	–	**419,333,104**
Interest receivable	**36,833,722**	–	–	–	–	–	**36,833,722**
Others*	**633,287,984**	–	–	–	–	**75,612,951**	**708,900,935**
	₱3,131,886,430	**₱–**	**₱–**	**₱–**	**₱–**	**₱84,200,059**	**₱3,216,086,489**

	2018						
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Past Due and Impaired	
		31-60 Days	61-90 Days	91-180 Days	Over 180 Days		Total
Trade receivables	₱1,857,036470	₱–	₱–	₱–	₱–	₱8,589,292	₱1,865,625,762
Due from related parties	371,643,140	–	–	–	–	–	371,643,140
Interest receivable	22,011,422	–	–	–	–	–	22,011,422
Others*	357,209,659	–	–	–	–	74,636,676	431,846,335
	₱2,607,900,691	₱–	₱–	₱–	₱–	₱83,225,968	₱2,691,126,659

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

	2019		
	Trade Receivables	**Others**	**Total**
Balance at January 1	**₱8,589,292**	**₱74,636,676**	**₱83,225,968**
Unrealized foreign exchange gain	**(2,185)**	**976,276**	**974,091**
Balance at December 31	**₱8,587,107**	**₱75,612,952**	**₱84,200,059**

	2018		
	Trade Receivables	Others	Total
Balance at January 1	₱8,516,928	₱329,473,745	₱337,990,673
Accounts written-off	–	(256,746,201)	(256,746,201)
Unrealized foreign exchange gain	72,364	1,909,132	1,981,496
Balance at December 31	₱8,589,292	₱74,636,676	₱83,225,968

In 2018, the Group has written-off previously impaired receivable amounting to ₱256.7 million that was deemed uncollectible.

The adoption of PFRS 9 did not have a significant impact on the Group's impairment allowances on its debt instruments as of January 1, 2018 and for the year ended December 31, 2018 because:

a. Cash and cash equivalents' credit grade, excluding cash on hand, are high grade based on the Group's internal grading system which kept the probability of default at a minimum;
b. Receivables are all current; and
c. Refundable deposits pertain to the amounts provided to lessors to be refunded upon termination of agreement. These deposits are recognized under 'Other noncurrent assets' in the consolidated statement of financial position. Effect of PFRS 9 impairment allowance is not material to the Group.

10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2019	2018
At NRV:		
Expendable parts	**₱1,476,984,734**	₱1,448,111,018
At cost:		
Fuel	**634,797,748**	509,691,513
Materials and supplies	**48,572,502**	52,342,969
	683,370,250	562,034,482
	₱2,160,354,984	₱2,010,145,500

The cost of expendable parts amounted to ₱1,497.5 million and ₱1,469.0 million as of March 31, 2019 and December 31, 2018, respectively. The allowance for inventory write down amounted to ₱20.9 million as of March 31, 2019 and December 31, 2018. There are no additional provisions for inventory write down in 2019 and 2018. 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 three months ended March 31 2019 and 2018 amounted to ₱213.5 million and ₱204.7 million, respectively. The cost of fuel reported as expense under 'Flying operations' account amounted to ₱5,880.9 million and ₱5,853.1 million in 2019 and 2018, respectively.

11. Other Current Assets

This account consists of:

	2019	2018
Current portion of advances to suppliers	**₱1,563,126,518**	₱3,520,474,351
Prepaid rent	**463,137,813**	438,532,344
Prepaid insurance	**75,060,163**	75,541,811
Others	**371,065,646**	399,420,246
	₱2,472,390,140	₱4,433,968,752

Current portion of advances to suppliers include advances to service maintenance provider 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.

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 and non-aviation insurance represents insurance payments for all employees' health and medical benefits, commission, casualty and marine insurance, as well as car/motor insurance.

Others include housing allowance and prepayments to other suppliers.

12. Property and Equipment

This account consists of:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Acquisition Costs		
Passenger aircraft	**₱88,176,751,132**	₱86,783,941,161
Pre-delivery payments	**13,603,836,782**	14,347,685,326
Engines	**11,971,720,587**	10,670,233,973
Rotables	**4,894,943,190**	4,661,658,557
Leasehold improvements	**1,530,478,023**	1,516,714,899
Ground support equipment	**1,231,119,691**	1,093,416,093
EDP equipment, mainframe and peripherals	**1,172,413,864**	1,152,693,648
Transportation equipment	**429,222,953**	411,602,424
Furniture, fixtures and office equipment	**285,069,308**	277,052,087
Construction in-progress	**249,425,963**	251,153,334
Communication equipment	**33,544,760**	32,501,548
Special tools	**17,541,646**	16,684,607
Maintenance and test equipment	**6,529,596**	6,542,926
Other equipment	**174,745,140**	163,584,839
Total	**123,777,342,635**	121,385,465,422
Accumulated depreciation	**(27,687,577,111)**	(26,285,874,307)
Net book value	**₱96,089,765,524**	₱95,099,591,115

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 March 31, 2019 and December 31, 2018, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

	2019		2018	
	ECA Loans	**Commercial Loans**	ECA Loans	Commercial Loans
Airbus A320	**2**	**17**	3	17
ATR 72-500	–	**–**	2	–
ATR 72-600	**–**	**12**	–	12
A321 CEO	**–**	**7**	–	7
A321 NEO	**–**	**1**	–	–
Airbus A330	**–**	**2**	–	2
	2	**39**	5	38

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 March 31, 2019 and December 31, 2018, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱67.6 billion and ₱67.1 billion, respectively.

<u>Forward Sale Agreement</u>

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 were scheduled for delivery on various dates in 2015 until 2016. The Parent Company recognized ₱962.6 million and ₱80.3 million loss on sale in the consolidated statements of comprehensive income in 2016 and 2015, respectively.

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

Three (3) of the four Airbus A319 were delivered to Allegiant in 2017 and the last Airbus A319 aircraft was delivered in 2018. The Parent Company recognized ₱156.7 million and ₱532.9 million loss on sale in the consolidated statements of comprehensive income in 2018 and 2017, respectively.

On December 18, 2018, the Parent Company signed another forward sale agreement with Allegiant covering three (3) A320 aircraft. The aircraft are scheduled for delivery on various dates within 2019. In March 2019, one (1) of the three (3) A320 aircraft was delivered to Allegiant while the other two are scheduled for delivery in the third quarter of 2019.The Parent Company recognized ₱178.1 million loss on sale for the first aircraft.

<u>Sale and Operating Leaseback</u>

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

The sale of aircraft required the prepayment of outstanding balance of the loan facility attributed to the sold Airbus A320. The total amount of loans and breakage costs paid amounted to ₱4,162.6 million and ₱12.3 million, respectively. The Group recognized gain on sale of aircraft amounting to ₱635.5 million from these transactions.

In July and August 2018, the Group entered into a sale and operating leaseback transaction with JPA No. 117/118/119 Co., Ltd. covering three (3) Airbus A320. The Group recognized gain on sale of aircraft amounting to ₱110.2 million from these transactions in 2018 (Note 1).

Operating Fleet
As of March 31, 2019 and December 31, 2018, the Group's operating fleet follows:

	2019	2018
Owned (Note 18):		
Airbus A320	**19**	20
ATR 72-500	**8**	8
ATR 72-600	**12**	12
Airbus A321 CEO	**7**	7
Airbus A321 NEO	**1**	–
Airbus A330	**2**	2
Under operating lease (Note 29):		
Airbus A320	**15**	16
Airbus A330	**6**	6
	70	71

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 March 31, 2019 and December 31, 2018, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱13,603.8 million and ₱14,347.7 million, respectively (Note 29).

As of March 31, 2019 and December 31, 2018, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱3,808.3 million and ₱2,667.2 million, respectively.

As of March 31, 2019 and December 31, 2018, there are no temporarily idle property and equipment.

13. Investments in Joint Ventures and 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%, 49% and 35%, 40% interests in PAAT, A-plus, SIAEP and 1Aviation, respectively.

Investment in PAAT
Investment in PAAT pertains to the Parent Company's 60% 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.

Investment in A-plus and SIAEP
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 1Aviation
Investment in 1Aviation refers to the Parent Company's 40.00% investment in shares of the joint venture. The joint venture agreement indicates that the agreed ownership ratio is 40% for the Parent Company and the remaining 60% shall be collectively owned by PAGSS and an individual. The Parent Company recognizes 40% share in net income and net assets of the joint venture.

1Aviation is engaged in the business of providing groundhandling services for all types of aircraft, whether for the transport of passengers or cargo, international or domestic flights, private. commercial, government or military purposes to be performed at the Ninoy Aquino International Airport and other airports in the Philippines as may be agreed by the co-venturers.

Investment in an Associate
In May 2016, the Parent Company entered into Value Alliance Agreement with other low cost carriers (LCCs), namely, Scoot Tigerair Pte. Ltd. (formerly known as 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 Air Block Box Asia Pacific Pte. Ltd. (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. ABB started its operations in 2018, the investment is recognized at cost and is subject to any remeasurement within the measurement period. As of March 31, 2019 and December 31, 2018, 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, PAAT and 1Aviation follow:

	2019				
	A-plus	**SIAEP**	**PAAT**	**1Aviation**	**Total**
Cost					
Balance at January 1, 2019	**₱87,012,572**	**₱486,168,900**	**₱134,873,645**	**₱46,000,000**	**₱754,055,117**
Investment during the year	–	–	–	–	–
Balance at March 31, 2019	**87,012,572**	**486,168,900**	**134,873,645**	**46,000,000**	**754,055,117**
Accumulated Equity in Net Income (Loss)					
Balance at January 1, 2019	**165,427,530**	**(60,503,657)**	**62,102,459**	**(21,013,677)**	**146,012,655**
Equity in net income (loss) during the year	**(8,553,791)**	**24,258,632**	**5,496,928**	**(356,150)**	**20,845,619**
Balance at March 31, 2019	**156,873,739**	**(36,245,025)**	**67,599,387**	**(21,369,827)**	**166,858,274**
Net Carrying Value	**₱243,886,311**	**₱449,923,875**	**₱202,473,032**	**₱24,630,173**	**₱920,913,391**

	2018				
	A-plus	SIAEP	PAAT	1Aviation	Total
Cost					
Balance at January 1, 2018	₱87,012,572	₱486,168,900	₱134,873,645	₱–	₱708,055,117
Investment during the year	–	–	–	46,000,000	46,000,000
Balance at December 31, 2018	87,012,572	486,168,900	134,873,645	46,000,000	754,055,117
Accumulated Equity in Net Income (Loss)					
Balance at January 1, 2018	142,323,570	(106,944,858)	53,824,686	–	89,203,398
Equity in net income (loss) during the year	102,558,877	46,441,201	8,277,773	(21,013,677)	136,264,174
Dividends declared	(79,454,917)	–	–	–	(79,454,917)
Balance at December 31, 2018	165,427,530	(60,503,657)	62,102,459	(21,013,677)	146,012,655
Net Carrying Value	₱252,440,102	₱425,665,243	₱196,976,104	₱24,986,323	₱900,067,772

Selected financial information of A-plus, SIAEP, PAAT and 1Aviation as of March 31, 2019 follow:

	2019			
	A-plus	**SIAEP**	**PAAT**	**1Aviation**
Total current assets	**₱538,154,405**	**₱1,041,621,240**	**₱170,216,714**	**₱160,850,228**
Noncurrent assets	**226,270,702**	**1,602,659,383**	**1,143,054,170**	**200,253,814**
Current liabilities	**(266,697,941)**	**(752,033,597)**	**(67,841,211)**	**(290,502,633)**
Noncurrent liabilities		**(606,750,239)**	**(840,483,609)**	**(9,025,976)**
Equity	**497,727,166**	**1,285,496,787**	**404,946,064**	**61,575,433**
Proportion of the Group's ownership	**49%**	**35%**	**50%**	**40%**
Carrying amount of the investments	**₱243,886,311**	**₱449,923,875**	**₱202,473,032**	**₱24,630,173**

	2018			
	A-plus	SIAEP	PAAT	1Aviation
Total current assets	₱703,718,875	₱904,002,877	₱145,133,727	₱68,832,080
Noncurrent assets	239,423,720	1,648,489,384	1,150,357,261	283,007,321
Current liabilities	(427,958,713)	(658,949,475)	(44,850,669)	(289,373,594)
Noncurrent liabilities	–	(677,356,377)	(856,688,111)	–
Equity	515,183,882	1,216,186,409	393,952,208	62,465,807
Proportion of the Group's ownership	49%	35%	50%	40%
Carrying amount of the investments	₱252,440,102	₱425,665,243	₱196,976,104	₱24,986,323

Summary of statements of comprehensive income of A-plus, SIAEP, PAAT and 1Aviation for the three months ended March 31:

	2019			
	A-plus	**SIAEP**	**PAAT**	**1Aviation**
Revenue	**₱249,807,004**	**₱531,544,275**	**₱70,308,402**	**₱179,166,755**
Expenses	**(231,156,300)**	**(441,879,598)**	**(49,570,361)**	**(187,372,655)**
Other income (expenses)	**(29,731,294)**	**(13,702,510)**	**(8,367,372)**	**7,321,028**
Income before tax	**(11,080,590)**	**75,962,167**	**12,370,669**	**(884,872)**
Income tax expense (benefit)	**6,376,127**	**6,651,789**	**1,376,813**	**5,503**
Net income (loss)	**(₱17,456,717)**	**₱69,310,378**	**₱10,993,856**	**(₱890,375)**
Group's share of profit (loss) for the year	**(₱8,553,791)**	**₱24,258,632**	**₱5,496,928**	**(₱356,150)**

	2018		
	A-plus	SIAEP	PAAT
Revenue	₱248,509,728	₱438,902,107	₱54,945,939
Expenses	(210,786,571)	(386,604,915)	(40,000,703)
Other income (expenses)	25,260,647	(1,720,732)	(21,365,679)
Income before tax	62,983,804	50,576,460	(6,420,443)
Income tax expense	17,572,532	6,594,975	1,099,629
Net income	₱45,411,272	₱43,981,485	(₱7,520,072)
Group's share of profit for the year	₱22,251,523	₱15,393,520	(₱3,760,036)

The fiscal year-end of A-plus and SIAEP is every March 31 while the year-end of PAAT and 1Aviation 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 ₱156.9 million and ₱165.4 million as of March 31, 2019 and December 31, 2018, 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 ₱67.6 million and ₱62.1 million as of March 31, 2019 and December 31, 2018, respectively, which is not currently available for dividend distribution unless declared by PAAT.

As of March 31, 2019 and December 31, 2018, the share of the Parent Company in SIAEP's accumulated losses amounted to ₱36.2 million and ₱60.5 million, respectively.

The Parent Company's share in the accumulated losses recognized by 1Aviation amounted to ₱ 21.4 million as of March 31, 2019 and ₱21.0 million for the ten months ended December 31, 2018.

14. **Goodwill**

This account, which has a balance of ₱566.8 million as of March 31, 2019 and December 31, 2018, represents the goodwill arising from the acquisition of CEBGO. 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.

The Parent Company also identified intangible assets amounting to ₱852.7 million representing costs to establish brand and market opportunities under the strategic alliance with Tiger Airways Holding Limited (Note 15).

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, 2017 and 2016, management assessed that no impairment losses should be recognized for these intangible assets with indefinite useful lives.

Key assumptions used in the VIU calculation

As of March 31, 2019 and December 31, 2018, 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.

15. Other Noncurrent Assets

This account consists of:

	2019	2018
Advances to suppliers - net of current portion	**₱4,122,016,516**	₱4,122,016,516
Intangible assets	**852,691,869**	852,691,869
Refundable deposits	**187,749,002**	203,244,020
Others	**182,837,937**	174,691,659
	₱5,345,295,324	₱5,352,644,064

Noncurrent portion of advances to suppliers refers to advances made for the purchase of various aircraft parts, service maintenance for regular maintenance and restoration costs of the aircraft which are expected to be consumed beyond one year from the reporting date.

Intangible assets represent portion of the cost on the acquisition of CEBGO which pertains to the established brand and market opportunities under the strategic alliance of CEBGO at the time of acquisition. Refer to Note 14 for the impairment test of these intangible assets with indefinite useful lives.

Refundable deposits mostly refer to the amount provided to aircraft lessors as security in various operating lease agreements.

Others include commitment fees provided to aircraft manufacturer of A321 NEO to be capitalized as part of the cost of A321 NEO upon delivery.

16. Accounts Payable and Other Accrued Liabilities

This account consists of:

	2019	2018
Accounts payable	**₱6,588,605,316**	₱6,434,772,574
Accrued expenses	**4,939,593,592**	4,865,824,365
Airport and other related fees payable	**4,253,504,064**	3,684,830,069
Advances from agents and others	**424,083,639**	787,104,397
Accrued interest payable (Note 18)	**319,268,832**	337,109,129
Other payables	**502,552,386**	231,672,631
	₱17,027,607,829	₱16,341,313,165

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

	2019	2018
Maintenance (Note 29)	**₱1,620,373,686**	₱1,460,007,483
Compensation and benefits	**929,545,600**	955,379,006
Advertising and promotion	**731,065,939**	740,372,440
Navigational charges	**599,676,141**	573,939,401
Repairs and services	**528,082,295**	491,531,304
Catering supplies	**65,537,711**	65,142,224
Training costs	**59,029,875**	70,706,678
Ground handling charges	**49,412,773**	25,751,032
Fuel	**47,572,245**	87,645,898
Reservation costs	**37,786,679**	101,704,391
Professional fees	**35,072,145**	31,390,498
Rent (Note 29)	**25,782,388**	62,995,824
Aircraft insurance	**10,979,910**	4,391,964
Landing and take-off fees	**7,065,536**	20,751,933
Others	**192,610,669**	174,114,289
	₱4,939,593,592	₱4,865,824,365

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 of three (3) A320 aircraft amounting to ₱315.5 million (US$6.0 million) as of March 31, 2019 and December 31, 2018, 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).

17. Unearned Transportation Revenue

This account consists of:

	2019	2018
Unearned passenger revenue	**₱10,901,479,487**	₱9,598,133,327
Deferred ancillary revenue	**2,050,350,098**	1,512,384,705
	₱12,951,829,585	₱11,110,518,032

18. Long-term Debt

This account consists of:

	Annual Interest Rates Range (Note 27)	Maturities	2019 US Dollar	2019 Japanese Yen	2019 Philippine Peso Equivalent
ECA loans	3.00% to 5.00%	Various dates through 2024			
	3.00% to 5.00% (US Dollar LIBOR)		**US$35,581,426**	**JPY−**	**₱1,868,024,841**
			35,581,426	**−**	**1,868,024,841**
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025	**130,985,162**	**−**	**6,876,721,031**
	3.00% to 5.00% (US Dollar LIBOR)		**433,004,112**	**4,630,972,500**	**24,942,152,843**
			563,989,274	**4,630,972,500**	**31,818,873,874**
Philippine Peso commercial loans	5.00% to 7.00% (PDST-R2 and BVAL)	2016 through 2026	**−**	**−**	**20,208,279,594**
			US$599,570,700	**JPY4,630,972,500**	**₱53,895,178,309**

	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$895,255	₱47,072,508
	3.00% to 5.00% (US Dollar LIBOR)		55,944,933	2,941,584,577
			56,840,188	2,988,657,085
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025	123,810,163	6,509,938,371
	3.00% to 5.00% (US Dollar LIBOR)		445,752,453	23,437,663,976
			569,562,616	29,947,602,347
Philippine Peso commercial loans	5.00% to 7.00% (PDST-R2 and BVAL)	2016 through 2026	−	20,861,286,829
			US$626,402,804	₱53,797,546,261

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

	2019		
	US Dollar	**Japanese Yen**	**Philippine Peso Equivalent**
Current			
US Dollar loans	**US$71,520,820**	**JPY–**	**₱3,754,843,056**
JPY loans	**–**	**372,330,228**	**177,638,752**
Philippine Peso loans	**–**	**–**	**2,612,028,929**
	71,520,820	**372,330,228**	**6,544,510,737**
Noncurrent			
US Dollar loans	**528,049,880**	–	**27,722,618,679**
JPY loans	–	**4,258,642,272**	**2,031,798,228**
Philippine Peso loans	–	–	**17,596,250,665**
	528,049,880	**4,258,642,272**	**47,350,667,572**
	US$599,570,700	**JPY4,630,972,500**	**₱53,895,178,309**

	2018	
	US Dollar	Philippine Peso Equivalent
Current		
US Dollar loans	US$76,134,780	₱4,003,166,718
Philippine Peso loans	–	2,612,028,929
	76,134,780	6,615,195,647
Noncurrent		
US Dollar loans	550,268,024	28,933,092,714
Philippine Peso loans	–	18,249,257,900
	550,268,024	47,182,350,614
	US$626,402,804	₱53,797,546,261

Long-term debt rollforward follows:

	2019				
	US Dollar Loans	**Japanese Yen Loans**	**Philippine Peso Equivalent**	**Philippine Peso Loans**	**Total**
Balances at January 1	**US$626,402,804**	**JPY–**	**₱32,936,259,418**	**₱20,861,286,843**	**₱53,797,546,261**
Availments	**14,175,000**	**4,630,972,500**	**2,965,351,311**	**–**	**2,965,351,311**
Payments	**(41,007,104)**	**–**	**(2,144,749,035)**	**(653,007,232)**	**(2,797,756,267)**
	US$599,570,700	**JPY4,630,972,500**	**33,756,861,694**	**20,208,279,611**	**53,965,141,305**
Unrealized foreign exchange gain	**–**	**–**	**(69,962,996)**	**–**	**(69,962,996)**
Balances at March 31	**US$599,570,700**	**JPY4,630,972,500**	**₱33,686,898,698**	**₱20,208,279,611**	**₱53,895,178,309**

	2018			
	US Dollar Loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at January 1	US$549,497,421	₱27,436,406,252	₱13,545,804,500	₱40,982,210,752
Availments	444,146,352	23,408,556,667	9,271,515,038	32,680,071,705
Payments	(367,240,969)	(19,281,456,841)	(1,956,032,695)	(21,237,489,536)
	US$626,402,804	31,563,506,078	20,861,286,843	52,424,792,921
Unrealized foreign exchange loss	–	1,372,753,340	–	1,372,753,340
Balances at December 31	US$626,402,804	₱32,936,259,418	₱20,861,286,843	₱53,797,546,261

<u>ECA Loans</u>

From 2005 to 2012, the Parent Company entered into ECA-backed loan facilities to partially finance the purchases of ten (10) Airbus A319 aircraft, seven (7) ATR 72-500 turboprop aircraft, and ten (10) Airbus A320 aircraft. The security trustee of these ECA loans established SPEs – CALL, BLL, SLL, SALL, 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, both with an option to purchase the aircraft for a nominal amount at the end of such leases. The lease rentals made by the Parent Company to these SPEs, guaranteed by CPAHI and JGSHI, correspond to the loan payments made by the SPEs to the ECA-backed lenders.

In 2015 to 2017, the Parent Company exercised the purchase option on ten Airbus A319 aircraft, which were then sold to a third party as part of a forward sale arrangement. The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft.

In 2017, the Group prepaid the ECA Loans covering four (4) Airbus A320.

In 2018, the Parent Company exercised the option to purchase five (5) ATR 72-500 aircraft upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) Airbus A320.

As of March 31, 2019 and December 31, 2018, the terms of the remaining ECA-backed facilities 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 made on a semi-annual basis and a quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Other than what is permitted by the transaction documents or the ECA administrative parties, the SPEs cannot create or allow to exist any other security interest.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the ECA lenders will foreclose on secured assets, namely the aircraft.

As of March 31 2019 and December 31, 2018, the total outstanding balance of the ECA loans amounted to ₱1,868.0 million (US$ 35.6 million) and ₱2,988.7 million (US$56.8 million), respectively. Interest expense amounted to ₱27.2 million and ₱42.7 million in 2019 and 2018, respectively.

US Dollar Commercial Loans

From 2007 to 2018, the Group entered into commercial loan facilities to partially finance the purchase of 19 Airbus A320 aircraft, seven (7) Airbus A321 CEO aircraft and five (5) aircraft engines. The security trustees of these commercial loan facilities established SPEs – PTALL, PTHALL, SAALL, SBALL, SCALL, SDALL and TOADAC– which purchased the aircraft from the Parent Company pursuant to (a) five to ten-year finance lease arrangement for the Airbus A320 and A321 CEO aircraft; and (b) six-year finance lease arrangement for the engines. The Parent Company has the option to purchase the aircraft and the engines for a nominal amount at the end of such leases. The lease rentals made by the Parent Company to these SPEs correspond to the loan payments made by the SPEs to the commercial facility lenders.

In 2018, the Group prepaid the US dollar loan facilities for ten (10) Airbus A320 aircraft resulting to dissolution of PTHALL, SAALL and SBALL (Note 1). The Group subsequently entered into four (4) Philippine peso commercial loan facilities and six (6) USD commercial loans for the same aircraft. The Group also prepaid the loan facilities of the engines and entered into US dollar commercial loans to finance the acquisition of seven (7) Airbus A321 CEO aircraft.

As of March 31, 2019 and December 31, 2018, the terms of the remaining commercial loan facilities follow:

- Term of six to ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a semi-annual and quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of March 31, 2019 and December 31, 2018, the total outstanding balance of the US dollar commercial loans amounted to ₱29,609.4 million (US$564.0 million) and ₱29,947.6 million (US$569.6 million), respectively. Interest expense amounted to ₱351.5 million and ₱193.4 million in 2019 and 2018, respectively.

Japanese Yen Commercial Loans

In January 2019, the Group entered into a Japanese yen finance lease agreement covering one (1) Airbus A321NEO aircraft. The lease includes a purchase option and provides for semi-annual installments with a maturity not longer than 14 years at a variable interest rate based on JPY LIBOR plus margin.

As of March 31, 2019, the total outstanding balance of the Japanese yen commercial loans amounted to ₱2,209.4 million (¥4.6 billion).

Philippine Peso Commercial Loans

From 2016 to 2017, the Group entered into Philippine peso commercial loan facilities to partially finance the acquisition of eight (8) ATR 72-600 and two (2) Airbus A330 aircraft.

In 2018, the Group entered into Philippine peso commercial loan facilities to partially finance the acquisition of four (4) ATR 72-600 aircraft and refinance four (4) Airbus A320 aircraft.

As of March 31, 2019 and December 31, 2018, the terms of the commercial loan facilities follow:

- Term of seven to ten years starting from the delivery dates of each aircraft.
- Twenty eight to forty equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates based on Philippines Bloomberg Valuation (PH BVAL) and PDST-R2 in 2018 and 2017, respectively.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of March 31, 2019 and December 31, 2018, the total outstanding Philippine Peso commercial loans amounted to ₱20,208.3 million and ₱20,861.3 million, respectively. Interest expense incurred from these loans amounted to ₱323.7 million and ₱127.0 million in 2019 and 2018, respectively.

The Group is required to comply with affirmative and negative covenants until termination of loans. As of March 31, 2019 and December 31, 2018, the Group is not in breach of any loan covenants.

19. Other Noncurrent Liabilities

This account consists of:

	2019	2018
Asset retirement obligation (ARO)	**₱5,451,412,685**	₱5,781,386,463
Deferred revenue on rewards program	**997,051,922**	954,057,251
	₱6,448,464,607	₱6,735,443,714

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:

	2019	2018
Balance at beginning of year	**₱5,781,386,463**	₱3,675,087,466
Provision for ARO	**503,636,597**	2,106,298,997
Applications	**(833,610,375)**	–
Balance at end of year	**₱5,451,412,685**	₱5,781,386,463

In 2019 and 2018, ARO expenses included as part of repairs and maintenance amounted to ₱503.6 million and ₱504.5 million, respectively (Note 22).

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

The rollforward analyses of deferred revenue follow:

	2019	2018
Balance at beginning of year	**₱954,057,251**	₱720,229,576
Add: Estimated liability on issued points	**189,707,848**	691,673,529
Subtotal	**1,143,765,099**	1,411,903,105
Less: Estimated liability on redeemed points	**57,861,128**	178,326,243
Estimated liability on expired points	**88,852,049**	279,519,611
Balance at end of year	**₱997,051,922**	₱954,057,251

20. Equity

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

	2019	2018
Authorized - at ₱1 par value	**1,340,000,000**	1,340,000,000
Capital stock	**613,236,550**	613,236,550
Treasury shares	**(11,951,810)**	(10,871,060)
Issued and outstanding	**601,284,740**	602,365,490

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 95 and 97 existing certified shareholders as of March 31, 2019 and December 31, 2018, 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. In August 2018, the Parent Company has decided to resume its SBP.

The Parent Company has 11,951,810 and 10,871,060 shares held in treasury with cost of ₱874.1 million and ₱785.5 million as of March 31, 2019 and December 31, 2018, respectively, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings
On December 12, 2018, December 15, 2017 and November 10, 2016, the Parent Company's BOD appropriated ₱22.0 billion, ₱18.3 billion and ₱6.6 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. Appropriations as of December 31, 2017 and 2016 were reversed in the following year. The appropriated amount as of December 31, 2018 will be used for the settlement of pre-delivery payments and aircraft lease commitments in 2019 (Note 29).

As of March 31, 2019 and December 31, 2018, the Group has appropriated retained earnings totaling ₱22,000.0 million.

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 13). Likewise, retained earnings are restricted for the payment of dividends to the extent of the cost of common stock held in treasury amounting to ₱874.1 million and ₱785.5 million as of March 31, 2019 and December 31, 2018, respectively.

On May 19, 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 and paid amounted to ₱2,726.8 million for the year ended December 31, 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 and paid amounted to ₱1,666.4 million for the year 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 and paid amounted to ₱1,211.9 million for the year ended December 31, 2016.

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 March 31, 2019 and December 31, 2018 amounted to ₱4,210.4 million and ₱1,565.0 million, respectively.

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:

	2019	2018
(a) Long-term debt (Note 18)	**₱53,895,178,309**	₱53,797,546,261
(b) Equity	**43,439,286,064**	40,102,133,279
(c) Debt-to-equity ratio (a/b)	**1.2:1**	1.3:1

The JGSHI Group's policy is to keep the debt-to-equity ratio at the 2:1 level as of March 31, 2019 and December 31, 2018. Such ratio is currently being managed on a group level by the Group's ultimate parent.

21. Ancillary Revenue

Ancillary revenue consist of:

	2019	2018
Baggage fees	**₱2,022,328,399**	₱1,336,255,273
Rebooking, refunds, cancellation fees, etc.	**1,400,534,868**	1,393,949,504
Others	**633,531,171**	575,653,746
	₱4,056,394,438	₱3,305,858,523

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

22. **Operating Expenses**

Flying Operations
This account consists of:

	2019	2018
Aviation fuel expense (Note 10)	**₱5,880,948,496**	₱5,853,118,015
Flight deck	**1,053,227,577**	885,767,375
Aviation insurance	**73,342,523**	57,747,771
Others	**165,037,554**	113,612,355
	₱7,172,556,150	₱6,910,245,516

Flight deck expenses consist of salaries of pilots and co-pilots, training costs, meals and allowances, insurance and other pilot-related expenses.

Aviation insurance pertains to insurance costs incurred directly for aircraft.

Aircraft and Traffic Servicing
This account consists of:

	2019	2018
Airport charges	**₱867,607,627**	₱1,049,208,649
Ground handling	**863,362,238**	731,120,429
Others	**389,853,117**	177,139,708
	₱2,120,822,982	₱1,957,468,786

Airport charges are fees which are paid to airport authorities relating to landing and take-off of aircraft on runways, as well as for the use of airport facilities.

Ground handling refers to expenditures incurred for services rendered at airports, which are paid to departure stations or ground handling agents.

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 ₱2,020.0 million and ₱2,178.4 million in 2019 and 2018, 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 ₱1,058.9 million and ₱981.5 million in 2019 and 2018, respectively.

23. General and Administrative Expenses

This account consists of:

	2019	2018
Security and professional fees	**₱315,340,163**	₱181,394,918
Staff costs	**224,346,895**	183,467,807
Utilities	**32,745,750**	34,683,942
Rent expense	**26,461,088**	25,609,541
Travel and transportation	**9,302,702**	5,894,021
Others	**218,588,097**	105,559,153
	₱826,784,695	₱536,609,382

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:

	2019	2018
(a) Net income attributable to common shareholders	**₱3,425,736,342**	₱1,436,848,820
(b) Weighted average number of common shares for basic EPS	**594,956,467**	605,953,330
(c) Basic/diluted earnings per share	**₱5.76**	₱2.37

The Group has no dilutive potential common shares in 2019 and 2018.

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.

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 (ERM) Division
The ERM Division ensures that a sound ERM framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework guides the Board in identifying units/business lines and enterprise level risk exposures, as well as the effectiveness of risk management strategies.

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

1. Internal Environmental Scanning - it involves the review of the overall prevailing risk profile of the Business Unit (BU) to determine how risks are viewed and addressed by the management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the BU.
2. Objective Setting - the Company's BOD mandates 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 that are aligned with the Group's goals.
3. Event Identification - it identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment - the identified risks are analyzed relative to the probability and severity of potential loss that serves as basis for determining how the risks will be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's action or monitoring, and risks that may materially weaken the Company's earnings and capital.
5. Risk Response - the Group's BOD, through the oversight role of the Internal Control Group ensures action plan is executed to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities - policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication - relevant risk management information is identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring - the Internal Control and Internal Audit Groups constantly monitor the management of risks through audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

Internal Controls
With the leadership of the Chief Financial Officer (CFO), internal control is embedded in the Group's operations thus increasing their accountability and ownership in the execution of the internal control framework. To accomplish the established goals and objectives, the Group implement robust and efficient process controls to ensure:

1. Compliance with policies, procedures, laws and regulations;
2. Economic and efficient use of resources;
3. Check and balance and proper segregation of duties;
4. Identification and remediation control weaknesses;
5. Reliability and integrity of information; and
6. Proper safeguarding of company resources and protection of company assets through early detection and prevention of fraud.

Risk Assessment Tool
To help the Group in the Risk Assessment Process, the Risk Assessment Tool which is a database driven web application was developed for departments to help in the assessment, monitoring and management of risks.

The Risk Assessment Tool documents the following activities:

1. Risk Identification - is the critical step of the risk management process. The objective of risk identification is the early identification of events that may have negative impact on the Group's ability to achieve its goals and objectives.
   1.1. Risk Indicator - is a potential event or action that may prevent the continuity/action
   1.2. Risk Driver - is an event or action that triggers the risk to materialize
   1.3. Value Creation Opportunities - is the positive benefit of addressing or managing the risk
2. Identification of Existing Control Measures - activities, actions or measures already in place to control, prevent or manage the risk.
3. Risk Rating/Score - is the quantification of the likelihood and impact to the Group if the risk materialize. The rating has two (2) components:
   3.1. Probability - the likelihood of occurrence of risk
   3.2. Severity - the magnitude of the consequence of risk
4. Risk Management Strategy - is the structured and coherent approach to managing the identified risk.
5. Risk Mitigation Action Plan - is the overall approach to reduce the risk impact severity and/or probability of occurrence.

Results of the Risk Assessment Process are summarized in a Dashboard that highlights risks that require urgent actions and mitigation plan. The dashboard helps Management to monitor, manage and decide a risk strategy and needed action plan.

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:

a. Corporate Security and Safety Board (CSSB) - Under the supervision of ERM Division, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
b. Corporate Supplier Accreditation Team (CORPSAT) - Under the supervision of ERM Division, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
c. Finance Division - The Finance Division is responsible for the oversight of strategic planning, budgeting and performance review processes of the business units as well as for administration of the insurance program of the Group.

<u>Risk Management Policies</u>
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.

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

Credit quality per class of financial assets
The Group maintains internal credit rating system relating to its revenue distribution channel credit risk management. Credit limits have been set based on the assessment of rating identified.

Letters of credit and other forms of credit insurance such as cash bonds are considered in the calculation of expected credit losses.

Other financial assets include cash and cash equivalents and refundable deposits. The Group implements external credit rating system which uses available public information and international credit ratings. The management does not expect default from its counterparty banks given their high credit standing.

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 March 31, 2019 and December 31, 2018, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statements of financial position) amounted to ₱262.1 million and ₱257.4 million, respectively (Note 16).

There are no collaterals for impaired receivables.

Impairment assessment (Beginning January 1, 2018)
An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (that is, per revenue distribution channel). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

For other debt financial instruments such as cash and cash equivalents (excluding cash on hand) and refundable deposits ECLs, the Group applies the general approach of which it track changes in credit risk at every reporting date. The probability of default (PD) and loss given defaults (LGD) are estimated using external and benchmark approaches for listed and non-listed financial institutions, respectively. For listed financial institutions, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. For non-listed financial institutions, the Group uses benchmark approach where the Group finds comparable companies in the same industry having similar characteristics. The Group obtains the credit rating of comparable companies to determine the PD and determines the average LGD of the selected comparable companies to be applied as LGD of the non-listed financial institutions.

Impairment assessment (Before January 1, 2018)
The Group recognizes impairment losses based on the results of its specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal overdue beyond a certain threshold. These and the other factors, either singly or in tandem, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

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

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

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

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

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

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

Financial liabilities
The relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When 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 Group has a foreign currency hedging arrangements as of March 31, 2019 and December 31, 2018.

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of March 31, 2019 and December 31, 2018 follow:

	2019	2018
US dollar	**₱52.5000 to US$1.00**	₱52.5800 to US$1.00
Singapore dollar	**₱38.919 to SGD1.00**	₱38.4706 to SGD1.00
Hong Kong dollar	**₱6.7241 to HKD1.00**	₱6.7344 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 three months ended March 31, 2019 and 2018 (in thousands):

	2019		2018	
Changes in foreign exchange value	**₱2**	**(₱2)**	₱2	(₱2)
Change in pre-tax income	**(₱835,257)**	**₱835,257**	(₱691,110)	₱691,110

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 ₱674.1 million and ₱614.6 million for the three months ended March 31, 2019 and 2018, 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 three months ended March 31, 2019 and 2018.

	2019		2018	
Changes in interest rates	**1.50%**	**(1.50%)**	1.50%	(1.50%)
Changes in pre-tax income	**(₱481,577,587)**	**₱481,577,587**	(₱261,487,054)	₱261,487,054

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 and financial liabilities 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 2019 and 2018, 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 March 31, 2019 and December 31, 2018.

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 2021 and January 2022
March 2008	APTREE Aviation Trading 2 Co. Ltd.	1	October 2021
	Wells Fargo Trust Company, N.A.	1	October 2023
July 2011	SMBC Aviation Capital Limited	2	March 2020
May 2017	Ibon Leasing Limited	1	April 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
July 2018	JPA No. 117 Co. Ltd	1	September 2021
July 2018	JPA No. 118 Co. Ltd	1	December 2021
August 2018	JPA No. 119 Co. Ltd	1	June 2022

From 2007 to 2008, the Group entered into operating lease agreements with Celestial Aviation Trading 17/19/23 Limited for five (5) Airbus A320 which were delivered on various dates from 2007 to 2011. The lease agreements were later on amended to effect the novation of lease rights from the original lessors to current lessors: Inishcrean Leasing Limited for (1) Airbus A320, GY Aviation Lease 0905 Co. Limited for two (2) Airbus A320, APTREE Aviation Trading 2 Co. Limited for one (1) Airbus A320, and Wells Fargo Trust Company, N.A. for one (1) Airbus A320.

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

In 2015 to 2016, the Group extended the lease agreement with Inishcrean for three years and with GY Aviation Lease 0905 Co. Limited for two years.

In 2017, the Group entered into lease agreements with ILL for two (2) Airbus A320 and with JPA No. 78/79/80/81 Co., Ltd for four (4) Airbus A320 (Note 12).

In 2018, the Group separately extended the lease agreements with APTREE Aviation Trading 2 Co. Ltd for two years, with Wells Fargo Trust Company, N.A for four years, and with GY Aviation Lease 0905 Co. Limited for another two years on one aircraft and three years on the other.

In July and August 2018, the Group entered into lease agreements with JPA No. 117/118/119 Co., Ltd for three (3) Airbus A320.

A320NEO aircraft
On July 26, 2018, the Group entered into 8-year lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO for delivery on various dates within 2019.

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	Wells Fargo Bank Northwest, N.A. (not in its individual capacity but solely as Owner Trustee)	1	12 years with pre-termination option
	Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee)	1	
	CIT Aerospace International	1	
	Avolon Aerospace AOE 165 Limited	1	
July 2013	A330 MSN 1552 Limited and A330 MSN 1602 Limited	2	12 years with pre-termination option

In February 2012, the Parent Company entered into operating lease agreements with Wells Fargo Bank Northwest, N.A. for the lease of four (4) Airbus A330. The lease agreements for the three (3) out of the four (4) Airbus A330 were later on amended to effect the novation of lease rights from the original lessor to their current lessors: Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee), CIT Aerospace International, and Avolon Aerospace AOE 165 Limited.

In July 2013, the Group entered into aircraft operating lease agreements with Intrepid Aviation Management Ireland Limited for the lease of two (2) Airbus A330. The lease agreements have been amended to effect the novation of lease rights by the original lessor to current lessors, A330 MSN 1552 Limited and A330 MSN 1602 Limited.

The first two (2) Airbus A330 aircraft were delivered in June 2013 and September 2013.
Three (3) Airbus A330 aircraft were delivered in February 2014, May 2014, and September 2014 and one (1) Airbus A330 aircraft was delivered in March 2015.
As of March 31, 2019, the Group has six (6) Airbus A330 aircraft under operating lease (Note 12)

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱1,455.5 million and ₱1,318.2 million in 2019 and 2018, respectively.

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

	2019		2018	
	US Dollar	**Philippine Peso Equivalent**	US Dollar	Philippine Peso Equivalent
Within one year	**US$117,316,732**	**₱6,120,413,908**	US$102,747,295	₱5,359,298,907
After one year but not more than five years	**462,560,342**	**24,131,773,042**	347,557,137	18,128,580,266
Over five years	**113,856,617**	**5,939,899,709**	129,829,456	6,771,904,425
	US$693,733,691	**₱36,192,086,659**	US$580,133,888	₱30,259,783,598

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:

	2019	2018
Within one year	**₱213,050,811**	₱202,413,367
After one year but not more than five years	**895,893,834**	837,003,079
Over five years	**4,350,758,180**	3,904,823,201
	₱5,459,702,825	₱4,944,239,647

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 ₱162.4 million both in 2019 and 2018.

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 Airbus A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight Airbus A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last Airbus 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 Airbus A319, Airbus A320 and Airbus 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 32 new Airbus A321NEO aircraft and ten additional option orders. These aircraft are scheduled to be delivered from 2019 to 2023.

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 optional A321NEO aircraft. 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 orders. These aircraft are scheduled for delivery from 2016 to 2022. Two (2) ATR 72-600 were delivered in 2016, six (6) in 2017, and four (4) in 2018, totaling to 12 ATR 72-600 aircraft delivered as of December 31, 2018.

On June 6, 2017, the Group placed an order with Airbus S.A.S to purchase seven (7) new Airbus A321 CEO aircraft, all of which were delivered in 2018.

On June 14, 2018, the Parent Company has entered into an Aircraft Conversion Services Agreement with IPR Conversions (Switzerland) Limited to convert two (2) ATR 72-500 aircraft from passenger to freighter for delivery in 2019.

On July 26, 2018, the Parent Company entered into operating lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO aircraft for delivery on various dates within 2019.

As of March 31, 2019, the Group is set to take delivery of thirty-one (31) Airbus A321 NEO, five (5) A320 NEO, four (4) ATR 72-600, and two (2) ATR 72-500 freighters from 2019 until 2023.

The above-indicated commitments relate to the Group's re-fleeting and expansion programs. These agreements remained in effect as of March 31, 2019.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱87,938.0 million and ₱88,462.6 million as of March 31, 2019 and December 31, 2018, respectively.

	2019	
	US Dollar	**Philippine Peso Equivalent**
Within one year	**US$423,004,800**	**₱22,207,752,000**
After one year but not more than five years	**1,992,669,168**	**104,615,131,320**
	US$2,415,673,968	**₱126,822,883,320**

	2018	
	US Dollar	Philippine Peso Equivalent
Within one year	US$427,214,639	₱22,462,945,700
After one year but not more than five years	2,060,860,233	108,360,031,052
	US$2,488,074,872	₱130,822,976,752

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 16).

30. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	January 1, 2019	**Cash Flows**	**Foreign Exchange Movement**	**Others***	**March 31, 2019**
Current interest-bearing loans and borrowings	**₱6,615,195,647**	**(₱2,797,756,267)**	**(₱7,864,834)**	**₱2,734,936,191**	**₱6,544,510,737**
Noncurrent interest-bearing loans and borrowings	**47,182,350,614**	**2,965,351,311**	**(62,098,162)**	**(2,734,936,191)**	**47,350,667,572**
Dividends declared and paid	–	–	–	–	–
Total liabilities from financing activities	**₱53,797,546,261**	**₱167,595,044**	**(₱69,962,996)**	**₱–**	**₱53,895,178,309**

	January 1, 2018	Cash Flows	Foreign Exchange Movement	Others*	December 31, 2018
Current interest-bearing loans and borrowings	₱5,969,257,624	(₱21,237,489,536)	₱166,848,363	₱21,716,579,196	₱6,615,195,647
Noncurrent interest-bearing loans and borrowings	35,012,953,128	32,680,071,705	1,205,904,977	(21,716,579,196)	47,182,350,614
Dividends declared and paid	–	(2,726,789,985)	–	2,726,789,985	–
Total liabilities from financing activities	₱40,982,210,752	₱8,715,792,184	₱1,372,753,340	₱2,726,789,985	₱53,797,546,261

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

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

a. Application of creditable withholding taxes against income tax payable amounting to ₱27.479 million and ₱39.844 million in 2019 and 2018, respectively; and

31. Events After the Statement of Financial Position Date

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

32. Standards Issued But Not Yet Effective

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's financial statements unless otherwise indicated.

<u>Effective beginning on or after January 1, 2020</u>

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

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 (IASB) 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.