

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2013**

2. SEC Identification No. **154675**

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

Cebu Air, Inc.

4. Exact name of issuer as specified in its charter

Cebu City, Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

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

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

Not Applicable

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
**Number of Shares of Common
Stock Outstanding and Amount
of Debt Outstanding**
Title of Each Class

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

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

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

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

As of September 30, 2013, the Company operates an extensive route network serving 62 domestic routes and 31 international routes with a total of 2,221 scheduled weekly flights. It operates from six hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (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 September 30, 2013, the Company operates a fleet of 47 aircraft which comprises of ten Airbus A319, 27 Airbus A320, two Airbus A330 and eight ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the Company's fleet is approximately 4.1 years as of September 30, 2013.

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

Results of Operations

Nine Months Ended September 30, 2013 Versus September 30, 2012

Revenues

The Company generated revenues of ₱30.582 billion for the nine months ended September 30, 2013, 9.7% higher than the ₱27.872 billion revenues earned in the same period last year. Growth in revenues is accounted for as follows:

Passenger

Passenger revenues grew by ₱1.789 billion or 8.2% to ₱23.591 billion in the nine months ended September 30, 2013 from ₱21.801 billion posted in the nine months ended September 30, 2012. This increase was mainly attributable to the 11.6% increase in passenger volume to 10.9 million from 9.8 million in 2012 driven by the increased number of flights in 2013. Number of flights went up by 7.5% year on year primarily as a result of the increase in the number of aircraft operated to 47 aircraft as of September 30, 2013 from 39 aircraft as of September 30, 2012.

Cargo

Cargo revenues grew by ₱140.871 million or 8.1% to ₱1.877 billion for the nine months ended September 30, 2013 from ₱1.736 billion for the nine months ended September 30, 2012 following the increase in the volume and average freight charges of cargo transported in 2013.

Ancillary

Ancillary revenues went up by ₱779.031 million or 18.0% to ₱5.115 billion in the nine months ended September 30, 2013 from ₱4.336 billion registered in the same period last year. The Company began unbundling ancillary products and services in 2011 and significant improvements in ancillary revenues were noted since then. Increased online bookings also contributed to the increase. Sales from online bookings accounted for 58.1% of the total sales in the nine months ended September 30, 2013 compared to 50.4% in the same period last year.

Expenses

The Company incurred operating expenses of ₱28.409 billion for the nine months ended September 30, 2013, 8.0% higher than the ₱26.313 billion operating expenses recorded for the nine months ended September 30, 2012. Increase in expenses due to seat growth was partially offset by the strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱42.07 per U.S. dollar for the nine months ended September 30, 2013 from an average of ₱42.56 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEX) weighted average rates. Operating expenses increased as a result of the following:

Flying Operations

Flying operations expenses moved up by ₱1.012 billion or 6.8% to ₱16.011 billion for the nine months ended September 30, 2013 from ₱14.999 billion incurred in the same period last year. Aviation fuel expenses grew by 9.4% to ₱14.356 billion from ₱13.121 billion for the nine months ended September 30, 2012 consequent to the increase in the volume of fuel consumed as a result of the increased number of flights year on year. Rise in aviation fuel expenses, however, was partially offset by the reduction in aviation fuel prices as referenced by the decrease in the average published fuel MOPS price of U.S. \$122.59 per barrel in the nine months ended September 30, 2013 from U.S. \$126.88 average per barrel in the same period last year and by the appreciation of the Philippine peso against the U.S. dollar as referenced by the strengthening of the Philippine peso to an average of ₱42.07 per U.S. dollar for the nine months ended September 30, 2013 from an average of ₱42.56 per U.S. dollar for the same period in 2012. Increase in flying operations expenses was also partially offset by lower premiums for aviation insurance in 2013.

Aircraft and Traffic Servicing

Aircraft and traffic servicing expenses increased by ₱110.118 million or 4.3% to ₱2.680 billion for the nine months ended September 30, 2013 from ₱2.570 billion registered in the same period in 2012 as a result of the overall increase in the number of flights flown in 2013. 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 9.2% year on year.

Depreciation and Amortization

Depreciation and amortization expenses grew by ₱503.729 million or 25.0% to ₱2.521 billion for the nine months ended September 30, 2013 from ₱2.017 billion for the nine months ended September 30, 2012. Depreciation and amortization expenses increased consequent to the arrival of two Airbus A320 aircraft during the last quarter of 2012 and four Airbus A320 aircraft in 2013.

Repairs and Maintenance

Repairs and maintenance expenses went up by 13.7% to ₱2.891 billion for the nine months ended September 30, 2013 from ₱2.543 billion posted in the nine months ended September 30, 2012. Increase was driven by the overall increase in the number of flights which was offset in part by the appreciation of the Philippine peso against the U.S. dollar as referenced by the strengthening of the Philippine peso to an average of ₱42.07 per U.S. dollar for the nine months ended September 30, 2013 from an average of ₱42.56 per U.S. dollar for the same period in 2012. The acquisition two Airbus A320 aircraft during the last quarter of 2012, four Airbus A320 aircraft and two Airbus A330 aircraft in 2013 also contributed to the increase in repairs and maintenance expenses.

Aircraft and Engine Lease

Aircraft and engine lease expenses moved up by ₱30.211 million or 1.9% to ₱1.594 billion in the nine months ended September 30, 2013 from ₱1.563 billion charged for the nine months ended September 30, 2012. Increase in aircraft lease was due to the delivery of two Airbus A330 aircraft under operating lease in 2013. Increase was partly reduced by the return of two leased Airbus A320 aircraft in 2012 and the effect of the appreciation of the Philippine peso against the U.S. dollar during the current period.

Reservation and Sales

Reservation and sales expenses increased by ₱16.809 million or 1.4% to ₱1.220 billion for the nine months ended September 30, 2013 from ₱1.203 billion in the nine months ended September 30, 2012. 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 ₱80.578 million or 11.6% to ₱775.012 million for the nine months ended September 30, 2013 from ₱694.434 million incurred in the nine months ended September 30, 2012. Growth in general and administrative expenses was primarily attributable to the increased flight and passenger activity in 2013.

Passenger Service

Passenger service expenses went up by ₱20.203 million or 3.2% to ₱645.008 million for the nine months ended September 30, 2013 from ₱624.804 million posted for the nine months ended September 30, 2012. Additional cabin crew hired for the additional Airbus A320 and A330 aircraft acquired during the last quarter of 2012 and in 2013 mainly caused the increase. Increase in expenses was partially offset by lower premiums for passenger liability insurance and the strengthening of the Philippine peso against the U.S. dollar in 2013.

Operating Income

As a result of the foregoing, the Company finished with an operating income of ₱2.173 billion for the nine months ended September 30, 2013, 39.3% higher than the ₱1.559 billion operating income earned in the same period last year.

Other Income (Expenses)

Interest Income

Interest income dropped by ₱140.940 million or 42.1% to ₱194.109 million for the nine months ended September 30, 2013 from ₱335.049 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.

Fuel Hedging Gains

Fuel hedging gains for the nine months ended September 30, 2013 decreased to ₱131.998 million from ₱271.263 million earned in the same period last year as a result of lower mark-to-market valuation on fuel hedging positions consequent to the decrease in fuel prices in 2013.

Foreign Exchange Gains (Losses)

Net foreign exchange losses of ₱1.529 billion for the nine months ended September 30, 2013 resulted from the depreciation of the Philippine peso against the U.S. dollar as referenced by the weakening of the Philippine peso to ₱43.54 per U.S. dollar for the nine months ended September 30, 2013 from ₱41.05 per U.S. dollar for the twelve months ended December 31, 2012 based on PDEX closing rates. The Company'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 of Joint Venture

The Company had equity in net income of joint venture of ₱70.410 million for the nine months ended September 30, 2013, ₱19.010 million or 37.0% higher than the ₱51.400 million equity in net income of joint venture earned in the same period last year. Increase in this account was due to the increase in net income from current operations of Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP) in 2013.

Fair Value Losses of Financial Assets designated at Fair Value through Profit or Loss (FVPL)

No fair value losses on FVPL was recognized for the nine months ended September 30, 2013 as a result of the sale of the related quoted debt and equity investment securities in 2012.

Interest Expense

Interest expense increased by ₱75.973 million or 13.8% to ₱628.157 million for the nine months ended September 30, 2013 from ₱552.185 million in the nine months ended September 30, 2012. Increase was due to higher interest expense incurred brought by the additional loans availed to finance the acquisition of two Airbus A320 aircraft in the last quarter of 2012 and four Airbus A320 aircraft in 2013 partially reduced by the effect of the strengthening of the Philippine peso against the U.S. dollar during the current period.

Income before Income Tax

As a result of the foregoing, the Company recorded income before income tax of ₱412.588 million for the nine months ended September 30, 2013, lower by 84.6% or ₱2.269 billion than the ₱2.682 billion income before income tax posted for the nine months ended September 30, 2012.

Benefit from Income Tax

Benefit from income tax for the nine months ended September 30, 2013 amounted to ₱251.494 million, of which, ₱32.496 million pertains to current income tax recognized as a result of the taxable income in 2013. Benefit from deferred income tax amounted to ₱283.990 million resulting from the recognition of deferred tax assets on future taxable amounts during the period.

Net Income

Net income for the nine months ended September 30, 2013 amounted to ₱664.081 million, a decline of 70.8% from the ₱2.274 billion net income earned in the same period last year.

As of September 30, 2013, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period that would have a significant impact on the Company's operations and/or financial condition

Financial Position

September 30, 2013 versus December 31, 2012

As of September 30, 2013, the Company's consolidated balance sheet remains solid, with net debt to equity of 0.98 [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 ₱65.679 billion from ₱61.336 billion as of December 31, 2012 as the Company added aircraft to its fleet. Equity went down to ₱21.587 billion from ₱22.135 billion in 2012, while book value per share amounted to ₱35.62 as of September 30, 2013 from ₱36.53 as of December 31, 2012.

The Company's cash requirements have been mainly sourced through cash flow from operations and from borrowings. Net cash from operating activities amounted to ₱3.678 billion. As of September 30, 2013, net cash used in investing activities amounted to ₱10.133 billion which included payments in connection with the purchase of aircraft. Net cash provided by financing activities amounted to ₱2.333 billion which comprised of proceeds from long-term debt of ₱5.872 billion net of repayments of long-term debt amounting to ₱2.327 billion and payment of dividends to shareholders of ₱1.212 billion.

As of September 30, 2013, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Financial Ratios

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

Liquidity and Capital Structure Ratios

	September 30, 2013	December 31, 2012
Current Ratio	0.58:1	0.79:1
Debt-to-Equity Ratio	1.30:1	1.04:1
Asset-to-Equity Ratio	3.04:1	2.77:1
Interest Coverage Ratio	2.46:1	2.63:1

Profitability Ratios

	September 30, 2013	September 30, 2012
Return on Asset	1%	4%
Return on Equity	3%	11%
Return on Sales	2%	8%

**Material Changes in the 2013 Financial Statements
(Increase/Decrease of 5% or more versus 2012)**

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

Consolidated Statements of Financial Position –September 30, 2013 versus December 31, 2012

37.2% decrease in Cash and Cash Equivalents

Due to payments made in connection with the acquisition of Airbus A320 and A330 aircraft, repayment of certain long-term debt and distribution of cash dividends to the Company's stockholders.

28.5% decrease in Financial Assets at FVPL

Due to settlement of fuel derivative contracts with counterparties and lower mark-to-market valuation of some fuel derivative contracts in 2013.

24.6% increase in Receivables

Due to receivable from Philippine Academy for Aviation Training, Inc. (PAAT) for an Airbus A320 simulator in 2013.

46.4% 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.

54.8% increase in Other Current Assets

Due to advances to suppliers for purchases of spare engines and engine parts to be used in the restoration of certain leased aircraft to its original condition at the end of the contract period.

15.2% increase in Property and Equipment

Due to the acquisition of four Airbus A320 aircraft and two spare engines, one each for A320 and A330 aircraft during the period.

3.5% increase in Investment in Joint Ventures

Due mainly to the share in the net income of A-plus and SIAEP during the period.

85.2% increase in Other Noncurrent Assets

Due to the payment of security deposit for two A330 aircraft partially offset by the application of creditable withholding tax on income tax due for the two quarters.

1.6% increase in Accounts Payable and Other Accrued Liabilities

Due to increase in trade payables and accruals of certain operating expenses as a result of the increased flight and passenger activity during the period.

4.6% decrease in Unearned Transportation Revenue

Due to lesser forward bookings as of September 30, 2013 compared to December 31, 2012.

21.9% decrease in Due to Related Parties

Due to payments made during the period.

22.1% increase in Long-Term Debt (including Current Portion)

Due to additional loans availed to finance the purchase of the four Airbus A320 aircraft acquired during the period partially offset by the repayment of certain outstanding long-term debt in accordance with the repayment schedule.

57.8% decrease in Deferred Tax Liabilities- net

Due mainly to the decrease in future taxable amount on unrealized foreign exchange gain during the period.

13.0% increase in Other Noncurrent Liabilities

Due to accretion of asset retirement obligation during the period.

4.0% decrease in Retained Earnings

Due to dividends paid during the period.

As of September 30, 2013, there are no significant elements of income that did not arise from the Company's continuing operations.

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

KEY PERFORMANCE INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of September 30, 2013 and December 31, 2012 and for nine months ended September 30, 2013 and 2012:

<u>Key Financial Indicators</u>	<u>2013</u>	<u>2012</u>
Total Revenue	₱30.582 billion	₱27.872 billion
Pre-tax Core Net Income	₱1.809 billion	₱1.394 billion
EBITDAR Margin	22%	20%
Cost per Available Seat Kilometre (ASK) (Php)	2.40	2.50
Cost per ASK (U.S. cents)	5.70	5.87
Seat Load Factor	83.0%	81.7%

The manner by which the Company calculates the above key performance indicators for both 2013 and 2012 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, accretion and amortization of 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 September 30, 2013, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no known trends, demands, commitments, events or uncertainties that may have a material impact on the Company's liquidity.

As of September 30, 2013, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no events that would have a material adverse impact on the Company's net sales, revenues and income from operations and future operations.

PART II - OTHER INFORMATION

NONE.

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: NOV 11 2013



JAIME I. CABANGIS
Chief Financial Officer
Date: NOV 11 2013



ROBIN C. DUI
Vice President - Comptroller
Date: NOV 11 2013

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2013

(With Comparative Audited Figures as of December 31, 2012)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱6,739,135,109	₱10,728,326,325
Financial assets at fair value through profit or loss (Note 8)	73,420,086	102,682,762
Receivables (Note 9)	1,231,419,307	988,511,487
Expendable parts, fuel, materials and supplies (Note 10)	610,950,725	417,434,810
Other current assets (Note 11)	1,366,123,781	882,604,550
Total Current Assets	10,021,049,008	13,119,559,934
Noncurrent Assets		
Property and equipment (Notes 12, 16, 27 and 28)	54,718,886,706	47,484,106,152
Investment in joint ventures (Note 13)	529,873,896	511,756,873
Other noncurrent assets (Note 14)	409,064,217	220,895,946
Total Noncurrent Assets	55,657,824,819	48,216,758,971
	₱65,678,873,827	₱61,336,318,905
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 15)	₱7,892,712,690	₱7,768,537,046
Unearned transportation revenue (Note 4 and 5)	5,705,932,597	5,981,195,913
Current portion of long-term debt (Notes 12 and 16)	3,541,442,160	2,769,442,355
Due to related parties (Note 25)	35,614,135	45,602,315
Total Current Liabilities	17,175,701,582	16,564,777,629
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12 and 16)	24,459,485,578	20,154,916,843
Deferred tax liabilities - net	207,514,333	491,504,377
Other noncurrent liabilities (Notes 17 and 22)	2,249,185,108	1,990,307,272
Total Noncurrent Liabilities	26,916,185,019	22,636,728,492
Total Liabilities	44,091,886,601	39,201,506,121
Equity (Note 18)		
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)
Retained earnings	13,097,501,877	13,645,327,435
Total Equity	21,586,987,226	22,134,812,784
	₱65,678,873,827	₱61,336,318,905

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	Quarters Ended		Nine months ended	
	2013	2012	2013	2012
REVENUES	₱8,855,398,568	₱8,143,226,499	₱30,581,860,423	₱27,872,468,825
	8,855,398,568	8,143,226,499	30,581,860,423	27,872,468,825
EXPENSES				
Flying operations (Note 20)	5,362,472,283	4,482,779,941	16,011,419,975	14,999,130,355
Repairs and maintenance (Note 20)	980,184,522	666,627,494	2,891,248,391	2,543,300,110
Aircraft and traffic servicing (Note 20)	860,411,660	837,639,192	2,679,876,220	2,569,758,217
Depreciation and amortization	893,775,634	689,138,901	2,521,008,131	2,017,279,250
Aircraft and engine lease (Note 26)	638,011,246	483,982,446	1,593,620,901	1,563,410,232
Reservation and sales	327,708,648	389,973,555	1,219,667,775	1,202,858,568
General and administrative (Note 21)	232,078,146	238,583,965	775,011,672	694,433,639
Passenger service	210,706,544	200,114,931	645,007,775	624,804,319
Other expenses (Note 23)	19,173,314	25,682,235	72,252,379	98,113,272
	9,524,521,997	8,014,522,660	28,409,113,219	26,313,087,962
OPERATING INCOME	(669,123,429)	128,703,839	2,172,747,204	1,559,380,863
OTHER INCOME (EXPENSE)				
Interest expense (Notes 16)	(231,558,290)	(186,834,781)	(628,157,376)	(552,184,591)
Foreign exchange gains (losses)	(179,357,722)	265,244,761	(1,528,519,308)	1,010,998,702
Fuel hedging gains (losses) (Note 8)	128,877,117	244,069,712	131,997,781	271,262,730
Interest income (Notes 7 and 8)	38,140,499	87,665,364	194,109,354	335,049,496
Gain on sale of financial assets designated at fair value through profit or loss	—	—	—	5,764,090
Equity in net income of joint venture (Note 13)	33,220,452	15,383,761	70,409,913	51,399,629
	(210,677,944)	425,528,817	(1,760,159,636)	1,122,290,056
INCOME (LOSS) BEFORE INCOME TAX	(879,801,373)	554,232,656	412,587,568	2,681,670,919
PROVISION FOR (BENEFIT FROM) INCOME TAX	(129,677,385)	15,796,683	(251,493,534)	407,456,949
NET INCOME (LOSS) (Note 2)	(₱750,123,988)	₱538,435,973	₱664,081,102	₱2,274,213,970
Basic/Diluted Earnings (Loss) Per Share (Note 24)			₱1.10	₱3.75

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(With Comparative Unaudited Figures as of September 30, 2012)**

For the Nine months ended September 30, 2013							
	Common Stock (Note 18)	Capital Paid in Excess of Par Value (Note 18)	Treasury Stock (Note 18)	Net unrealized losses on available-for-sale investment (Note 8)	Appropriated Retained Earnings (Note 18)	Unappropriated Retained Earnings (Note 18)	Total Equity
Balance at January 1, 2013	₱613,236,550	₱8,405,568,120	(₱529,319,321)	₱-	₱1,416,762,000	₱12,228,565,435	₱22,134,812,784
Net income	-	-	-	-	-	664,081,102	664,081,102
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	664,081,102	664,081,102
Appropriation of retained earnings	-	-	-	-	2,500,000,000	(2,500,000,000)	-
Dividends paid	-	-	-	-	-	(1,211,906,660)	(1,211,906,660)
Balance at September 30, 2013	₱613,236,550	₱8,405,568,120	(₱529,319,321)	₱-	₱3,916,762,000	₱9,180,739,877	₱21,586,987,226

For the Nine months ended September 30, 2012							
	Common Stock (Note 18)	Capital Paid in Excess of Par Value (Note 18)	Treasury Stock (Note 18)	Net unrealized losses on available-for-sale investment (Note 8)	Appropriated Retained Earnings (Note 18)	Unappropriated Retained Earnings (Note 18)	Total Equity
Balance at January 1, 2012	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱5,630,261)	₱933,500,000	₱9,748,168,202	₱19,165,523,290
Net income	-	-	-	-	-	2,274,213,970	2,274,213,970
Other comprehensive income	-	-	-	5,630,261	-	-	5,630,261
Total comprehensive income	-	-	-	5,630,261	-	2,274,213,970	2,279,844,231
Appropriation of retained earnings	-	-	-	-	483,262,000	(483,262,000)	-
Dividends paid	-	-	-	-	-	(605,953,330)	(605,953,330)
Balance at September 30, 2012	₱613,236,550	₱8,405,568,120	(₱529,319,321)	₱-	₱1,416,762,000	₱10,933,166,842	₱20,839,414,191

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱412,587,568	₱2,681,670,919
Adjustments for:		
Depreciation and amortization (Note 12)	2,521,008,131	2,017,279,250
Interest expense (Note 16)	628,157,376	552,184,591
Depreciation and accretion of asset retirement obligation (Note 17)	464,127,049	386,913,143
Gain on sale of financial assets at fair value through profit or loss and available for sale financial assets	-	(5,764,090)
Equity in net income of joint ventures (Note 13)	(70,409,913)	(51,399,629)
Fuel hedging gains (Note 8)	(131,997,781)	(271,262,730)
Interest income (Notes 7 and 8)	(194,109,354)	(335,049,496)
Unrealized foreign exchange (gains) losses	1,419,129,307	(900,150,875)
Operating income before working capital changes	5,048,492,383	4,074,421,083
Decrease (increase) in:		
Receivables	105,065,140	(241,777,187)
Other current assets	(483,519,231)	(381,775,588)
Expendable parts, fuel, materials and supplies	(193,515,915)	(38,286,001)
Financial assets at fair value through profit or loss (derivatives) (Note 8)	161,260,457	93,120,764
Increase (decrease) in:		
Accounts payable and other accrued liabilities	(42,341,363)	377,092,570
Unearned transportation revenue	(275,263,316)	353,145,000
Due to related parties	(9,988,181)	(34,589,977)
Noncurrent liabilities	(221,449,256)	(490,728,765)
Net cash generated from operations	4,088,740,718	3,710,621,899
Interest paid	(613,340,699)	(552,326,090)
Interest received	202,394,588	421,481,449
Net cash provided by operating activities	3,677,794,607	3,579,777,258
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from a joint venture (Note 13)	52,292,890	53,229,016
Proceeds from sale of financial assets at FVPL (Note 8)	-	3,258,002,595
Proceeds from sale of available-for sale investments (Note 8)	-	110,369,717
Investment in joint venture (Note 13)	-	(101,123,645)
Decrease (increase) in other noncurrent assets	(188,168,270)	151,095,398
Acquisition of property and equipment (Notes 12 and 27)	(9,996,745,226)	(5,871,969,809)
Net cash provided by (used in) investing activities	(10,132,620,606)	(2,400,396,728)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	5,871,740,000	3,026,036,813
Repayments of long-term debt	(2,326,598,274)	(1,913,146,510)
Dividends paid	(1,211,906,660)	(605,953,330)
Net cash provided by financing activities	2,333,235,066	506,936,973
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		
	132,399,717	(193,617,916)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(3,989,191,216)	1,492,699,587
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	10,728,326,325	8,957,783,986
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)		
	₱6,739,135,109	₱10,450,483,573

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

1. Corporate Information

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

The Parent Company has eight 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) and Panatag Two Aircraft Leasing Limited (PTALL) (collectively known as the "Group"). CALL, ILL, BLL, SLL, SALL, VALL, POALL and PTALL are SPEs in which the Parent Company does not have equity interest. CALL, ILL, BLL, SLL, SALL, VALL, POALL and PTALL acquired the passenger aircraft for lease to the Parent Company under finance lease arrangements (Note 12) and funded the acquisitions through long-term debt (Note 16). In accordance with Standards Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, the consolidated financial statements include the accounts of these SPEs (Note 2).

The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on October 26, 2010, the 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) years to six (6) years depending on the status given. The Parent Company can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years.

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 regular corporate income tax (RCIT) and to real property tax.
- b. In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place the 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 RCIT;
- c. The Parent Company shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges;
- d. Change in RCIT rate from 32.00% to 35.00% for the next three years effective on November 1, 2005, and 30.00% starting on January 1, 2009 and thereafter;
- e. 70.00% cap on the input VAT that can be claimed against output VAT; and
- f. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

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

On December 16, 2008, the 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.

There are no items representing other comprehensive income as of and for the nine months ended September 30, 2013 and 2012.

Statement of Compliance

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

Basis of Consolidation

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

SIC 12, prescribes guidance on the consolidation of SPE. Under SIC 12, an SPE should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist even in cases where an enterprise owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities.

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

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.

- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - *Government Loans* (effective for annual periods beginning on or after January 1, 2013)
These amendments add an exception to the retrospective application of PFRSs. First-time adopters are required to apply the requirements in *PFRS 9*, Financial Instruments and *PAS 20*, Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to PFRSs. However, a first-time adopter may apply the requirements of PFRS 9 and PAS 20 to government loans retrospectively if it has obtained the necessary information to do so. The amendment is not applicable as the Group has no outstanding government loans.
- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

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

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

The Group's management has assessed that it has control over its existing SPEs. The consolidated financial statements include the financial statements of the Parent Company and the SPEs that it controls.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group currently accounts for its investments in joint venture using the equity method.

- PFRS 12, *Disclosures of Involvement with Other Entities* (effective for annual periods beginning periods on or after January 1, 2013)
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or before January 1, 2013)
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

The Group has adopted the standard in reporting fair value in its consolidated financial statements.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

The amendment affects presentation only and has therefore no impact on the Group’s financial position or performance.

- Amendments to PAS 19, *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

As of December 31, 2012, the Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at December 31, 2012
<hr/>	
Increase (decrease) in:	
<u>Consolidated statements of financial position</u>	
Net defined benefit liability	P139,529,356
Deferred tax asset on unrecognized actuarial losses	20,777,543
Other comprehensive income	(69,258,478)
Retained earnings	73,701,878
	As at December 31, 2012
<hr/>	
<u>Consolidated statement of comprehensive income</u>	
Net pension expense	P67,289,100
Income tax expense	20,186,730
<u>Statement of comprehensive income</u>	
Amortization of actuarial gain	3,431,000

- Revised PAS 27, *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

The Group's management has assessed that it has control over its existing SPE's. The consolidated financial statements include the financial statements of the Parent Company and the SPEs that it controls.

- Revised PAS 28, *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013)
As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

The Group currently accounts for its investments in joint venture using the equity method.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
This Philippine Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Future Changes in Accounting Policies

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

Improvements to PFRS 2012

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the following new and amended PFRS and Philippine Interpretations will not have significant impact on the financial statements of the Company:

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

- *Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate*
The implementation of the Philippine Interpretation is deferred until the final *Review Standard* is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

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 the transportation service is rendered by the Group (e.g., when passengers and cargo are lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

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

Ancillary revenue

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

Interest income

Interest on cash, cash equivalents, 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 a decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Expenses that arise in the course of ordinary regular activities of the Group include, among others, the operating expenses on the Group's operation.

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. As of September 30, 2013 and December 31, 2012, the Group has no existing AFS and HTM investments.

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.

The Group follows the hierarchy in Philippine Interpretations Committee (PIC) Question and Answer (Q&A) No. 2010-01: PAS 39.AG71-72, *Rate used in determining the fair value of government securities in the Philippines*, beginning January 1, 2010, for the determination of fair value of government securities in the Philippines, using market data published by the Philippine Dealing and Exchange Corporation or PDEX:

- a. Current bid yield, if available, on the reporting date.
- b. When a current bid yield is not available, the last or close yield on the reporting date.
- c. When there is no transaction for a security on the reporting date, the PDSI-R2 rate may be used.

The consensus in the Q&A has been approved by the PIC on March 2, 2010 and approved by the Financial Reporting Standards Committee on June 4, 2010.

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

'Day 1' profit or loss

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset 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 September 30, 2013 and as of December 31, 2012, the Group's financial assets at FVPL consist of derivative assets (Note 8).

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

Derivatives recorded at FVPL

The Group is a counterparty to certain derivative contracts such as commodity options. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). The Group did not apply hedge accounting on its derivative transactions for the nine months ended September 30, 2013 and 2012.

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 September 30, 2013 and December 31, 2012, 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 September 30, 2013 and December 31, 2012, 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 9) and certain refundable deposits.

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 15, 16 and 17).

Impairment of Financial Assets

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

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss. The asset, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

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

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

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.

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.

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.

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. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

The Group recognizes the present value of these costs as ARO asset and ARO liability (included under 'Noncurrent liabilities'). The Group depreciates ARO asset on a straight-line basis over the EUL of the related asset or the lease term, whichever is shorter, or written off as a result of impairment of the related asset. The Group amortizes ARO liability using the effective interest method and recognizes accretion expense over the lease term. Amortization of ARO asset and accretion expense of ARO liability are recognized under "Repairs and Maintenance" account in the consolidated statements of comprehensive income.

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

Investment 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 Training, Inc. (PAAT), Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP), respectively, are accounted for under the equity method (Note 13). Under the equity method, the investments in JV are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the JV, less any allowance for impairment in value. The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the JV. Dividends received are treated as a revaluation of the carrying value of the investment.

The financial statements of the investee companies used in the preparation of the consolidated financial statement 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 and investments in JV.

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

An assessment is made at each 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.

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.

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against profit or loss when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.00% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date.

The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

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

Short-term employee benefits are expensed as incurred.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carry forward 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 carry forward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with interests in JV. With respect to interests in JV, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

Leases

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

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;

- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d. there is a substantial change to the asset.

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

Group as lessee

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

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

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

Group as lessor

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

Borrowing Costs

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

The Group has not capitalized any borrowing costs for the nine months ended September 30, 2013 and 2012 as all borrowing costs from outstanding long-term debt relate to assets that are at state ready for intended use (Note 16).

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Group's functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Philippine Dealing 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 nine months ended September 30, 2013 and 2012, the Group does not have any dilutive potential ordinary shares.

Segment Reporting

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

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 28).

f. Consolidation of SPEs

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities. Also, included are transactions involving SPEs and similar vehicles. In all such cases, management makes an assessment as to whether the Group has the right to control or significantly influence the SPEs, and based on this assessment, the SPE is consolidated as a subsidiary or associated company. In making this assessment, management considers the underlying economic substance of the transaction and not only the contractual terms.

g. *Determination of functional currency*

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

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

The Group's consolidated financial statements are presented in Philippine peso, which is also the 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 28).

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 8).

Estimates

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 9):

	2013	2012
Receivables	₱1,462,460,811	₱1,206,749,106
Allowance for credit losses	(231,041,504)	(218,237,619)

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 10):

	2013	2012
Expendable Parts, Fuel, Materials and Supplies		
At NRV	₱385,760,897	₱241,414,140
At cost	225,189,828	176,020,670

As of September 30, 2013 and December 31, 2012, 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 2013 and 2012.

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

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

As of September 30, 2013 and December 31, 2012, the Group's ARO liability net of ARO asset (included under 'Other noncurrent liabilities' account in the statements of financial position) has a carrying value of ₱1,799.5 million and ₱1,351.9 million, respectively (Note 17). The related repairs and maintenance expense for the nine months ended September 30, 2013 and 2012 amounted to ₱464.1 million and ₱386.9 million, respectively (Notes 17 and 20).

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 September 30, 2013 and December 31, 2012, the carrying values of the Group's property and equipment amounted to ₱54,718.9 million and ₱47,484.1 million, respectively (Note 12). The Group's depreciation and amortization expense amounted to ₱2,521.0 million and ₱2,017.3 million for the nine months ended September 30, 2013 and 2012, respectively (Note 12).

e. Impairment of nonfinancial assets

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

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

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from

the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

As of September 30, 2013 and December 31, 2012, the carrying values of the Group's property and equipment amounted to ₱54,718.9 million and ₱47,484.1 million, respectively (Note 12). Investment in JV amounted to ₱529.9 million and ₱511.8 million as of September 30, 2013 and December 31, 2012, respectively (Note 13). There were no provision for impairment losses on the Group's property and equipment and investment in JV for the nine months ended September 30, 2013 and 2012.

f. 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 22). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The Group's pension liability (included in 'Other noncurrent liabilities' account in the consolidated statements of financial position) amounted to ₱25.4 million and ₱214.1 million as of September 30, 2013 and December 31, 2012, respectively (Notes 17 and 22).

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.

g. 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 September 30, 2013 and December 31, 2012, 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.

h. Passenger revenue recognition

Passenger sales are recognized as revenue when the obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; or (b) when the Group estimates that unused tickets are already expired. The value of unused tickets is included as unearned transportation revenue in the consolidated statement of financial position and recognized as revenue based on estimates. These estimates are based on historical experience. While actual results may vary from these estimates, the Group believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time the estimates were made.

As of September 30, 2013 and December 31, 2012, the balances of the Group's unearned transportation revenue amounted to ₱5,705.9 million and ₱5,981.2 million, respectively. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

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. All sales are made to external customers. The Company generally records higher domestic revenue in January, March, April, May and December as festivals and school holidays in the Philippines increase the Company's seat load factor in these periods. Accordingly, the Company's revenue is relatively lower in July to September due to decreased domestic travel during these months.

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 statement of financial position which is in accordance with PFRS.

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

	2013	2012
Revenue	₱30,978,377,471	₱29,546,943,473
Net income	664,081,102	2,274,213,970
Depreciation and amortization	2,521,008,131	2,017,279,250
Interest expense	628,157,376	552,184,591
Interest income	194,109,354	335,049,496

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:

	2013	2012
Total segment revenue of reportable operating segment	₱30,581,860,423	₱27,872,468,825
Nontransport revenue and other income	396,517,048	1,674,474,648
Total revenue	₱30,978,377,471	₱29,546,943,473

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:

	2013	2012
Total segment income of reportable segment	₱2,172,747,204	₱1,559,380,862
Add (deduct) unallocated items:		
Nontransport revenue and other income	396,517,048	1,674,474,648
Nontransport expenses and other charges	(2,156,676,684)	(552,184,591)
Benefit from (Provision for) income tax	251,493,534	(407,456,949)
Net income	664,081,102	2,274,213,970
Other comprehensive income	-	-
Total comprehensive income	₱664,081,102	₱2,274,213,970

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

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

7. Cash and Cash Equivalents

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Cash on hand	₱23,444,418	₱19,491,988
Cash in banks (Note 25)	180,122,944	321,236,059
Short-term placements (Note 25)	6,535,567,747	10,387,598,278
	₱6,739,135,109	₱10,728,326,325

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 1.6% and 3.8% for nine months ended September 30, 2013 and 2012, respectively. Moreover, short-term placements in US dollar earn an average of 2.1% and 1.7% in 2013 and 2012, respectively.

Interest income on cash and cash equivalents, presented in the consolidated statements of comprehensive income, amounted to ₱194.1 million and ₱335.0 million for the nine months ended September 30, 2013 and 2012, respectively.

8. Investment and Trading Securities

Financial Assets at FVPL

This account consists of derivative financial instruments not designated as accounting hedges.

At inception, the Group classified this group of debt and equity securities as financial assets designated at FVPL since their performance are managed and evaluated on a fair value basis in accordance with the Group's documented investment strategy. The information about these financial instruments is reported to management on that basis.

On January 13, 2012, JGSHI acquired all of the Parent Company's debt and equity securities classified as financial assets at FVPL in exchange for a settlement amounting ₱3,258.0 million. Carrying value of financial assets at FVPL at date of sale amounted to ₱3,244.2 million. Realized gain on the sale of financial assets at FVPL amounted to ₱13.8 million (Note 25).

Commodity options

The Group enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. As of September 30, 2013 and December 31, 2012, the Group has outstanding fuel hedging transactions with notional quantity of 570,000 and 240,000 US barrels, respectively. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The options can be exercised at various calculation dates with specified quantities on each calculation date.

On January 2013, the Group settled its fuel hedge transaction with notional quantity of 20,000 US barrels and realized mark-to-market gain. In February 2013, the Group has pre-terminated its existing fuel derivative contracts with its counterparties. The Group recognized an aggregate realized mark-to-market gain amounting to ₱162.7 million from these transactions. However, as of December 31, 2012, the Group recognized unrealized gain of ₱102.7 million from the positive fair value change from its fuel derivatives. As such, the Group realized ₱60.0 million as net realized gain from these transactions.

For the nine months ended September 30, 2013 and 2012, net realized and unrealized fuel hedging gain recognized in the statement of comprehensive income amounted to ₱132.0 million and ₱271.3 million, respectively.

Fair value changes on derivatives

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

	2013	2012
Balance at beginning of period		
Derivative assets	₱102,682,762	₱16,880,208
Derivative liabilities	–	(60,857,586)
	102,682,762	(43,977,378)
Net changes in fair value of derivatives	131,997,781	258,543,810
	234,680,543	214,566,432
Fair value of settled instruments	(161,260,457)	(111,883,670)
Balance at end of period	₱73,420,086	₱102,682,762
Attributable to:		
Derivative assets	₱73,420,086	₱102,682,762
Derivative liabilities	₱–	₱–

AFS Investment

On January 13, 2012, JGSHI acquired all of the Group's AFS financial assets in exchange for a settlement amounting ₱110.4 million. Market value of the AFS financial assets at date of sale amounted to ₱110.4 million and has an existing unrealized loss on AFS amounting ₱5.6 million, net of tax amounting ₱2.4 million. Realized loss from sale of AFS financial assets amounted to ₱8.0 million (Note 25).

9. Receivables

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Trade receivables (Note 25)	₱613,850,491	₱735,938,884
Due from related parties (Note 25)	541,460,256	175,709,003
Interest receivable	3,352,257	11,637,492
Others	303,797,807	283,463,727
	1,462,460,811	1,206,749,106
Less allowance for credit losses	231,041,504	218,237,619
	₱1,231,419,307	₱988,511,487

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. Accrued interest income from short-term placements amounted to ₱3.4 million and ₱11.6 million as of September 30, 2013 and December 31, 2012, respectively.

Others include receivable under a sublease agreement denominated in US dollar equivalent to P223.9 million with another airline company. This receivable is fully provided with allowance for credit losses. The account also includes receivables from employees and counterparties.

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

	2013						Total	
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days		Past Due and Impaired
		31-60 days	61-90 days	91-180 days				
Trade receivables	P508,799,001	P58,489,648	P40,230,967	P-	P-	P6,330,875	P613,850,491	
Interest receivable	3,352,257	-	-	-	-	-	3,352,257	
Due from related parties	541,460,256	-	-	-	-	-	541,460,256	
Others*	71,409,519	7,677,659	-	-	-	224,710,629	303,797,807	
	P1,125,021,033	P66,167,307	P40,230,967	P-	P-	P231,041,504	P1,462,460,811	

*Include nontrade receivables from derivative counterparties and employees

	2012						Total	
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days		Past Due and Impaired
		31-60 days	61-90 days	91-180 days				
Trade receivables	P660,538,513	P45,991,793	P23,077,703	P-	P-	P6,330,875	P735,938,884	
Interest receivable	11,637,492	-	-	-	-	-	11,637,492	
Due from related parties	175,709,003	-	-	-	-	-	175,709,003	
Others*	71,556,983	-	-	-	-	211,906,744	283,463,727	
	P919,441,991	P45,991,793	P23,077,703	P-	P-	P218,237,619	P1,206,749,106	

*Include nontrade receivables from derivative counterparties and employees.

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

	September 30, 2013 Unaudited		
	Trade Receivables	Others	Total
Balance at beginning of year	P6,330,875	P211,906,744	P218,237,619
Unrealized foreign exchange gain on allowance for credit losses	-	12,803,885	12,803,885
Balance at end of year	P6,330,875	P224,710,629	P231,041,504

	December 31, 2012 Audited		
	Trade Receivables	Others	Total
Balance at beginning of year	P6,330,875	P226,253,265	P232,584,140
Unrealized foreign exchange gain on allowance for credit losses	-	(14,346,521)	(14,346,521)
Balance at end of year	P6,330,875	P211,906,744	P218,237,619

As of September 30, 2013 and December 31, 2012, the specific allowance for credit losses on trade receivables and other receivables amounted to P6.3 million and P224.7 million and P6.3 million and P211.9 million, respectively.

10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
At NRV:		
Expendable parts	₱385,760,897	₱241,414,140
At cost:		
Fuel	194,301,938	142,603,044
Materials and supplies	30,887,890	33,417,626
	225,189,828	176,020,670
	₱610,950,725	₱417,434,810

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 nine months ended September 30, 2013 and 2012 amounted to ₱187.1 million and ₱219.5 million, respectively. The cost of fuel reported as expense under 'Flying operations' amounted to ₱14,356.2 million and ₱13,121.1 million for the nine months ended September 30, 2013 and 2012, respectively (Note 20).

The cost of expendable parts amounted to ₱154.5 million and ₱239.9 million as of September 30, 2013 and December 31, 2012, respectively. There are no additional provisions for inventory write down in 2013 and 2012. No expendable parts, fuel, material and supplies are pledged as security for liabilities.

11. Other Current Assets

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Advances to suppliers	₱1,056,274,470	₱679,944,204
Prepaid rent	233,969,197	146,026,694
Prepaid insurance	54,680,286	29,338,807
Others	21,199,828	27,294,845
	₱1,366,123,781	₱882,604,550

Advances to suppliers include advances made for the purchase of various aircraft parts and service maintenance. These are recouped from progress billings which occurs within one year from the date the advances arose. The advances are unsecured and noninterest bearing.

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

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.

12. Property and Equipment

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Acquisition Costs		
Passenger aircraft	₱53,540,912,896	₱46,594,710,884
Pre-delivery payments	8,216,698,703	8,356,055,126
Engines	4,533,366,108	2,439,973,358
Rotables	1,826,949,418	1,523,539,852
EDP equipment, mainframe and peripherals	652,420,048	622,729,161
Leasehold improvements	460,847,125	333,877,735
Ground support equipment	436,076,884	385,024,151
Transportation equipment	180,005,715	169,595,188
Construction in-progress	171,621,132	64,212,027
Furniture, fixtures and office equipment	97,833,906	81,250,593
Special tools	12,349,640	12,507,408
Communication equipment	10,927,687	9,399,252
Maintenance and test equipment	6,681,631	6,681,631
Other equipment	80,090,716	75,458,076
Total	70,226,781,609	60,675,014,442
Accumulated depreciation	(15,507,894,903)	(13,190,908,290)
Net book value	₱54,718,886,706	₱47,484,106,152

The Group's depreciation and amortization expense amounted to ₱2,521.0 million and ₱2,017.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Passenger Aircraft Held as Securing Assets Under Various Loans

In 2005 and 2006, the Group entered into Export Credit Agency (ECA)-backed loan facilities (ECA loans) to partially finance the purchase of ten Airbus A319 aircraft. In 2007, the Group also entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one Quick Engine Change (QEC) Kit. In 2008, the Group entered into both ECA loans and commercial loans to partially finance the purchase of six Avion de Transport Regional (ATR) 72-500 turboprop aircraft. Then in 2009, ECA loans were availed to finance the purchase of two ATR 72-500 turboprop aircraft. In 2010, the Group entered into ECA loan to finance the purchase of three Airbus A320 aircraft. In 2011, the Group entered into ECA loan to finance the purchase of three additional Airbus A320 aircraft. In 2012, the Group entered into ECA loan to finance the purchase of four additional Airbus A320 aircraft.

In December 2012, the Group entered into a commercial loan facility to partially finance the purchase of four additional Airbus A320 aircraft with scheduled delivery in January, March and July 2013.

Under the terms of the ECA loan and commercial loan facilities (Note 16), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by CALL or ILL or BLL or SLL or SALL, VALL, POALL, or PTALL, or by the guarantors which are CPAHI and JGSHI. CPAHI and JGSHI are guarantors to loans entered into by CALL, ILL, BLL, SLL and SALL. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of September 30, 2013 and December 31, 2012, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱42.0 billion and ₱35.6 billion, respectively.

Operating Fleet

As of September 30, 2013 and December 31, 2012, the Group's operating fleet follows:

	2013	2012
Owned (Note 16):		
Airbus A319	10	10
Airbus A320	16	12
ATR 72-500	8	8
Under operating lease (Note 28):		
Airbus A320	11	11
Airbus A330	2	-
	47	41

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 September 30, 2013 and December 31, 2012, the Group's capitalized pre-delivery payments as construction-in-progress amounted to ₱8.2 billion and ₱8.4 billion, respectively (Note 28).

As of September 30, 2013 and December 31, 2012, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱808.0 million and ₱664.5 million, respectively.

As of September 30, 2013 and December 31, 2012, there are no temporary idle property and equipment.

13. Investment in Joint Ventures

The investment in joint ventures represents the Parent Company's 50.00%, 49.00% and 35.00% interest 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 50.00% share on the net income/loss of PAAT. As such, the Parent Company recognizes equivalent 50.00% share in net income and net assets of the joint venture.

The Parent Company entered into a joint venture agreement with CAE on December 13, 2011. PAAT was created to provide training for pilots, cabin crews, aviation management services and guest services for purposes of addressing the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. On December 19, 2011, the Parent Company paid ₱33.8 million representing 25% payment for the 135,000,000 Class A subscribed shares at ₱1.00 par value. PAAT was formally incorporated on January 27, 2012.

As of September 30, 2013 and December 31, 2012, the Parent Company's investment in PAAT amounted to ₱117.7 million and ₱124.2 million, respectively.

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:

	2013			
	A-plus	SIAEP	PAAT	Total
Cost				
Balance at beginning of the year	₱87,012,572	₱304,763,900	₱134,873,645	₱526,650,117
Investment during 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	42,046,763	(46,273,497)	(10,666,510)	(14,893,244)
Equity in net income (loss) during the year	66,492,048	10,391,241	(6,473,376)	70,409,913
Dividends received	(52,292,890)	-	-	(52,292,890)
Balance at end of the year	56,245,921	(35,882,256)	(17,139,886)	3,223,779
Net Carrying Value	₱143,258,493	₱268,881,644	₱117,733,759	₱529,873,896

	2012			
	A-plus	SIAEP	PAAT	Total
Cost				
Balance at beginning of the year	₱87,012,572	₱304,763,900	₱33,750,000	₱425,526,472
Investment during the year	-	-	101,123,645	101,123,645
Balance at end of period	87,012,572	304,763,900	134,873,645	526,650,117
Accumulated Equity in Net Income (Loss)				
Balance at beginning of the year	44,732,164	(60,780,399)	-	(16,048,235)
Equity in net income (loss) during the year	50,543,615	14,506,902	(10,666,510)	54,384,007
Dividends received	(53,229,016)	-	-	(53,229,016)
Balance at end of the year	42,046,763	(46,273,497)	(10,666,510)	(14,893,244)
Net Carrying Value	₱129,059,335	₱258,490,403	₱124,207,135	₱511,756,873

Selected financial information of A-plus, SIAEP and PAAT follow:

	2013			2012		
	A-plus	SIAEP	PAAT	A-plus	SIAEP	PAAT
Total current assets	₱478,484,150	₱540,831,320	₱81,406,931	₱411,578,768	₱416,322,433	₱62,520,432
Total assets	579,071,005	1,376,480,413	935,085,788	482,283,412	1,020,266,173	495,453,301
Total current liabilities	284,903,010	490,589,535	702,578,269	217,093,296	377,439,493	249,999,035
Total liabilities	284,903,010	664,749,535	702,578,269	217,093,296	377,439,493	249,999,035
Net income (loss)	106,185,083	15,228,979	3,605,797	82,639,006	17,767,060	(21,333,018)

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 ₱56.2 million and ₱30.3 million as of September 30, 2013 and 2012, 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 September 30, 2013 and December 31, 2012.

14. Other Noncurrent Assets

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Refundable deposits	₱249,050,679	₱33,438,542
Creditable withholding tax	5,448,386	28,382,890
Others	154,565,152	159,074,514
	₱409,064,217	₱220,895,946

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

Others include option and commitment fees. The option and commitment fees shall be applied against payments for future aircraft delivery.

15. Accounts Payable and Other Accrued Liabilities

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Accrued expenses	P3,740,311,889	P3,750,064,107
Trade payables (Note 25)	2,916,631,985	2,478,769,275
Airport and other related fees payable	610,821,221	534,436,035
Advances from agents and others	270,380,295	251,878,844
Accrued interest payable (Note 16)	119,825,291	105,008,615
Other payables	234,742,009	237,880,170
Deposit from foreign carrier	-	410,500,000
	P7,892,712,690	P7,768,537,046

Accrued Expenses

The Group's accrued expenses include accruals for:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Maintenance (Note 28)	P1,081,843,378	P872,776,722
Compensation and benefits	611,852,603	546,839,542
Training costs	389,145,626	486,040,399
Advertising and promotion	386,314,524	398,690,076
Navigational charges	294,148,403	323,628,299
Fuel	174,058,028	199,083,829
Landing and take-off fees	164,912,847	244,198,125
Repairs and services	133,203,313	216,918,668
Ground handling charges	121,251,679	113,424,579
Rent (Note 28)	121,083,339	127,609,933
Aircraft insurance	57,508,745	45,776,243
Catering supplies	26,244,351	32,277,324
Reservation costs	11,547,933	8,375,590
Others	167,197,120	134,424,778
	P3,740,311,889	P3,750,064,107

Others represent accrual of professional fees, security, utilities and other expenses.

Trade Payables

Trade payables, which consist mostly of payables related to the purchase of inventories, are 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.

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.

Deposit from foreign carrier

Deposit from foreign carrier represents advances received in 2012 which was subsequently returned in January 2013.

Advances from Agents and Others

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

Accrued Interest Payable

Accrued 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.

16. Long-term Debt

This account consists of:

	Interest Rates	Maturities	2013	
			US Dollar	Philippine Peso Equivalent
ECA loans	2.51% to 5.83%	Various dates through 2023	US\$300,382,727	₱13,078,663,951
	0.88% to 2.32% (US Dollar LIBOR 6 months + margin or 3 months + margin)		168,846,348	7,351,569,985
			469,229,075	20,430,233,936
Commercial loans	3.75% to 5.67%	Various dates through 2017	172,190,089	7,497,156,491
	1.76% to 1.98% (US Dollar LIBOR 6 months + margin)		\$1,688,960	73,537,311
			173,879,049	7,570,693,802
			643,108,124	28,000,927,738
Less current portion			81,337,670	3,541,442,160
			US\$561,770,454	₱24,459,485,578

	Interest Rates	Maturities	2012	
			US Dollar	Philippine Peso Equivalent
ECA loans	2.51% to 5.83%	Various dates through 2023	US\$334,364,127	₱13,725,647,412
	0.95% to 2.32% (US Dollar LIBOR 6 months + margin or 3 months + margin)		180,762,668	7,420,307,510
			515,126,795	21,145,954,922
Commercial loans	4.11% to 5.67%	Various dates through 2017	40,325,975	1,655,381,256
	1.98% to 2.01% (US Dollar LIBOR 6 months + margin)		2,996,907	123,023,020
			43,322,882	1,778,404,276
			558,449,677	22,924,359,198
Less current portion			67,465,100	2,769,442,355
			US\$490,984,577	₱20,154,916,843

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.
- Interests on loans from the ECA lenders are a mix of fixed and variable rates. Fixed interest rates ranges from 2.56% to 3.37% and variable rates are based on US dollar LIBOR 6 months plus margin or US dollar LIBOR 3 months 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.
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

As of September 30, 2013 and December 31, 2012, the total outstanding balance of the ECA loans amounted to ₱20,430.2 million (US\$469.2 million) and ₱21,146.0 million (US\$515.1million), respectively. Interest expense amounted to ₱478.2 million and ₱474.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Commercial Loans

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.

On December 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.

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 four Airbus A320 aircraft, the engines and the QEC Kit. Principal repayments shall be made on a quarterly basis for the two

Airbus A320 aircraft , engines and the QEC Kit and semi-annual basis for the four Airbus A320 aircraft and six ATR 72-500 turboprop aircraft.

- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be US dollar LIBOR 3 months plus margin. The interest rates on the six Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 3.75% to 5.67%.
- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be US dollar LIBOR 6 months plus margin.
- The commercial loan facility provides for material breach as an event of default.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

As of September 30, 2013 and December 31, 2012, the total outstanding balance of the commercial loans amounted to ₱7,570.7 million (US\$173.9 million) and ₱1,778.4 million (US\$43.3 million), respectively. Interest expense amounted to ₱150.0 million and ₱77.7 million for the nine months ended September 30, 2013 and 2012, respectively.

The Group is not in breach of any loan covenants as of September 30, 2013 and December 31, 2012.

17. Other Noncurrent Liabilities

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ARO	₱1,799,505,669	₱1,351,931,051
Accrued maintenance	424,276,778	424,276,778
Pension liability (Note 22)	25,402,661	214,099,443
	₱2,249,185,108	₱1,990,307,272

ARO

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

The roll forward analysis of the Group's ARO follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ARO Asset		
Balance at beginning of the period	₱1,264,533,565	₱1,174,348,991
Capitalized during the period**	39,526,979	459,298,467
Amortization*	(289,543,855)	(369,113,893)
Balance at end of the period	1,014,516,689	1,264,533,565
ARO Liability		
Balance at beginning of the period	2,616,464,616	2,437,668,334
Accretion expense*	174,583,194	208,396,566
Capitalized during the period**	39,526,979	459,298,467
Payment of restorations during the period	(16,552,431)	(488,898,751)
Balance at end of the period	2,814,022,358	2,616,464,616
Net ARO Liability	₱1,799,505,669	₱1,351,931,051

*Included under repairs and maintenance (Note 20) account in the consolidated statements of comprehensive income.

** In 2013 and 2012, capitalized ARO liability pertains to one additional Airbus A330 aircraft and two additional Airbus A320 aircraft under operating lease, respectively.

Expenses included as part of repairs and maintenance (Note 20) follow:

	2013	2012
Amortization	₱289,543,855	₱369,113,893
Accretion expense	174,583,194	208,396,566
	₱464,127,049	₱577,510,459

Accrued Maintenance

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

18. Equity

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

	September 30, 2013	December 31, 2012
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 amounted to ₱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 89 and 76 existing certified shareholders as of September 30, 2013 and December 31, 2012, 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 September 30, 2013 and December 31, 2012, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings

On March 8, 2013, the Parent Company's BOD appropriated ₱2.5 billion from its unrestricted retained earnings as of December 31, 2012 for purposes of the Group's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

On April 19, 2012, the Parent Company's Executive Committee appropriated ₱483.3 million from its unrestricted retained earnings as of December 31, 2011 for purposes of the Group's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

On December 9, 2011, the Parent Company's BOD appropriated ₱933.5 million from its unrestricted retained earnings as of December 31, 2010 for purposes of the Parent Company's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

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 27, 2013, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱605.9 million or ₱1.00 per share and a special cash dividend in the amount of ₱605.9 million or ₱1.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of July 17, 2013 and payable on August 12, 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 amounted to ₱5,255.8 million and ₱7,426.9 million as of September 30, 2013 and December 31, 2012, respectively.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure, which 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:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
(a) Long term debt (Note 16)	₱28,000,927,738	₱22,924,359,198
(b) Capital	21,586,987,226	22,134,812,784
(c) Debt-to-capital ratio (a/b)	1.3:1	1.0:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of September 30, 2013 and December 31, 2012. Such ratio is currently being managed on a group level by the Group's ultimate parent.

19. Revenues

Revenues consist of:

	2013	2012
Passenger	₱23,590,727,506	₱21,801,238,033
Cargo	1,876,523,323	1,735,652,349
Ancillary revenues	5,114,609,594	4,335,578,443
	₱30,581,860,423	₱27,872,468,825

Ancillary revenues include baggage fees, rebooking and cancellation fees, inflight sales and services provided through reservation system such as advance seat selection and website administration fees.

20. Operating Expenses

Flying Operations

This account consists of:

	2013	2012
Aviation fuel expense	₱14,356,154,222	₱13,121,073,213
Flight deck	1,407,803,573	1,645,911,623
Aviation insurance	126,176,539	141,760,744
Others	121,285,641	90,384,775
	₱16,011,419,975	₱14,999,130,355

Aircraft and Traffic Servicing

This account consists of:

	2013	2012
Airport charges	₱1,532,881,345	₱1,488,601,241
Ground handling	846,512,985	808,045,837
Others	300,481,890	273,111,139
	₱2,679,876,220	₱2,569,758,217

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 the related amortization of ARO asset and cost of other contractual obligation under the aircraft operating lease agreements (Note 28). These amounted to ₱464.1 million and ₱386.9 million for the nine months ended September 30, 2013 and 2012, respectively (Note 17).

21. General and Administrative Expenses

This account consists of:

	2013	2012
Staff cost	₱250,506,630	₱243,275,696
Security and professional fees	215,383,645	207,295,818
Utilities	94,621,502	80,902,113
Others	214,499,895	162,960,012
	₱775,011,672	₱694,433,639

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

22. Employee Benefits

Employee Benefit Cost

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

Defined Benefit Plan

The Parent Company has an unfunded, noncontributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

23. Other Expenses

This account consists mainly of bank charges.

24. Earnings Per Share

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

	2013	2012
(a) Net income attributable to common shareholders	₱664,081,102	₱2,274,213,970
(b) Weighted average number of common shares for basic EPS	605,953,330	605,953,330
(c) Basic/diluted earnings per share	₱1.10	₱3.75

The Group has no dilutive potential common shares in 2013 and 2012.

25. 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.

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.

26. Financial Risk Management Objectives and Policies

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

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

Risk Management Structure

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

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

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

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

Audit Committee

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

The Audit Committee also aims to ensure that:

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

Enterprise Risk Management Group (ERMG)

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

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

Corporate Governance Compliance Officer

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

Day-to-day Risk Management Functions

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

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

ERM Framework

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

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

1. Internal Environmental Scanning - it involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the business unit.
2. Objective Setting - the Group's BOD mandates the Group's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. 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 September 30, 2013 and December 31, 2012, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statement of financial position) amounted to ₱199.1 and ₱177.1 million, respectively (Note 15). There are no collaterals for impaired receivables.

Impairment assessment

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

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

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

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

Liquidity Risk

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

The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses

conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and availing of export credit agency facilities.

Financial assets

The analysis of financial assets held for liquidity purposes into relevant maturity grouping is based on the remaining period at the 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.

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of September 30, 2013 and December 31, 2012 follow:

	September 30, 2013	December 31, 2012
US dollar	₱43.54 to US\$1.00	₱41.05 to US\$1.00
Singapore dollar	₱34.69 to SGD1.00	₱33.70 to SGD1.00
Hong Kong dollar	₱5.61 to HKD1.00	₱5.31 to HKD1.00

The following table sets forth the impact of the range of reasonably possible changes in the US dollar - Philippine peso exchange value on the Group's pre-tax income for the nine months ended September 30, 2013 and for the year ended December 31, 2012 (in thousands).

	September 30, 2013		December 31, 2012 (Audited)	
	(Unaudited)			
Changes in foreign exchange value	₱5	(₱5)	₱5	(₱5)
Change in pre-tax income	(₱3,292,782)	₱3,292,782	(₱2,686,052)	₱2,686,052

Other than the potential impact on the Group's pre-tax income and change in equity from AFS investments, there is no other effect on equity.

The Group does not expect the impact of the volatility on other currencies to be material.

Commodity price risk

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.00 per barrel of jet fuel affects the Group's fuel costs in pre-tax income by ₱1,076.2 million and ₱1,258.9 million as of September 30, 2013 and December 31, 2012, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated statement of financial position and on some financial instruments not recognized in the consolidated statement of financial position (i.e., some loan commitments, if any). The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt (Note 16).

The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Group's pre-tax income for the nine months ended September 30, 2013 and for the year ended December 31, 2012.

	September 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
Changes in interest rates	1.50%	(1.50%)	1.50%	(1.50%)
Changes in pre-tax income	(₱84,958,539)	₱84,958,539	(₱91,088,144)	₱91,088,144

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

27. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of its financial instruments are:

Cash and cash equivalents (excluding cash on hand), Receivables and Accounts payable and other accrued liabilities

Carrying amounts approximate their fair values due to the relatively short-term maturity of these instruments.

Investments in quoted equity securities

Fair values are based on quoted prices published in markets.

Amounts due from and due to related parties

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

Non-interest bearing refundable deposits

The fair values are determined based on the present value of estimated future cash flows using prevailing market rates. The Group used a discount rate of 6.93% in 2013 and 2012.

Derivative instruments

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

Long-term debt

The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount curve used range from 3.67% to 4.44% as of September 30, 2013 and December 31, 2012.

28. 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 existing lease agreements on the Group's Airbus A320 aircraft:

<u>Date of Lease Agreement</u>	<u>Lessors</u>	<u>No. of Units</u>	<u>Lease Expiry</u>
April 2007	Inishcrean Leasing Limited (Inishcrean)	1	October 2016
May 2007	CIT Aerospace International	4	March, April, May and October 2014
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 to be 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.

Lease expenses relating to Airbus A320 aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱1,405.7 million and ₱1,545.9 million for the nine months ended September 30, 2013 and 2012, respectively.

A330 aircraft

On February 21, 2012, the Group entered into a lease agreement with CIT Aerospace International for four Airbus A330-300 aircraft, which are scheduled to be delivered from June 2013 to 2014. The lease term of the aircraft is 12 years with an early pre-termination option.

The first two A330 aircraft were delivered in June 2013 and September 2013.

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

Lease expenses relating to Airbus A330 aircraft lease (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱166.9 million and nil for the nine months ended September 30, 2013 and 2012, respectively.

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

	September 30, 2013		September 30, 2012	
	In USD	In Php	In USD	In Php
Within one year	\$70,259,327	₱3,059,231,632	\$48,850,444	₱2,038,968,700
After one year but not more than five years	317,628,316	13,830,172,156	266,018,036	11,103,326,809
Over five years	481,549,536	20,967,629,887	355,536,708	14,839,746,635
	\$869,437,179	₱37,857,033,675	\$670,405,188	₱27,982,042,144

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:

	September 30, 2013	September 30, 2012
Within one year	₱112,445,181	₱107,638,087
After one year but not more than five years	500,465,154	612,910,335
Over five years	168,607,596	168,607,596
	₱781,517,931	₱889,156,018

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 ₱219.6 million and ₱200.3 million for the nine months ended September 30, 2013 and 2012, 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 TotalCare 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.

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. Five of these aircraft were delivered between September 2011 and July 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.

As of September 30, 2013, the Group has taken delivery of 14 Airbus A320 aircraft and has existing commitments to purchase 15 more Airbus A320 aircraft.

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.

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

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱63.0 billion and ₱50.6 billion as of September 30, 2013 and 2012, respectively.

	September 30, 2013		September 30, 2012	
	In USD	In Php	In USD	In Php
Within one year	\$208,433,991	₱9,075,215,964	\$331,565,858	₱13,826,296,290
After one year but not more than five years	1,300,068,110	56,604,965,504	928,268,884	38,708,812,467
	\$1,508,502,101	₱65,680,181,468	\$1,259,834,742	₱52,535,108,757

Contingencies

The Group has pending suits and claims for sums of money against certain general sales agents which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations.

The Group has a pending tax pre-assessment, the outcome of which is not presently determinable.

On June 2, 2013, flight 5J 971 veered off the runway of Davao International Airport under poor weather conditions. The aircraft sustained significant damage and is currently grounded. The assessment of the damage to the aircraft is still on going, thus, the total cost of repair and recovery to be incurred can not yet be ascertained as of this time. The Group expects that these costs will be covered by its insurance policy and currently does not believe that this event will have a material adverse effect on its financial condition and results of operations.

29. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The principal noncash activities of the Group were as follows:

- a. On September 30, 2013, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱143.3 million with a corresponding debit to 'Construction-in progress' account. The liability was paid on October 2013.

30. 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.