COVER SHEET

SEC Registration Number

154675

Company Name

Cebu Air, Inc. and Subsidiaries

Principal Office (No./Street/Barangay/City/Town/Province)

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	(632) 852-2461	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
97	06/26	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) 852-2461	N/A

Contact Person's Address

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

Note: 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.

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, 2015**

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

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

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	**605,953,330 shares**

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

    Yes [x] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [x] No [ ]

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

    Yes [x] No [ ]

PART I–FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

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

As of March 31, 2015, the Group operates an extensive route network serving 55 domestic routes and 36 international routes with a total of 2,597 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.

As of March 31, 2015, the Group operates a fleet of 55 aircraft which comprises of 10 Airbus A319, 31 Airbus A320, 6 Airbus A330 and 8 ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the Group's fleet is approximately 4.41 years as of March 31, 2015.

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

Results of Operations

Three Months Ended March 31, 2015 Versus March 31, 2014

Revenues

The Group generated revenues of ₱14.198 billion for the three months ended March 31, 2015, 20.7% higher than the ₱11.764 billion revenues earned in the same period last year. Growth in revenues is accounted for as follows:

Passenger
Passenger revenues grew by ₱1.960 billion or 22.2% to ₱10.808 billion in the three months ended March 31, 2015 from ₱8.848 billion posted in the three months ended March 31, 2014. This increase was mainly attributable to the 13.0% increase in passenger volume to 4.3 million from 3.8 million in 2014 driven by the increased number of flights in 2015. Number of flights went up by 14.3% year on year as the Group added more aircraft to its fleet, particularly, its acquisition of wide-body Airbus A330 aircraft with a configuration of more than 400 all-economy class seats. The number of aircraft increased from 51 aircraft as of March 31, 2014 to 55 aircraft as of March 31, 2015, which includes 3 brand new Airbus A330 aircraft delivered in 2014 and in 2015. Increase in average fares by 8.1% to ₱2,525 for the three months ended March 31, 2015 from ₱2,336 for the same period last year also contributed to the growth in revenues.

Cargo
Cargo revenues grew by ₱92.728 million or 13.6% to ₱772.545 million for the three months ended March 31, 2015 from ₱679.818 million for the three months ended March 31, 2014 following the increase in the volume of cargo transported in 2015.

Ancillary
Ancillary revenues went up by ₱381.125 million or 17.0 % to ₱2.618 billion in the three months ended March 31, 2015 from ₱2.236 billion registered in the same period last year consequent to the 13.0% increase in passenger traffic and 3.6% increase in average ancillary revenue per passenger. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase.

Expenses
The Group incurred operating expenses of ₱11.368 billion for the three months ended March 31, 2015, slightly higher by 1.0% than the ₱11.252 billion operating expenses recorded for the three months ended March 31, 2014. Expenses generally increased driven by the Group's expanded long haul operations and growth in seat capacity from the acquisition of new aircraft. However, this was offset by the substantial reduction in fuel costs incurred for the three months ended March 31, 2015 compared to the same period last year due to the sharp decline in global jet fuel prices. The strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱44.42 per U.S. dollar for the three months ended March 31, 2015 from an average of ₱44.88 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates also partially mitigated the increase in expenses.

Flying Operations
Flying operations expenses decreased by ₱1.056 billion or 17.0% to ₱5.144 billion for the three months ended March 31, 2015 from ₱6.200 billion incurred in the same period last year. This is primarily attributable to the 22.1% decline in aviation fuel expenses to ₱4.325 billion for the three months ended March 31, 2015 from ₱5.551 billion for the same period last year consequent to the significant drop in jet fuel prices as referenced by the reduction in the average published fuel MOPS price of U.S. $68.98 per barrel in the three months ended March 31, 2015 from U.S. $121.47 per barrel in 2014. The slight strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱44.42 per U.S. dollar for the three months ended March 31, 2015 from an average of ₱44.88 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates also contributed to the decrease.

Aircraft and Traffic Servicing
Aircraft and traffic servicing expenses increased by ₱216.803 million or 20.0% to ₱1.303 billion for the three months ended March 31, 2015 from ₱1.086 billion registered in the same period in 2014 as a result of the overall increase in the number of flights flown in 2015. Higher expenses were particularly attributable to more international flights operated for which airport and ground handling charges were generally higher compared to domestic flights. International flights increased by 10.5% year on year with the launch of long haul operations to Kuwait, Sydney and Riyadh in the latter part of 2014.

Depreciation and Amortization
Depreciation and amortization expenses grew by ₱220.976 million or 22.2% to ₱1.215 billion for the three months ended March 31, 2015 from ₱993.726 million for the three months ended March 31, 2014. Depreciation and amortization expenses increased consequent to the arrival of three Airbus A320 aircraft during the second and last quarters of 2014 and two Airbus A320 aircraft in 2015.

Repairs and Maintenance
Repairs and maintenance expenses went up by 21.2% to ₱1.333 billion for the three months ended March 31, 2015 from ₱1.100 billion posted in the three months ended March 31, 2014. Increase was driven by the overall increase in the number of flights and the delivery of three Airbus A320 and two Airbus A330 aircraft in the last three quarters of 2014 and two Airbus A320 and one Airbus A330 aircraft in 2015 partially offset by the return of four leased Airbus A320 aircraft in 2014.

Aircraft and Engine Lease
Aircraft and engine lease expenses moved up by ₱123.366 million or 15.3% to ₱929.669 million in the three months ended March 31, 2015 from ₱806.302 million charged for the three months ended March 31, 2014. Increase in aircraft lease was due to the delivery of three Airbus A330 aircraft under operating lease, two in the latter part of 2014 and one in 2015. This was partially offset by the return of four leased Airbus A320 aircraft in 2014.

Reservation and Sales
Reservation and sales expenses increased by ₱178.979 million or 33.9% to ₱706.236 million for the three months ended March 31, 2015 from ₱527.257 million for the three months ended March 31, 2014. This was primarily attributable to the increase in commission expenses and online bookings relative to the overall growth in passenger volume year on year.

General and Administrative
General and administrative expenses grew by ₱88.712 million or 32.5% to ₱361.777 million for the three months ended March 31, 2015 from ₱273.065 million incurred in the three months ended March 31, 2014. Growth in general and administrative expenses was primarily attributable to the increased flight and passenger activity in 2015.

Passenger Service
Passenger service expenses went up by ₱110.077 million or 41.5% to ₱375.474 million for the three months ended March 31, 2015 from ₱265.397 million posted for the three months ended March 31, 2014. This was primarily caused by additional cabin crew hired for the Airbus A320 and A330 aircraft acquired during the last three quarters of 2014 and in 2015 and the increase in passenger food and supplies from pre-ordered meals being offered in international flights.

Operating Income
As a result of the foregoing, the Group finished with an operating income of ₱2.831 billion for the three months ended March 31, 2015, 452.5% higher than the ₱512.381 million operating income earned in the same period last year.

Other Income (Expenses)

Interest Income
Interest income dropped by ₱11.220 million or 45.2% to ₱13.587 million for the three months ended March 31, 2015 from ₱24.807 million earned in the same period last year due to decrease in the balance of cash in bank and short-term placements year on year and lower interest rates.

Hedging Gains (Losses)
The Group incurred a hedging loss of ₱360.566 million for the three months ended March 31, 2015, an increase of 699.7% from hedging loss of ₱45.089 million in the same period last year as a result of lower mark-to-market valuation on fuel hedging positions consequent to the material decline in fuel prices in 2015.

Foreign Exchange Gains (Losses)
The Group registered a net foreign exchange loss of ₱9.232 million for the three months ended March 31, 2015, a decrease of 95.2% from net foreign exchange loss of ₱193.655 million incurred in the same period last year as a result of the appreciation of the Philippine peso against the U.S. dollar. 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 loss of joint venture of ₱17.018 million for the three months ended March 31, 2015, ₱53.258 million or 147.0% lower than the ₱36.240 million equity in net income of joint venture earned in the same period last year. The decrease was primarily due to the net loss from current operations incurred by SIA Engineering (Philippines) Corporation (SIAEP) in the first quarter of 2015.

Interest Expense
Interest expense increased by ₱4.619 million or 1.8% to ₱262.649 million for the three months ended March 31, 2015 from ₱258.030 million in the three months ended March 31, 2014. Increase was due to higher interest expense incurred brought by the additional loans availed to finance the acquisition of three Airbus A320 aircraft during the second and last quarters of 2014 and two Airbus A320 aircraft in 2015. This was partially offset by the slight strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱44.42 per U.S. dollar for the three months ended March 31, 2015 from an average of ₱44.88 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEx) weighted average rates.

Income before Income Tax

As a result of the foregoing, the Group recorded income before income tax of ₱2.195 billion for the three months ended March 31, 2015, higher by 2,763.5% or ₱2.118 billion than the ₱76.654 million income before income tax posted for the three months ended March 31, 2014.

Benefit from Income Tax

Benefit from income tax for the three months ended March 31, 2015 amounted to ₱29.954 million, of which, ₱36.055 million pertains to current income tax recognized as a result of the taxable income for the first quarter of 2015. Benefit from deferred income tax amounted to ₱66.009 million resulting from the recognition of deferred tax assets on future deductible amounts during the period.

Net Income

Net income for the three months ended March 31, 2015 amounted to ₱2.225 billion, an increase of 1,255.3% from the ₱164.164 million net income earned in the same period last year.

As of March 31, 2015, 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, 2015 versus December 31, 2014

As of March 31, 2015 the Group's consolidated balance sheet remains solid, with net debt to equity of 1.24 [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 ₱80.779 billion from ₱76.062 billion as of December 31, 2014 as the Group added aircraft to its fleet. Equity grew to ₱23.764 billion from ₱21.539 billion in 2014, while book value per share amounted to ₱39.22 as of March 31, 2015 from ₱35.55 as of December 31, 2014.

The Group's cash requirements have been mainly sourced through cash flow from operations and from borrowings. Net cash from operating activities amounted to ₱4.137 billion. As of March 31, 2015, net cash used in investing activities amounted to ₱3.798 billion which included payments in connection with the purchase of aircraft. Net cash provided by financing activities amounted to ₱1.725 billion which comprised of proceeds from long-term debt of ₱3.099 billion net of repayments of long-term debt amounting to ₱1.374 billion.

As of March 31, 2015, 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, 2015	December 31, 2014
Current Ratio	**0.43:1**	0.35:1
Debt-to-Equity Ratio	**1.50:1**	1.57:1
Asset-to-Equity Ratio	**3.40:1**	3.53:1
Interest Coverage Ratio	**10.78:1**	4.10:1

Profitability Ratios

	March 31, 2015	March 31, 2014
Return on Asset	**2.8%**	0.2%
Return on Equity	**9.8%**	0.8%
Return on Sales	**15.7%**	1.4%

Material Changes in the 2015 Financial Statements
(Increase/Decrease of 5% or more versus 2014)

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, 2015 versus December 31, 2014

52.1% increase in Cash and Cash Equivalents
Due to collections as a result of the expansion of the Group's operations as evidenced by 20.7% growth in revenues.

19.5% decrease in Receivables
Due to collection of various trade receivables and settlement receivable from Roar II.

17.6% increase in Expendable Parts, Fuel, Materials and Supplies
Due to increased volume of materials and supplies inventory relative to the increased number of flights and larger fleet size during the period.

13.0% increase in Other Current Assets
Due mainly to collateral deposits provided to counterparties for fuel hedging transactions and prepayment of aviation and passenger liability insurance premiums.

4.1% increase in Property and Equipment
Due to the acquisition of two Airbus A320 aircraft during the period.

2.9% decrease in Investment in Joint Ventures
Due to the share in net loss of SIAEP incurred during the period.

7.3% decrease in Other Noncurrent Assets
Due to the return of deposits made on two leased Airbus A330 aircraft.

0.4% decrease in Accounts Payable and Other Accrued Liabilities
Due to payments made during the period.

29.4% increase in Due to Related Parties
Due to increase in payables on purchases made from related parties.

11.2% increase in Unearned Transportation Revenue
Due to the increase in sale of passenger travel services.

5.5% decrease in Financial Liabilities at fair value through profit or loss
Due to the settlement of certain fuel derivative contracts with counterparties.

5.2% increase in Long-Term Debt (including Current Portion)
Due to additional loans availed to finance the purchase of two Airbus A320 aircraft acquired during the period partially offset by the repayment of certain outstanding long-term debt in accordance with the repayment schedule.

316.8% increase in Income Tax Payable
Due to higher income tax due for the first quarter of 2015 in excess of available creditable withholding tax.

51.1% decrease in Deferred Tax Liabilities-net
Due mainly to the deferred tax benefits recognized for future deductible amounts on asset retirement obligation and Minimum Corporate Income Tax (MCIT).

13.6% increase in Other Noncurrent Liabilities
Due to the accretion of asset retirement obligation and accrual for pension liability made during the period.

16.9% increase in Retained Earnings
Due to net income during the period.

As of March 31, 2015, there are no significant elements of income that did not arise from the Group's continuing operations.

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

KEY PERFORMANCE INDICATORS

The Group sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are major performance measures, which the Group has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2015 and December 31, 2014 and for three months ended March 31, 2015 and 2014:

Key Financial Indicators	**2015**	2014
Total Revenue	**₱14.198 billion**	₱11.764 billion
Pre-tax Core Net Income	**₱2. 565 billion**	₱0.315 billion
EBITDAR Margin	**36.4%**	20.7%
Cost per Available Seat Kilometre (ASK) (Php)	**1.89**	2.47
Cost per ASK (U.S. cents)	**4.25**	5.50
Seat Load Factor	**78.9%**	82.5%

The manner by which the Group calculates the above key performance indicators for both 2015 and 2014 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, 2015, 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, 2015 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 1 4 2015

JAIME I. CABANGIS
Chief Financial Officer
Date: MAY 1 4 2015

ROBIN C. DUI
Vice President - Comptroller
Date: MAY 1 4 2015

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2015
(With Comparative Audited Figures as of December 31, 2014)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 8)	**₱6,029,880,366**	₱3,963,912,683
Receivables (Note 10)	**1,499,231,110**	1,862,718,419
Expendable parts, fuel, materials and supplies (Note 11)	**798,965,820**	679,315,070
Other current assets (Note 12)	**2,282,505,356**	2,020,471,923
Total Current Assets	**10,610,582,652**	8,526,418,095
Noncurrent Assets		
Property and equipment (Notes 13, 17, 28 and 29)	**67,894,478,820**	65,227,125,368
Investment in joint ventures (Note 14)	**574,321,028**	591,339,486
Goodwill (Notes 7 and 15)	**566,781,533**	566,781,533
Other noncurrent assets (Notes 7 and 16)	**1,066,534,738**	1,150,594,326
Total Noncurrent Assets	**70,102,116,119**	67,535,840,713
	₱80,712,698,771	₱76,062,258,808
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 17)	**₱10,630,693,343**	₱10,668,437,651
Unearned transportation revenue (Note 4 and 5)	**7,088,312,532**	6,373,744,740
Current portion of long-term debt (Notes 13 and 18)	**5,014,071,584**	4,712,465,291
Financial liabilities at fair value through profit or loss (Note 9)	**2,136,452,717**	2,260,559,896
Due to related parties (Note 26)	**51,633,846**	39,909,503
Income tax payable	**24,307,604**	5,831,638
Total Current Liabilities	**24,945,471,626**	24,060,948,719
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13 and 18)	**30,581,157,710**	29,137,197,374
Deferred tax liabilities-net	**63,151,596**	129,160,379
Other noncurrent liabilities (Notes 19 and 24)	**1,359,188,733**	1,196,148,149
Total Noncurrent Liabilities	**32,003,498,039**	30,462,505,902
Total Liabilities	**56,948,969,665**	54,523,454,621
Equity (Note 20)		
Common stock	**613,236,550**	613,236,550
Capital paid in excess of par value	**8,405,568,120**	8,405,568,120
Treasury stock	**(529,319,321)**	(529,319,321)
Other comprehensive loss (Note 24)	**(131,968,292)**	(131,968,292)
Retained earnings	**15,406,212,049**	13,181,287,130
Total Equity	**23,763,729,106**	21,538,804,187
	₱80,712,698,771	₱76,062,258,808

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, 2015 AND 2014

	Quarters Ended	
	2015	2014
REVENUE		
Sale of air transportation services (Note 4)		
Passenger	**₱10,808,245,633**	₱8,848,159,127
Cargo	**772,545,246**	679,817,501
Ancillary revenues (Note 21)	**2,617,564,657**	2,236,439,661
	14,198,355,536	11,764,416,289
EXPENSES		
Flying operations (Note 22)	**5,143,827,757**	6,200,077,665
Aircraft and traffic servicing (Note 22)	**1,302,667,132**	1,085,863,644
Repairs and maintenance (Notes 19 and 22)	**1,333,151,670**	1,100,346,531
Depreciation and amortization (Note 13)	**1,214,702,485**	993,726,146
Aircraft and engine lease (Note 29)	**929,668,595**	806,302,453
Reservation and sales	**706,236,286**	527,256,859
General and administrative (Note 23)	**361,777,734**	273,065,480
Passenger service	**375,474,141**	265,396,744
	11,367,505,800	11,252,035,522
OPERATING INCOME	**2,830,849,736**	512,380,767
OTHER INCOME (EXPENSE)		
Interest income (Note 8)	**13,587,026**	24,807,360
Foreign exchange gains (losses)	**(9,232,352)**	(193,654,697)
Fuel hedging gains (losses) (Note 9)	**(360,566,098)**	(45,089,037)
Equity in net income of joint venture (Note 14)	**(17,018,457)**	36,239,834
Interest expense (Note 18)	**(262,649,108)**	(258,030,346)
	(635,878,989)	(435,726,886)
INCOME BEFORE INCOME TAX	**2,194,970,747**	76,653,881
PROVISION FOR (BENEFIT FROM) INCOME TAX	**(29,954,172)**	(87,510,225)
NET INCOME	**2,224,924,919**	164,164,106
OTHER COMPREHENSIVE INCOME, NET OF TAX	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱2,224,924,919**	₱164,164,106
Basic/Diluted Earnings Per Share (Note 25)	**₱3.67**	₱0.27

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, 2015
(With Comparative Unaudited Figures as of March 31, 2014)

	For the Three Months Ended March 31, 2015						
	Common Stock (Note 20)	**Capital Paid in Excess of Par Value** (Note 20)	**Treasury Stock** (Note 20)	**Other Comprehensive Loss** (Note 24)	**Appropriated Retained Earnings** (Note 20)	**Unappropriated Retained Earnings** (Note 20)	**Total Equity**
Balance at January 1, 2015	**₱613,236,550**	**₱8,405,568,120**	**(₱529,319,321)**	**(₱131,968,292)**	**₱6,916,762,000**	**₱6,264,525,130**	**₱21,538,804,187**
Net income	–	–	–	–	–	**2,224,924,919**	**2,224,924,919**
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	**2,224,924,919**	**2,224,924,919**
Balance at March 31, 2015	**₱613,236,550**	**₱8,405,568,120**	**(₱529,319,321)**	**(₱131,968,292)**	**₱6,916,762,000**	**₱8,489,450,049**	**₱23,763,729,106**

	For the Three Months Ended March 31, 2014						
	Common Stock (Note 20)	Capital Paid in Excess of Par Value (Note 20)	Treasury Stock (Note 20)	Other Comprehensive Loss (Note 20)	Appropriated Retained Earnings (Note 20)	Unappropriated Retained Earnings (Note 20)	Total Equity
Balance at January 1, 2014	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱341,650,278)	₱3,916,762,000	₱9,016,980,244	₱21,081,577,315
Net income	–	–	–	–	–	164,164,106	164,164,106
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	164,164,106	164,164,106
Balance at March 31, 2014	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱341,650,278)	₱3,916,762,000	₱ 9,181,144,350	₱21,245,741,421

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, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,194,970,747**	₱76,653,881
Adjustments for:		
Depreciation and amortization (Note 13)	**1,214,702,485**	993,726,146
Interest expense (Note 18)	**262,649,108**	258,030,346
Unrealized foreign exchange (gains) losses	**17,826,658**	218,714,187
Provision for return cost (Note 19)	**186,308,466**	119,004,382
Fuel hedging (gains) losses (Note 9)	**360,566,098**	45,089,037
Equity in net income of joint ventures (Note 14)	**17,018,457**	(36,239,834)
Interest income (Note 8)	**(13,587,026)**	(24,807,360)
Operating income before working capital changes	**4,240,454,993**	1,650,170,785
Decrease (increase) in:		
Receivables	**364,008,098**	696,780,664
Other current assets	**(273,780,441)**	(365,777,974)
Expendable parts, fuel, materials and supplies	**(119,650,750)**	(37,748,178)
Financial assets at fair value through profit or loss (derivatives) (Note 9)	**(484,673,273)**	35,637,085
Increase (decrease) in:		
Accounts payable and other accrued liabilities	**16,799,317**	(12,555,108)
Unearned transportation revenue	**714,567,794**	1,428,902,259
Due to related parties	**11,724,346**	(10,200,317)
Noncurrent liabilities	**(23,267,925)**	(552,506,352)
Net cash generated from operations	**4,446,182,159**	2,832,702,864
Interest paid	**(316,088,196)**	(313,174,962)
Interest received	**13,028,653**	24,321,452
Income taxes paid	**(5,831,638)**	–
Net cash provided by operating activities	**4,137,290,978**	2,543,849,354
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in subsidiary (Note 7)	**–**	(488,559,147)
Decrease in other noncurrent assets	**84,059,589**	(2,441,613)
Acquisition of property and equipment (Notes 13 and 29)	**(3,882,055,937)**	(4,358,278,906)
Net cash used in investing activities	**(3,797,996,348)**	(4,849,279,666)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**3,098,735,200**	4,043,830,015
Repayments of long-term debt	**(1,373,886,339)**	(1,152,414,398)
Net cash provided by financing activities	**1,724,848,861**	2,891,415,617
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**1,824,192**	46,036,016
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,065,967,683**	632,021,321
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,963,912,683**	6,315,947,866
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱6,029,880,366**	₱6,947,969,187

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

1. Corporate Information

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

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

On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines (TAP) (Note 7). The Parent Company, its ten SPEs and TAP (collectively known as “the Group”) are consolidated for financial reporting purposes (Note 2).

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

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

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

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

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

a. The franchise tax of the Parent Company is abolished;
b. The Parent Company shall be subject to 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;
e. 70.00% cap on the input VAT that can be claimed against output VAT; and
f. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

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

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

2. Basis of Preparation

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

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

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The Group has adopted the new and revised accounting standards, which became effective beginning January 1, 2014, in the accompanying financial statements.

On March 20, 2014, the Group finalized its acquisition of TAP. The acquisition was accounted for as a business combination (Note 7). Accordingly, the Group finalized the purchase price allocation.

Basis of Consolidation
The consolidated financial statements as of December 31, 2014 and 2013 represent the consolidated financial statements of the Parent Company, the SPEs that it controls and its wholly owned subsidiary TAP. Consolidation of TAP started on March 20, 2014 when the Group gained control (Note 7).

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, 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 a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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 balance sheet 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 assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets and liabilities.

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

3. Changes in Accounting Policies

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

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. The amendments have no impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments affect disclosure only and have no impact on the Group's financial position or performance.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and had no impact on the Group's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have no financial impact on the Group's financial position or performance.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

Annual Improvements to PFRSs (2011-2013 cycle)
In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first-time PFRS adopter.

<u>Standards Issued but not yet Effective</u>
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective as of December 31, 2014. This list consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group does not expect the adoption of these standards to have a significant impact in the consolidated financial statements, unless otherwise stated.

- PFRS 9, *Financial Instruments* - Classification and Measurement (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have

been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This Philippine Interpretation, which may be early applied, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of the interpretation will have no impact on the Group's financial position or performance as the Group is not engaged in real estate businesses.

Effective January 1, 2015

- PAS 19*, Employee Benefits - Defined Benefit Plans: Employee Contributions*
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments will have no impact on the Group's financial statements.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, Financial Instruments: Recognition and Measurement (or PFRS 9, Financial Instruments, if early adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment will have no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and will have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

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

  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

  The amendment will have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39. The amendment will have no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment will have no significant impact on the Group's financial position or performance.

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will have no significant impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will have no significant impact on the Group's financial position or performance.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These amendments are not expected to have any impact to the Group.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016. The amendment will have no significant impact on the Group's financial position or performance.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment will have no significant impact on the Group's financial position or performance.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment will have no significant impact on the Group's financial position or performance.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. The amendment will have no significant impact on the Group's financial position or performance.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment will have no significant impact on the Group's financial position or performance.

Effective January 1, 2018

- PFRS 9, *Financial Instrument* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, Financial Instruments, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

The following new standard issued by the IASB has not yet been adopted by the FRSC

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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4. Summary of Significant Accounting Policies

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

Sale of air transportation services
Passenger ticket and cargo waybill sales are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until recognized under Revenue account in the consolidated statement of comprehensive income when carriage is provided or when the flight is uplifted.

Ancillary revenue
Revenue from services incidental to the transportation of passengers, cargo, mail and merchandise are recognized when transactions are carried out.

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

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

can be measured reliably. Expenses that arise in the course of ordinary regular activities of the Group include, among others, the operating expenses on the Group's operation.

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

General and Administrative Expenses

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at the fair value of the consideration given. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The Group has no HTM and AFS investments as of March 31, 2015 and December 31, 2014.

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

Determination of fair value

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

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

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

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

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

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

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

As of March 31, 2015 and December 31, 2014, the Group's financial assets at FVPL consist of derivative liabilities (Note 9).

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

Derivatives recorded at FVPL
The Group is counterparty to certain derivative contracts such as commodity options. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting

hedges) are taken directly to profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). The Group did not apply hedge accounting on its derivative transactions for the three months ended March 31, 2015 and year ended December 31, 2014.

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

As of March 31, 2015 and December 31, 2014, the Group has no embedded derivatives.

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

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

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

As of March 31, 2015 and December 31, 2014, the Group has no AFS investments.

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

This accounting policy applies primarily to the Group's trade and other receivables (Note 10) and certain refundable deposits (Note 16).

Financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments

that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

This accounting policy applies primarily to the Group’s accounts payable and other accrued liabilities, long-term debt, and other obligations that meet the above definition (Notes 17, 18 and 19).

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

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

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

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

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

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

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

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling 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 in administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate IFRS. 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 re-assesses 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. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

On March 20, 2014, the Parent Company acquired 100% shares of TAP in which total consideration amounted to ₱265.1 million and goodwill recognized as a result of the acquisition amounted to ₱566.8 million (Notes 7 and 15).

Property and Equipment

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

Subsequent costs are capitalized as part of 'Property and equipment' account only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent costs such as actual costs of heavy maintenance visits for passenger aircraft are capitalized and depreciated based on the estimated number of years or flying hours, whichever is applicable, until the next major overhaul or inspection. Generally, heavy maintenance visits are required every five to six years for airframe and ten years or 20,000 flight cycles, whichever comes first, for landing gear. All other repairs and maintenance are charged against current operations as incurred.

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

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

The EULs of property and equipment of the Group follows:

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

**With residual value of 15.00%*

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition (Notes 7 and 16).

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The intangible asset of the Group has indefinite useful lives.

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

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

ARO
The Group is contractually required under various lease contracts to restore certain leased aircraft to its original condition and to bear the cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. The event that gives rise to the obligation is the actual flying hours of the asset as used, as the usage determines the timing and nature of the entity completes the overhaul and restoration. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

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

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

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

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

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

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property and equipment.

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

An assessment is made at each statement of financial position date as to whether there is any indication that a previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Impairment of Intangibles
Intangible assets with indefinite lives are assessed for impairment annually irrespective of whether there is any indication that it may be impaired. An intangible asset is impaired when its carrying amount exceeds recoverable amount. An impairment is recognized immediately in the profit or loss. The Group estimates the recoverable amount of the intangible asset. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

Recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from either assets or group of assets. Value in use is the present value of the future cash flows expected to be derived from an asset or each CGU.

An impairment loss recognized in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss shall be recognized immediately in profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the CGU level.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable amount. The reduction is an impairment loss and shall be recognized immediately in profit or loss. An impairment loss recognized in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss shall be recognized immediately in profit or loss.

<u>Impairment of Goodwill</u>
The Group determines whether goodwill is impaired at least on an annual basis. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill is allocated. The most recent detailed calculation made in a preceding period of the recoverable amount of the CGU may be used for the impairment testing for the current period provided that:

- The assets and liabilities making up the CGU have not changed significantly from the most recent calculation;
- The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the CGU by a significant margin; and
- The likelihood that a current recoverable amount calculation would be less than the carrying amount of the CGU is remote based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation.

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset of CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

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

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

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

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

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

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed in the consolidated financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group had not capitalized any borrowing costs for the three months ended March 31, 2015 and 2014 as all borrowing costs from outstanding long-term debt relate to assets that are at state ready for intended use (Note 18).

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

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

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

For the three months ended March 31, 2015 and 2014, the Parent Company does not have any dilutive potential ordinary shares.

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

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

5. Significant Accounting Judgments and Estimates

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

Judgments

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

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

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

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

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

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

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

The Group also has lease agreements where it has determined that the risks and rewards related to the leased assets are retained with the lessors. Such leases are accounted for as operating leases (Note 29).

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

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

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

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

h. *Contingencies*
The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 30).

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

j. *Application of hedge accounting*
The Group applies hedge accounting treatment for certain qualifying derivatives after complying with hedge accounting requirements, specifically on hedge documentation designation and effectiveness testing. Judgment is involved in these areas, which include management determining the appropriate data points for evaluating hedge effectiveness,

establishing that the hedged forecasted transaction in cash flow hedges are probable of occurring, and assessing the credit standing of hedging counterparties (Note 9).

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

l. *Intangibles*
The Group assesses intangible as having an indefinite useful life when based on the analysis of relevant factors; the Group has no foreseeable limit to the period of which the intangible asset is expected to generate cash inflow for the Group.

m. *Impairment of goodwill and intangible assets*
The Group performs its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date irrespective of whether there is any indication of impairment. The recoverable amounts of the intangible assets were determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period.

l) *Impairment of PPE and investments in JV*
The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

<u>Estimates and Assumptions</u>

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

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

The related balances follow (Note 10):

	2015	2014
Receivables	**₱1,805,959,831**	₱2,169,549,982
Allowance for credit losses	**306,728,721**	306,831,563

b. *Determination of NRV of expendable parts, fuel, materials and supplies*
The Group's estimates of the NRV of expendable parts, fuel, materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the expendable parts, fuel, materials and supplies are expected to be realized. In determining the NRV, the Group considers any adjustment necessary for obsolescence, which is generally

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

The related balances follow (Note 11):

	2015	2014
Expendable Parts, Fuel, Materials and Supplies		
At NRV	**₱520,492,823**	₱504,714,331
At cost	**278,472,997**	174,600,739

As of March 31, 2015 and December 31, 2014, allowance for inventory write-down for expendable parts amounted to ₱20.5 million. No additional provision for inventory write-down was recognized by the Group in 2015 and 2014.

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

Assumptions used to compute ARO are reviewed and updated annually by the Group. As of March 31, 2015 and December 31, 2014, the cost of restoration is computed based on the Group's average borrowing cost.

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

As of March 31, 2015 and December 31, 2014, the Group's ARO liability (included under 'Other noncurrent liabilities' account in the statements of financial position) has a carrying value of ₱720.8 million and ₱586.1 million, respectively (Note 19). The related repairs and maintenance expense for three months ended March 31, 2015 and 2014 amounted to ₱186.3 and ₱119.0 million, respectively (Notes 19 and 22).

d. *Estimation of useful lives and residual values of property and equipment*
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group estimates the residual value of its property and equipment based on the expected amount recoverable at the end of its useful life. The Group reviews annually the EULs and residual values of property and equipment based on factors that include physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL or residual value of property and equipment would increase recorded depreciation and amortization expense and decrease noncurrent assets.

As of March 31, 2015 and December 31, 2014, the carrying values of the Group's property and equipment amounted to ₱67,894.5 million and ₱65,227.1 million, respectively (Note 13). The Group's depreciation and amortization expense amounted to ₱1,214.7 million and ₱993.7 million for the three months ended March 31, 2015 and 2014, respectively (Note 13).

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

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

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

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

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

As of March 31, 2015 and December 31, 2014, the carrying values of the Group's property and equipment amounted to ₱67,894.5 million and ₱65,227.1 million, respectively (Note 13). Investments in JV amounted to ₱574.3 million and ₱591.3 million as of March 31, 2015 and December 31, 2014, respectively (Note 14). There were no provision for impairment losses on the Group's property and equipment and investments in JV for the three months ended March 31, 2015 and 2014.

f. *Impairment of goodwill and intangibles*
The Group determines whether goodwill and intangibles are impaired at least on an annual basis. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill and intangibles are allocated. The most recent detailed calculation made in a preceding period of the recoverable amount of the CGU may be used for the impairment testing for the current period provided that:

- The assets and liabilities making up the CGU have not changes significantly from the most recent calculation;
- The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the CGU by a significant margin; and
- The likelihood that a current recoverable amount calculation would be less than the carrying amount of the CGU is remote based on an analysis of events that have occurred

and circumstances that have changed since the most recent recoverable amount calculation.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

As of March 31, 2015 and December 31, 2014, the Group has determined that goodwill and intangibles are recoverable as there were no indications that it is impaired. Goodwill amounted to ₱566.8 million as of March 31, 2015 and December 31, 2014, respectively (Notes 7 and 15).

g. *Estimation of pension and other employee benefit costs*
The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (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 pension liability (included in 'Other noncurrent liabilities' account in the consolidated statements of financial position) amounted to ₱413.9 million and ₱385.7 million as of March 31, 2015 and December 31, 2014, respectively (Notes 19 and 24).

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

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

As of March 31, 2015 and December 31, 2014, the Group had certain gross deductible and taxable temporary differences which are expected to expire or reverse within the ITH period, and for which deferred tax assets and deferred tax liabilities were not set up on account of the Parent Company's ITH.

i. *Passenger revenue recognition*
Passenger sales are recognized as revenue when the obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; (b) carriage is provided or (c) when the flight is uplifted.

As of March 31, 2015 and December 31, 2014, the balances of the Group's unearned transportation revenue amounted to ₱7,088.3 million and ₱6,373.7 million, respectively.

6. Segment Information

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

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

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 PFRS.

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

	2015	2014
Revenue	**₱14,211,942,562**	₱11,825,463,483
Net income	**2,224,924,919**	164,164,106
Depreciation and amortization	**1,214,702,485**	993,726,146
Interest expense	**262,649,108**	258,030,346
Interest income	**13,587,026**	24,807,360

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:

	2015	2014
Total segment revenue of reportable operating segment	**₱14,198,355,536**	₱11,764,416,289
Nontransport revenue and other income	**13,587,026**	61,047,194
Total revenue	**₱14,211,942,562**	₱11,825,463,483

Nontransport revenue and other income includes foreign exchange gains, interest income, fuel hedging gains, equity in net income of JV and gain on sale on financial assets designated at FVPL and AFS financial assets.

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:

	2015	2014
Total segment income of reportable segment	**₱2,830,849,736**	₱512,380,767
Add (deduct) unallocated items:		
Nontransport revenue and other income	**13,587,026**	61,047,194
Nontransport expenses and other charges	**(649,466,015)**	(496,774,080)
Benefit from (provision for) income tax	**29,954,172**	87,510,225
Net income	**2,224,924,919**	164,164,106
Other comprehensive gain (loss), net of tax	**–**	–
Total comprehensive income	**₱2,224,924,919**	₱164,164,106

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

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

7. Business Combination

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

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

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

8. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand	**₱27,574,493**	₱27,571,469
Cash in banks (Note 27)	**1,038,219,103**	1,011,286,363
Short-term placements (Note 27)	**4,964,086,770**	2,925,054,851
	₱6,029,880,366	₱3,963,912,683

Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods depending on the immediate cash requirements of the Group. Short-term placements denominated in Philippine peso earn an average interest of 1.95% and 1.19% for the three months ended March 31, 2015 and 2014, respectively. Moreover, short-term placements in US dollar earn interest on an average rate of 0.64% and 2.04% for the three months ended March 31, 2015 and 2014, respectively.

Interest income on cash and cash equivalents, presented in the consolidated statements of comprehensive income amounted to ₱13.6 million and ₱24.8 million for the three months ended March 31, 2015 and 2014, respectively.

9. Investment and Trading Securities

This account consists of derivative financial liabilities that are not designated as accounting hedges. This account amounted to ₱2,136.5 million and ₱2,260.6 million in 2015 and 2014, respectively.

As of March 31, 2015 and December 31, 2014, this account consists of commodity swaps.

Commodity Swaps
The Group enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. As of March 31, 2015 and December 31, 2014, 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 can be exercised at various calculation dates with specified quantities on each calculation date. The swaps have various maturity dates through December 31, 2016 (Note 5).

As of March 31, 2015 and December 31, 2014, the Group recognized net changes in fair value of derivatives amounting ₱360.6 million loss and ₱2,424.0 million gain, respectively. These are recognized in "Hedging gains (losses)" under the consolidated statements of comprehensive income.

Foreign Currency Forwards
In 2015 and 2014, the Group entered into foreign currency hedging arrangements with various counterparties to manage its exposure to foreign currency fluctuations. Such derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. In 2014, the Group pre-terminated all foreign currency derivative contracts, where the Group recognized realized gain of ₱109.8 million from the transaction. For the year ended December 31, 2014, such realized gain is recognized in "Hedging gains (losses)" under the consolidated statement of comprehensive income.

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

	2015	2014
Balance at beginning of year		
Derivative assets	**₱–**	₱166,456,897
Derivative liabilities	**(2,260,559,896)**	
	(2,260,559,896)	166,456,897
Net changes in fair value of derivatives	**(360,566,098)**	(2,314,241,984)
	(2,621,125,994)	(2,147,785,087)
Fair value of settled instruments	**484,673,277**	(112,774,809)
Balance at end of year	**(₱2,136,452,717)**	(₱2,260,559,896)
Attributable to:		
Derivative assets	**₱–**	₱–
Derivative liabilities	**₱2,136,452,717**	₱2,260,559,896

10. **Receivables**

This account consists of:

	2015	2014
Trade receivables (Note 27)	**₱1,200,726,209**	₱1,302,342,302
Due from related parties (Notes 26 and 27)	**130,097,804**	134,424,754
Interest receivable	**1,479,053**	1,008,445
Others (Note 7)	**473,656,765**	731,774,481
	1,805,959,831	2,169,549,982
Less allowance for credit losses (Note 27)	**306,728,721**	306,831,563
	₱1,499,231,110	₱1,862,718,419

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

Interest receivable pertains to accrual of interest income from short-term placements amounting ₱1.5 million and ₱1.0 million as of March 31, 2015 and December 31, 2014, respectively.

Others include receivable from insurance, employees and counterparties. In 2014, it includes the settlement receivable from ROAR (Note 7).

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

	2015						
	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	**₱1,183,405,103**	**₱632,057**	**₱5,932,342**	**₱2,384,006**	**₱–**	**₱8,372,701**	**₱1,200,726,209**
Interest receivable	**1,479,053**	**–**	**–**	**–**	**–**	**–**	**1,479,053**
Due from related parties	**130,097,804**	**–**	**–**	**–**	**–**	**–**	**130,097,804**
Others*	**159,390,975**	**540,815**	**487,615**	**11,128,513**	**3,752,827**	**298,356,020**	**473,656,765**
	₱1,474,372,935	**₱1,172,872**	**₱6,419,957**	**₱13,512,519**	**₱3,752,827**	**₱306,728,721**	**₱1,805,959,831**

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

	2014						
	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	₱1,032,225,034	₱150,601,997	₱58,720	₱98,594,460	₱12,489,390	₱8,372,701	₱1,302,342,302
Interest receivable	1,008,445	–	–	–	–	–	1,008,445
Due from related parties	134,424,754	–	–	–	–	–	134,424,754
Others*	433,315,619	–	–	–	–	298,458,862	731,774,481
	₱1,600,973,852	₱150,601,997	₱58,720	₱98,594,460	₱12,489,390	₱306,831,563	₱2,169,549,982

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

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

	2015		
	Trade Receivables	**Others**	**Total**
Balance at beginning of year	**₱76,053,229**	**₱230,778,334**	**₱306,831,563**
Unrealized foreign exchange gain on allowance for credit losses	–	**(102,842)**	**(102,842)**
Balance at end of year	**₱76,053,229**	**₱230,675,492**	**₱306,728,721**

	2014		
	Trade Receivables	Others	Total
Balance at beginning of year	₱6,330,875	₱229,107,144	₱235,438,019
Unrealized foreign exchange gain on allowance for credit losses	–	1,671,190	1,671,190
Allowance for credit losses	69,722,354	–	69,722,354
Balance at end of year	₱76,053,229	₱230,778,334	₱306,831,563

As of March 31, 2015 and 2014, the specific allowance for credit losses on trade receivables and other receivables amounted to ₱306.7 million and ₱306.8 million, respectively.

11. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2015	2014
At NRV:		
Expendable parts	**₱520,492,823**	₱504,714,331
At cost:		
Fuel	**226,796,369**	129,110,368
Materials and supplies	**51,676,628**	45,490,371
	278,472,997	174,600,739
	₱798,965,820	₱679,315,070

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, 2015 and 2014, amounted to ₱99.2 million and ₱112.6 million, respectively. The cost of fuel reported as expense under ‘Flying operations’ amounted to ₱4,324.7 million and ₱5,551.5 million for the three months ended March 31, 2015 and 2014, respectively (Note 22).

The cost of expendable parts amounted to ₱509.8 million and ₱481.4 million as of March 31, 2015 and December 31, 2014, respectively. There are no additional provisions for inventory write down in 2015 and 2014. No expendable parts, fuel, material and supplies are pledged as security for liabilities.

12. Other Current Assets

This account consists of:

	2015	2014
Deposit to counterparties (Note 9)	**₱996,452,330**	₱841,439,022
Advances to suppliers	**875,040,555**	851,716,307
Prepaid rent	**317,409,419**	318,023,507
Prepaid insurance	**88,170,171**	5,180,027
Others	**5,432,881**	4,113,060
	₱2,282,505,356	₱2,020,471,923

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

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

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

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

13. Property and Equipment

This account consists of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Acquisition Costs		
Passenger aircraft	**₱69,675,155,682**	₱65,630,899,797
Pre-delivery payments	**8,140,669,085**	8,592,837,219
Engines	**6,443,156,758**	6,155,955,141
Rotables	**2,601,086,544**	2,662,189,266
Leasehold improvements	**976,859,910**	963,136,928
EDP equipment, mainframe and peripherals	**784,941,777**	771,199,478
Ground support equipment	**479,223,324**	475,209,295
Transportation equipment	**212,087,802**	209,909,945
Furniture, fixtures and office equipment	**154,807,699**	152,702,453
Construction in-progress	**42,149,087**	36,171,720
Special tools	**14,136,328**	14,105,321
Communication equipment	**12,810,697**	12,736,500
Maintenance and test equipment	**6,681,631**	6,681,631
Other equipment	**93,977,355**	87,531,951
Total	**89,637,743,679**	85,771,266,645
Accumulated depreciation	**(21,743,264,859)**	(20,544,141,277)
Net book value	**₱67,894,478,820**	₱65,227,125,368

The Group's depreciation and amortization expense amounted to ₱1,214.7 million and ₱993.7 million for the three months ended March 31, 2015 and 2014, respectively.

Passenger Aircraft Held as Securing Assets Under Various Loans
The Group entered into various ECA and commercial loan facilities to finance the purchase of its aircraft and engines. As of March 31, 2015, the Group has ten (10) Airbus A319 aircraft, seven (7) Avion de Transport Regional (ATR) 72-500 turboprop aircraft, and ten (10) Airbus A320 aircraft under ECA loans, and fourteen (14) Airbus A320 aircraft, five (5) ATR aircraft and six (6) engine under commercial loans.

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 CALL or ILL or BLL or SLL or SALL or VALL or POALL or PTALL or PTHALL, or SAALL or by the guarantors which are CPAHI and JGSHI. CPAHI and JGSHI are guarantors to loans entered into by CALL, ILL, BLI, SLL and SALL. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of March 31, 2015 and December 31, 2014, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱53.3 billion and ₱50.4 billion, respectively.

Operating Fleet

As of March 31, 2015 and December 31, 2014, the Group's operating fleet follows (Note 29):

	2015	2014
Owned (Note 16):		
Airbus A319	**10**	**10**
Airbus A320	**24**	**22**
ATR 72-500	**8**	**8**
Under operating lease (Note 29):		
Airbus A320	**7**	**7**
Airbus A330	**6**	**5**
	55	**52**

Construction in-progress represents the cost of aircraft and engine construction in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of March 31, 2015 and December 31, 2014, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱8.2 billion and ₱8.6 billion, respectively (Note 29).

As of March 31, 2015 and December 31, 2014, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱1,051.8 million and ₱1,023.9 million, respectively.

As of March 31, 2015 and December 31, 2014, there are no temporary idle property and equipment.

14. Investments in Joint Ventures

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

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

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

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

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

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

	2015			
	A-plus	**SIAEP**	**PAAT**	**Total**
Cost				
Balance at beginning of the year	**₱87,012,572**	**₱304,763,900**	**₱134,873,645**	**₱526,650,117**
Accumulated Equity in Net Income (Loss)				
Balance at beginning of the year	**104,840,802**	**(59,053,072)**	**18,901,639**	**64,689,369**
Equity in net income (loss) during the year	**20,947,932**	**(42,200,600)**	**4,234,211**	**(17,018,457)**
Dividends received	–	–	–	–
Balance at end of the year	**125,788,734**	**(101,253,672)**	**23,135,850**	**47,670,912**
Net Carrying Value	**₱212,801,306**	**₱203,510,228**	**₱158,009,495**	**₱574,321,028**

	2014			
	A-plus	SIAEP	PAAT	Total
Cost				
Balance at beginning of the year	₱87,012,572	₱304,763,900	₱134,873,645	₱526,650,117
Accumulated Equity in Net Income (Loss)				
Balance at beginning of the year	80,072,599	(24,307,482)	(3,590,781)	52,174,336
Equity in net income during the year	108,579,261	(34,745,590)	22,492,420	96,326,091
Dividends received	(83,811,058)	–	–	(83,811,058)
Balance at end of the year	104,840,802	(59,053,072)	18,901,639	64,689,369
Net Carrying Value	₱191,853,374	₱245,710,828	₱153,775,284	₱591,339,486

Selected financial information of A-plus, SIAEP and PAAT as of March 31, 2015 and December 31, 2014 follow:

2015

	Aplus	**SIAEP**	**PAAT**
Total current assets	**₱651,763,706**	**₱591,467,063**	**₱259,655,228**
Noncurrent assets	**148,621,400**	**782,747,971**	**770,568,360**
Current liabilities	**(370,937,101)**	**(587,305,832)**	**(29,864,382)**
Noncurrent liabilities	**4,840,375**	**(205,451,408)**	**(684,340,217)**
Equity	**434,288,380**	**581,457,794**	**316,018,989**
Proportion of the Group's ownership	**49%**	**35%**	**50%**
Carrying amount of the investments	**₱212,801,306**	**₱203,510,228**	**₱158,009,495**

2014

	Aplus	SIAEP	PAAT
Total current assets	₱628,879,988	₱653,378,218	₱253,137,481
Noncurrent assets	124,389,267	1,328,695,779	779,873,393
Current liabilities	(361,731,756)	(626,863,000)	(39,454,946)
Noncurrent liabilities	-	(653,180,060)	(686,005,363)
Equity	391,537,499	702,030,937	307,550,565
Proportion of the Group's ownership	49%	35%	50%
Carrying amount of the investments	₱191,853,374	₱245,710,828	₱153,775,284

Summary of statements of profit and loss of A-plus, SIAEP and PAAT for the three month period ended March 31 follow:

2015

	Aplus	**SIAEP**	**PAAT**
Revenue	**₱220,903,157**	**₱58,032,601**	**₱47,399,650**
Expenses	**(159,935,119)**	**(176,385,743)**	**(35,089,588)**
Other income (expenses)	**96,497**	**(2,220,004)**	**(2,943,165)**
Income before tax	**61,064,535**	**(120,573,146)**	**9,366,897**
Income tax expense	**18,313,653**	**-**	**898,4745**
Net income	**42,750,882**	**(120,573,146)**	**8,468,422**
Group's share of profit for the year	**₱20,947,932**	**(₱42,200,600)**	**₱4,234,211**

2014

	Aplus	SIAEP	PAAT
Revenue	₱831,652,059	₱749,982,173	₱227,958,105
Expenses	(537,954,937)	(847,033,722)	(164,004,339)
Other income (expenses)	22,550,458	(79,043)	(16,239,773)
Income before tax	316,247,580	(97,130,592)	47,713,993
Income tax expense	94,657,252	2,142,521	2,729,153
Net income	221,590,328	(99,273,113)	44,984,840
Group's share of profit for the year	₱108,579,261	(₱34,745,590)	₱22,492,420

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

The undistributed earnings of A-plus included in the consolidated retained earnings amounted to ₱125.8 million and ₱104.8 million as of March 31, 2015 and December 31, 2014, respectively, which is not currently available for dividend distribution unless declared by A-plus.

The Group has no share of any contingent liabilities or capital commitments as of March 31, 2015 and December 31, 2014.

15. Goodwill

This account represents the goodwill arising from the acquisition of TAP (Note 7). Goodwill is attributed to the following:

Achievement of Economies of Scale
Using the Parent Company's network of suppliers and other partners to improve cost and efficiency of TAP, thus, improving TAP'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.

As of March 31, 2015 and December 31, 2014, the Goodwill amounted to ₱566.8 million (Note 7).

16. Other Noncurrent Assets

As of March 31, 2015 and December 31, 2014, this account includes security deposits provided to lessors and maintenance providers and other refundable deposits to be applied against payments for future aircraft deliveries. It also includes other assets representing costs to establish brand and market opportunities under the strategic alliance with TAP amounting ₱852.2 million (Note 7).

17. Accounts Payable and Other Accrued Liabilities

This account consists of:

	2015	2014
Accrued expenses	**₱4,666,069,932**	₱4,565,129,147
Accounts payable (Notes 27 and 29)	**3,465,446,664**	3,984,009,931
Airport and other related fees payable	**1,585,780,182**	1,211,266,625
Advances from agents and others	**606,889,474**	554,620,109
Interest payable (Note 18)	**153,671,803**	207,120,947
Other payables	**152,835,288**	146,290,892
	₱10,630,693,343	₱10,668,437,651

Accrued Expenses

The Group's accrued expenses include accruals for:

	2015	2014
Maintenance (Note 29)	**₱1,281,484,670**	₱1,292,335,450
Compensation and benefits	**737,334,394**	744,630,855
Advertising and promotion	**612,728,850**	511,768,214
Navigational charges	**417,364,256**	380,565,611
Landing and take-off fees	**222,883,961**	283,580,997
Training costs	**248,621,617**	245,866,751
Fuel	**255,668,568**	240,095,874
Repairs and services	**263,657,485**	159,497,011
Aircraft insurance	**66,321,559**	150,597,236
Professional fees	**113,053,627**	114,167,659
Rent (Note 29)	**107,810,655**	92,742,956
Ground handling charges	**149,068,575**	78,983,174
Catering supplies	**34,456,486**	32,519,227
Reservation costs	**1,206,463**	8,131,518
Others	**154,408,766**	229,646,614
	₱4,666,069,932	₱4,565,129,147

Others represent accrual of professional fees, security, utilities 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 and Air Transportation Office on aviation security, terminal fees and travel taxes.

Advances from Agents and Others
Advances from agents and others represent cash bonds required from major sales and ticket offices or agents. This also includes commitment fees received for the sale and purchase agreement of six (6) A319 aircraft.

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

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

18. Long-term Debt

This account consists of:

			2015	
	Interest Rates Range (Note 27)	**Maturities**	**US Dollar**	**Philippine Peso Equivalent**
ECA loans	**2.00% to 6.00%**	**Various dates through 2023**	**US$232,099,426**	**₱10,374,844,329**
	1.00% to 2.00% (US Dollar LIBOR)		**145,394,105**	**6,499,116,508**
			377,493,531	**16,873,960,837**
Commercial loans	**4.00% to 6.00%**	**Various dates through 2017**	**160,902,964**	**7,192,362,477**
	1.00% to 2.00% (US Dollar LIBOR)		**257,917,360**	**11,528,905,980**
			418,820,324	**18,721,268,457**
			796,313,855	**35,595,229,294**
Less current portion			**112,171,624**	**5,014,071,584**
			US$684,142,231	**₱30,581,157,710**

			2014	
	Interest Rates Range (Note 27)	Maturities	US Dollar	Philippine Peso Equivalent
ECA loans	2.00% to 6.00%	Various dates through 2023	US$244,437,529	₱10,931,246,279
	1.00% to 2.00% (US Dollar LIBOR)		149,721,785	6,695,558,231
			394,159,314	17,626,804,510
Commercial loans	4.00% to 6.00%	Various dates through 2017	170,274,962	7,614,696,300
	1.00% to 2.00% (US Dollar LIBOR)		192,490,202	8,608,161,855
			362,765,164	16,222,858,155
			756,924,478	33,849,662,665
Less current portion			105,377,131	4,712,465,291
			US$651,547,347	₱29,137,197,374

ECA Loans

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

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

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

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

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

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

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

- Term of 12 years starting from the delivery date of each Airbus A319 aircraft and Airbus A320, and ten years for each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the first four Airbus A319 aircraft, eight ATR 72-500 turboprop aircraft and seven Airbus A320 aircraft, and equal principal repayments for the last six Airbus A319 aircraft and last three Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for Airbus A319 and A320 aircraft.
- Interest on loans from the ECA lenders are a mix of fixed and variable rates. Fixed interest rates ranges from 2.00% to 6.00% and variable rates are based on US dollar LIBOR plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL, VALL and POALL cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. CALL, BLL, SLL, SALL, VALL and POALL must not allow impairment of first priority nature of the lenders' security interests.
- The ECA-backed facilities also provide for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date, (b) breach of negative pledge, covenant on preservation of transaction documents, (c) misrepresentation, (d) commencement of insolvency proceedings against CALL or BLL or SLL or SALL or VALL or POALL becomes insolvent, (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's VALL's and POALL's assets, (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands, (g) sale of any aircraft under ECA financing prior to discharge date, (h) cessation of business, (i) revocation or repudiation by CALL or BLL or SLL or SALL or VALL or POALL, the Group, JGSHI or CPAHI of any transaction document or security interest, and (j) occurrence of an event of default under the lease agreement with the Parent Company.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on secured assets, namely the aircraft (Note 13).
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

As of March 31, 2015 and December 31, 2014, the total outstanding balance of the ECA loans amounted to ₱16,874.0 million (US$377.5 million) and ₱17,626.8 million (US$394.2 million), respectively. Interest expense amounted to ₱123.9 million and ₱151.0 million in 2015 and 2014, respectively.

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

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

In 2012, the Group entered into a commercial loan facility to partially finance the purchase of four Airbus A320 aircraft. The security trustee of the commercial loan facility established PTALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to ten-year finance lease arrangement for the aircraft. The semiannual rental payments of the Parent Company correspond to the principal and interest payments made by PTALL to the commercial lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

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

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

The terms of the commercial loans follow:

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

As of March 31, 2015 and December 31, 2014, the total outstanding balance of the commercial loans amounted to ₱18,721.3 million (US$418.8 million) and ₱16,222.9 million (US$362.8million), respectively. Interest expense amounted to ₱138.7 million and ₱107.0 million in 2015 and 2014, respectively.

The Group is not in breach of any loan covenants as of March 31, 2015 and December 31, 2014.

19. Other Noncurrent Liabilities

This account consists of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ARO	**₱720,828,095**	₱586,069,196
Accrued maintenance	**224,413,504**	224,413,504
Pension liability (Note 24)	**413,947,134**	385,665,449
	₱1,359,188,733	₱1,196,148,149

ARO

The Group is legally required under certain lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs of restoration at the end of the contract period. These costs are accrued based on estimates made by the Group's engineers which include estimates of certain redelivery costs at the end of the operating aircraft lease (Note 5).

The rollforward analysis of the Group's ARO follows:

	2015	2014
Balance at beginning of year	**₱586,069,196**	₱1,637,345,608
Provision for return cost	**186,308,466**	476,017,529
Payment of restorations during the year	**(51,549,567)**	(1,527,293,941)
Balance at end of year	**₱720,828,095**	₱586,069,196

In 2015 and 2014, ARO expenses included as part of repairs and maintenance amounted to ₱186.3 million and ₱119.0 million, respectively. In 2014, the Group returned four (4) aircraft under its operating lease agreements. The Company started to restore these aircraft in 2013.

Accrued Maintenance

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

20. Equity

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

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

Issuance of Common Shares of Stock

On October 26, 2010, the Parent Company listed with the PSE its common stock, by way of primary and secondary share offerings, wherein it offered 212,419,700 shares to the public at ₱125.00 per share. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting ₱3,800.0 million. The Parent Company's share in the total transaction costs incurred incidental to the IPO amounting ₱100.4 million, which is charged against 'Capital paid in excess of par value' in the parent statement of financial position. The registration statement was approved on October 11, 2010. The Group has 97 and 99 existing certified shareholders as of March 31, 2015 and December 31, 2014, respectively.

Treasury Shares

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

The Parent Company has outstanding treasury shares of 7,283,220 shares amounting to ₱529.3 million as of December 31, 2014 and 2013, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings

On November 27, 2014, March 8, 2013 and April 19, 2012, the Parent Company's BOD appropriated ₱3.0 billion, ₱2.5 billion and ₱483.3 million, respectively, from its unrestricted retained earnings as of December 31, 2014 for purposes of the Group's re-fleeting program. The appropriated amount was used for the settlement of pre delivery payments and aircraft lease commitments in 2013 and 2014 (Notes 18, 29 and 30). Planned re-fleeting program amount to an estimated ₱75.99 billion which will be spent over the next five years.

Unappropriated Retained Earnings

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

On June 26, 2014, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share in the amount of ₱606.0 million from the unrestricted retained earnings of the Parent Company to all stockholders of record as of July 16, 2014 and payable on August 11, 2014. Total dividends declared and paid amounted to ₱606.0 million as of December 31, 2014.

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

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

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

After reconciling items which include fair value adjustments on financial instruments, foreign exchange gain and cost of common stocks held in treasury, the amount of retained earnings that is available for dividend declaration as of March 31, 2015 amounted to ₱4,331.4 million.

Capital Management

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

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

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

	2015	2014
(a) Long term debt (Note 18)	**₱35,595,229,294**	₱33,849,662,665
(b) Capital	**23,763,729,106**	21,538,804,187
(c) Debt-to-capital ratio (a/b)	**1.5:1**	1.6:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of March 31, 2015 and December 31, 2014. Such ratio is currently being managed on a group level by the Group's ultimate parent.

21. Ancillary Revenues

Ancillary revenues consist of:

	2015	2014
Excess baggage fee	**₱1,248,479,833**	₱1,017,956,976
Rebooking, refunds, cancellation fees, etc.	**871,557,801**	790,446,282
Others	**497,527,023**	428,036,403
	₱2,617,564,657	₱2,236,439,661

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

22. Operating Expenses

<u>Flying Operations</u>
This account consists of:

	2015	2014
Aviation fuel expense	**₱4,324,654,533**	₱5,551,450,410
Flight deck	**695,629,659**	528,970,488
Aviation insurance	**67,122,161**	71,408,844
Others	**56,421,404**	48,247,923
	₱5,143,827,757	₱6,200,077,665

Aircraft and Traffic Servicing
This account consists of:

	2015	2014
Airport charges	**₱792,361,991**	₱639,174,535
Ground handling	**390,271,878**	344,349,677
Others	**120,033,263**	102,339,432
	₱1,302,667,132	₱1,085,863,644

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 ₱186.3 million and ₱119.0 million in 2015 and 2014, respectively (Note 19).

23. General and Administrative Expenses

This account consists of:

	2015	2014
Staff cost	**₱132,041,648**	₱96,402,395
Security and professional fees	**100,456,552**	70,339,160
Utilities	**34,699,371**	31,742,268
Rent expenses	**21,486,134**	17,883,082
Travel and transportation	**6,011,175**	4,955,732
Others (Note 10)	**67,082,854**	51,742,843
	₱361,777,734	₱273,065,480

Others include membership dues, annual listing maintenance fees, supplies, rent, 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 Plan
The Parent Company has a funded, noncontributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

25. Earnings Per Share

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

	2015	2014
(a) Net income attributable to common shareholders	**₱2,224,924,919**	₱164,164,107
(b) Weighted average number of common shares for basic EPS	**605,953,330**	605,953,330
(c) Basic/diluted earnings per share	**₱3.67**	₱.27

The Group has no dilutive potential common shares in 2015 and 2014.

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

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

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

1. Risk-taking personnel - this group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk control and compliance - this group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risks mitigation decisions.
3. Support - this group includes back office personnel who support the line personnel.

4. Risk management - this group pertains to the Group's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

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

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

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

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

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

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

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

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

Collateral or credit enhancements
As collateral against trade receivables from sales ticket offices or agents, the Group requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Group's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of March 31, 2015 and December 31, 2014, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statement of financial position) amounted to ₱212.6 million and ₱293.9 million, respectively (Note 17). There are no collaterals for impaired receivables.

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

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

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

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

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

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

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

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

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

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

The Group does not have any foreign currency hedging arrangements as of December 31, 2014.

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of March 31, 2015 and December 31, 2014 follow:

	2015	2014
US dollar	**₱44.700 to US$1.00**	₱44.720 to US$1.00
Singapore dollar	**₱32.6055 to SGD1.00**	₱33.696 to SGD1.00
Hong Kong dollar	**₱5.7687to HKD1.00**	₱5.749 to HKD1.00

The following table sets forth the impact of the range of reasonably possible changes in the US dollar - Philippine peso exchange value on the Group's pre-tax income for the three months ended March 31, 2015 and December 31, 2014 (in thousands).

	2015		2014	
Changes in foreign exchange value	**₱2**	**(₱2)**	₱2	(₱2)
Change in pre-tax income	**(₱1,767,444)**	**₱1,767,444**	(₱1,687,711)	₱1,687,711

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 ₱492.8 million and ₱1,778.5 million as of March 31, 2015 and December 31, 2014, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Interest rate risk
Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated statement of financial position and on some financial instruments not recognized in the consolidated statement of financial position (i.e., some loan commitments, if any). The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt (Note 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, 2015 and 2014.

	2015		2014	
Changes in interest rates	**1.50%**	**(1.50%)**	1.50%	(1.50%)
Changes in pre-tax income	**(₱64,395,200)**	**₱64,395,200**	(₱38,834,804)	₱38,834,804

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 designated at FVPL.

28. Fair Value Measurement

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

Cash and cash equivalents (excluding cash on hand), Receivables and Accounts payable and other accrued liabilities
Carrying amounts approximate their fair values due to the relatively short-term maturity of these instruments.

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

Noninterest - bearing refundable deposits
The fair values are determined based on the present value of estimated future cash flows using prevailing market rates. The Group used discount rates of 3% to 4% in 2015 and 2014.

Long-term debt
The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount curve used range from 2% to 6% as of March 31, 2015 and December 31, 2014.

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 2016
March 2008	GY Aviation Lease 0905 Co. Limited	2	January 2017
March 2008	APTREE Aviation Trading 2 Co. Ltd	1	October 2019
	Wells Fargo Bank Northwest National Assoc.	1	October 2019
July 2011	SMBC Aviation Capital Limited	2	February 2018

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

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

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

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

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

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

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

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

As of March 31, 2015, the Group has six (6) Airbus A330 aircraft under operating lease (Note 13).

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

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱929.7 million and ₱806.3 million in 2015 and 2014, respectively.

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

	2015		2014	
	In USD	**In Php**	In USD	In Php
Within one year	**$91,336,709**	**₱4,082,750,871**	$76,883,051	₱3,445,513,913
After one year but not more than five years	**303,161,498**	**13,551,318,975**	324,893,840	14,560,117,425
Over five years	**380,268,975**	**16,998,023,176**	446,108,961	19,992,373,083
	$774,767,182	**₱34,632,093,022**	$847,885,852	₱37,998,004,421

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:

	2015	2014
Within one year	**₱129,727,551**	₱123,491,315
After one year but not more than five years	**558,350,565**	531,320,763
Over five years	**2,016,327,767**	2,002,313,858
	₱2,704,405,883	₱2,657,125,936

Lease expenses relating to both cancellable and non-cancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱104.7 million and ₱78.5 million in 2015 and 2014, respectively.

Service Maintenance Commitments

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

On June 22, 2012, the Group has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-

Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight A330 aircraft.

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

These agreements remained in effect as of March 31, 2015.

Aircraft and Spare Engine Purchase Commitments

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

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

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

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

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

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

As of March 31, 2015, the Group will take delivery of 7 more Airbus A320 and 30 Airbus A321 NEO aircraft.

The above-indicated commitments relate to the Group's re-fleeting and expansion programs. These agreements remained in effect as of March 31, 2015.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱75.99 billion and ₱70.07 billion as of March 31, 2015 and December 31, 2014, respectively.

2015

	US dollar	**Philippine peso equivalent**
Within one year	**US$292,808,339**	**₱13,088,532,752**
After one year but not more than five years	**1,504,082,984**	**67,232,509,364**
	US$1,796,891,323	**₱80,321,042,116**

2014

	US dollar	Philippine peso equivalent
Within one year	US$260,795,946	₱11,662,794,707
After one year but not more than five years	1,458,101,728	65,206,309,259
	US$1,718,897,674	₱76,869,103,966

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 (Notes 7 and 17).

30. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The principal noncash investing activities of the Group were as follows:

a. On March 31, 2014, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱259.4 million with a corresponding debit to "Construction-in progress" account. The liability was paid on April 2014.

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.