

SECURITIES AND EXCHANGE COMMISSION

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

1. For the quarterly period ended March 31, 2011
2. Commission identification number 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. Address of issuer's principal office 2nd Floor, Dona Juanita Marquez Lim Building, Osmeña Blvd., Cebu City 6000
Postal Code

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

Not Applicable

9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 Par Value	611,236,550 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

Business Overview

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

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

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

As of March 31, 2011, the Company operates an extensive route network serving 50 domestic routes and 23 international routes with a total of 1,814 scheduled weekly flights. It operates from four hubs, including the Ninoy Aquino International Airport Terminal 3 located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport located in Clark, Pampanga; and Davao International Airport located in Davao City, Davao del Sur.

The Company currently operates a fleet of 33 aircraft which comprises of ten Airbus A319, 15 Airbus A320, and eight ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72 -500 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the Company's fleet is approximately 3.27 years as of March 31, 2011.

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, excess baggage and travel-related products and services.

Results of Operations

Three Months Ended March 31, 2011 versus March 31, 2010

Revenues

The Company generated revenues of P7.520 billion for the three months ended March 31, 2011, 7.4% higher than the P7.002 billion revenues posted in the same period last year. Growth in revenues is accounted for as follows:

Passenger Revenues

Passenger revenues grew by P270.596 million or 4.5% to P6.302 billion in the three months ended March 31, 2011 from P6.031 billion registered in the three months ended March 31, 2010. This increase was mainly attributable to the 11.9% increase in passenger volume to 2.8 million from 2.5 million last year as a result of the increased number of flights and higher seat load factor in 2011. The increase in volumes however was offset by the reduction in average fares by 6.6% to P2,246 from P2,405 in the three months ended March 31, 2010.

Cargo Revenues

Cargo revenues dropped by P15.468 million or 3.2% to P463.041 million in the three months ended March 31, 2011 from P478.509 million in the same period last year. First quarter 2010 was a strong quarter owing to the national elections.

Ancillary Revenues

Ancillary revenues went up by P262.901 million or 53.4% to P755.393 million in the three months ended March 31, 2011 from P492.492 million posted in the three months ended March 31, 2010. Increased online bookings primarily contributed to the growth. Online bookings accounted for 47.9% of the total tickets sold for the first quarter 2011 compared to the 39.2% last year. Moreover, higher excess baggage rates for the current year and increased rebooking and cancellation transactions are also factors to the significant boost in ancillary revenues earned in 2011.

Expenses

The Company incurred expenses of P6.779 billion for the three months ended March 31, 2011, 23.2% higher than the P5.503 billion expenses incurred in the same period last year. Increase in expenses was partially offset by the strengthening of the Philippine peso against the U.S. dollar to an average of P43.79 per U.S. dollar for the three months ended March 31, 2011 from an average of P46.01 per U.S. dollar in 2010 based on the Philippine Dealing System weighted average rates. Expenses increased as a result of the following:

Flying Operations

Flying operations expenses increased by P917.330 million or 33.8% to P3.628 billion in the three months ended March 31, 2011 from P2.711 billion incurred in the same period last year. Growth in flying operations expenses was primarily due to the increase in aviation fuel expenses by 40.8% to P3.235 billion from P2.298 billion in 2010 consequent to the significant increase in aviation fuel prices to an average published MOPS price of U.S.\$120.66 per barrel in the three months ended March 31, 2011 from U.S.\$85.20 per barrel last year. Rise in aviation fuel expenses was further influenced by the increase in the volume of fuel consumed as a result of the increased number of flights year on year.

Aircraft and Traffic Servicing

Aircraft and traffic servicing expenses moved up by P82.358 million or 12.4% to P745.347 million in the three months ended March 31, 2011 from P662.989 million in the three months ended March 31, 2010. This was mainly driven by the increase in the number of flights flown in 2011, particularly to the surge in the number of international flights which went up by 26.3% from last year. Landing and take-off fees and groundhandling charges are significantly higher for international flights compared to domestic flights.

Depreciation and Amortization

Depreciation and amortization expenses grew by P132.831 million or 26.8% to P629.131 million in the three months ended March 31, 2011 from P496.299 million registered in same period last year. Depreciation and amortization expenses increased as a result of the acquisition of three Airbus A320 aircraft during the last quarter of 2010 and the addition of one Airbus A320 aircraft and engine in 2011.

Repairs and Maintenance

Repairs and maintenance expenses went up by P27.639 million or 4.9% to P588.412 million in the three months ended March 31, 2011 from P560.773 million posted in the three months ended March 31, 2010 primarily as a result of the overall increase in the number of flights which was offset in part by the strengthening of the Philippine peso against the U.S. dollar to an average of P43.79 per U.S. dollar for the three months ended March 31, 2011 from an average of P46.01 per U.S. dollar for the same period in 2010.

Aircraft and Engine Lease

Aircraft and engine lease expenses increased by P19.234 million or 5.0% to P407.380 million in the three months ended March 31, 2011 from P388.147 million incurred last year. Increase in aircraft and engine lease expenses was due in part to the lease of one ATR 72-500 engine in 2011, reduced by the effect of the appreciation of the Philippine peso against the U.S. dollar in 2011.

Reservation and Sales

Reservation and sales expenses moved up by P56.034 million or 17.5% to P376.882 million in the three months ended March 31, 2011 from P320.849 million in the three months ended March 31, 2010. This was primarily attributable to the Company's increased spending to build market presence and establish brand name in its international operations. Moreover, increase in commission expenses due to the overall growth in passenger volume year on year was also a factor to the increase in reservation and sales expenses.

Passenger Service

Passenger service expenses grew by P25.726 million or 16.3% to P183.377 million in the three months ended March 31, 2011 from P157.651 million registered in the same period last year. Additional cabin crew hired for the four Airbus A320 aircraft acquired during the last quarter of 2010 and during the first quarter of 2011 mainly caused the increase. Furthermore, rise in passenger liability insurance premiums relative to the increase in the number of aircraft also contributed to the growth in passenger service expenses.

General and Administrative

General and administrative expenses dropped by P1.301 million or 0.7% to P190.437 million in the three months ended March 31, 2011 from P191.738 million in three months ended March 31, 2010. Minimal decline in general and administrative expenses was due to the Company's effective cost management.

Operating Income

As a result of the foregoing, the Company registered operating income of P740.828 million for the three months ended March 31, 2011, 50.6% lower than the P1,499.184 million posted in 2010.

Fuel Hedging Gains

Fuel hedging gains of P623.797 million in the three months ended March 31, 2011 resulted from the higher mark-to-market valuation on fuel hedging positions following the significant increase in fuel prices in 2011.

Interest Income

Interest income increased by P149.005 million or 4838.9% to P152.085 million in the three months ended March 31, 2011 from P3.079 million earned in the same period last year. Increased cash from operations were placed in short-term money markets and investment securities which earned interests thus resulting to a significant increase in interest income in 2011.

Foreign exchange gains - net

Net foreign exchange gains of P98.993 million in the three months ended March 31, 2011 resulted from the strengthening of the Philippine peso against the U.S. dollar to an average of P43.79 per U.S. dollar for the current quarter from an average of P46.01 per U.S. dollar in 2010 based on the Philippine Dealing System weighted average rates. The Company's principal exposure to foreign exchange rate fluctuations is in respect of U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions. Foreign exchange loss on financial assets designated at FVPL also contributed to the decline.

Equity in Net Income of Joint Venture

The Company had equity in net income of joint venture of P8.783 million in the three months ended March 31, 2011 compared with P4.056 million equity in net income of joint venture recorded in the same period last year. P4.727 million or 116.5% improvement in this account was due to the net income from the current operations of A+, which was partially offset by the net loss incurred during the current period by SIAEP, a company which was established in July 2008 and began commercial operations in August 2009.

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

Fair value losses amounted to P23.912 million for the three months ended March 31, 2011 as a result of the changes in the fair values of quoted debt and equity instruments designated at FVPL acquired during the second half of 2010.

Interest Expense

Interest expense decreased by P0.612 million or 0.3% to P231.410 million in the three months ended March 31, 2011 from P232.022 million in the three months ended March 31, 2010. Decline was due to the repayment of the Company's outstanding obligations in accordance with the loan repayment schedules and lower interest rates on additional loans availed during the last quarter of 2010 and first quarter of 2011. Likewise, the strengthening of the Philippine peso against the U.S. dollar in 2011 also contributed to the decline.

Income before Income Tax

As a result of the foregoing, the Company posted income before income tax of P1.369 billion for the three months ended March 31, 2011, a decline of 17.0% from the P1.650 billion net income before income tax registered in the three months ended March 31, 2010.

Provision for Income Tax

Provision for income tax for the three months ended March 31, 2011 amounted to P168.568 million. Increase in provision for income tax was mainly due to the current income tax recognized as a result of the taxable income in 2011 further increased by the deferred tax liabilities recognized in connection with the net unrealized foreign exchange gains on the Company's foreign currency denominated obligations

Net Income

Net income for the three months ended March 31, 2011 amounted to P1.201 billion, a decline of 22.9% from the P1.557 billion net income posted in the same period last year.

As of March 31, 2011, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no material off-balance sheet transactions, arrangements and obligations (including contingent obligations). As of March 31, 2011, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no transactions, arrangements and obligations with other unconsolidated entities or other persons created during the reporting period that would have a significant adverse impact on the Company's operations and/or financial condition.

Financial Position

March 31, 2011 versus December 31, 2010

As of March 31, 2011, the Company's consolidated balance sheet remains solid, with net debt to equity of .40 [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 P53.246 billion from P49.937 billion as of December 31, 2010 as the Company added aircraft to its fleet. Equity grew to P18.948 billion from P17.907 billion in 2010 while book value per share amounted to P31.00 as of March 31, 2011 from P29.20 as of December 31, 2010.

The Company's cash requirements have been mainly sourced through cash flow from operations. Net cash from operating activities amounted to P2.739 billion. As of March 31, 2011, net cash used in investing activities amounted to P1.639 billion which included payments in connection with the purchase of aircraft. Net cash used in financing activities amounted to P556.510 million. Net cash used in financing activities mainly comprised of repayments of long-term debt.

As of March 31, 2011, except as otherwise disclosed in the financial statements and to the best of the Company's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Material Changes in the 2011 Financial Statements (Increase/Decrease of 5% or more versus 2010)

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

Consolidated Statements of Financial Position - March 31, 2011 versus December 31, 2010

5.4% increase in Cash and Cash Equivalents

Due to increased collections as a result of the improvement in the Company's operations as evidenced by the 7.4% growth in revenues.

8.9% increase in Financial Assets at FVPL

Due to the increase in the fair value of derivative financial instruments.

16.8% increase in Expendable Parts, Fuel, Materials and Supplies

Due to the increase in the volume of fuel inventory relative to the increased number of flights during the period.

5.4% increase in Other Current Assets

Due to the advance payment of 2011 insurance premiums and advance rental payments on aircraft and office spaces partially offset by the liquidation of advances to suppliers.

7.0% increase in Property and Equipment

Due to the acquisition of one Airbus A320 aircraft and engine and one ATR 72-500 aircraft during the period.

6.9% increase in Other Noncurrent Assets

Due to the deposits made for the delivery of Airbus A320 aircraft in 2011.

11.8% increase in Accounts Payable and Other Accrued Liabilities

Due to the increase in accruals of certain operating expenses as a result of the increased flight and passenger activity in the three months ended March 31, 2011 further increased by the liability related to the acquisition of treasury share.

15.0% increase in Unearned Transportation Revenue

Due to the increase in sale of passenger travel services.

101.0% increase in Deferred Tax Liabilities - net

Due to the future taxable amount recognized in connection with unrealized foreign exchange gains.

100% increase in Treasury Stocks

Due to the purchase of 2,000,000 shares of common stocks pursuant to the Company's share buyback program.

43.2% increase in Net Unrealized Loss on Available-for-Sale Investments

Due to the decline in fair value of the acquired unquoted equity securities.

13.5% increase in Retained Earnings

Due to net income during the period.

KEY PERFORMANCE INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010:

Key Financial Indicators	2011	2010
Total Revenue	₱7.520 billion	₱7.002 billion
Pre-tax Core Net Income	₱670.285 million	₱1274.298 million
EBITDAR Margin	24%	34%
Cost per Available Seat Kilometre (ASK) (Php)	2.31	2.17
Cost per ASK (U.S. cents)	5.27	4.71
Seat Load Factor	87%	83%

The manner by which the Company calculates the above key performance indicators for both 2011 and 2010 is as follows:

Key Financial Indicators		
Total Revenue	=	Total of the Company's three main revenue sources, namely passenger revenue, cargo revenue, and ancillary revenue
Pre-tax Core Net Income	=	Operating income after deducting net interest expense and adding equity income/losses of a joint venture
EBITDAR Margin	=	Operating income after adding depreciation and amortization and aircraft and engine lease expenses divided by total revenue
Cost per ASK	=	Operating expenses, including depreciation and amortization expenses and the costs of operating leases, but excluding fuel hedging effects, foreign exchange effects, net financing charges and taxation, divided by ASK
Seat Load Factor	=	Total number of passengers divided by the total number of actual seats on actual flights flown

As of March 31, 2011, 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

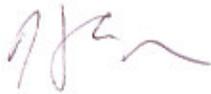
Pursuant to the requirements of the Securities Regulations Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CEBU AIR, INC.



LANCE Y. GOKONGWEI
President and Chief Executive Officer

Date: MAY 13 2011



HANSLEY HEINRYCH C. SEE
Chief Financial Officer

Date: MAY 13 2011



ROBIN C. DUI
Vice President - Comptroller

Date: MAY 13 2011

CEBU AIR, INC.**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2011****(With Comparative Audited Figures as of December 31, 2010)**

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱10,291,923,143	₱9,763,288,972
Financial assets at fair value through profit or loss (Note 8)	4,224,326,815	3,879,438,631
Receivables (Note 9)	830,285,040	862,409,591
Expendable parts, fuel, materials and supplies (Note 10)	432,254,975	370,032,035
Other current assets (Note 11)	278,413,401	264,073,803
Total Current Assets	16,057,203,374	15,139,243,032
Noncurrent Assets		
Property and equipment (Notes 12, 16, 27 and 28)	36,346,693,366	33,985,701,079
Investment in joint ventures (Note 13)	378,427,658	369,644,738
Available-for-sale investment (Note 8)	113,356,375	114,532,000
Other noncurrent assets (Note 14)	350,334,594	327,847,154
Total Noncurrent Assets	37,188,811,993	34,797,724,971
	₱53,246,015,367	₱49,936,968,003
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 15)	₱6,263,530,199	₱5,598,486,319
Unearned transportation revenue (Note 3)	5,298,195,487	4,606,311,016
Current portion of long-term debt (Notes 12 and 16)	2,157,214,631	2,056,043,837
Due to related parties (Note 26)	36,030,280	35,529,304
Total Current Liabilities	13,754,970,597	12,296,370,476
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12 and 16)	16,984,350,467	16,376,664,867
Deferred tax liabilities - net	307,830,549	153,130,071
Other noncurrent liabilities (Notes 17 and 22)	3,250,936,809	3,203,752,687
Total Noncurrent Liabilities	20,543,117,825	19,733,547,625
Total Liabilities	34,298,088,422	32,029,918,101
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 Stocks	(158,547,360)	
Net unrealized losses on available-for-sale investment (Note 8)	(3,886,900)	(2,714,902)
Retained earnings	10,091,556,535	8,890,960,134
Total Equity	18,947,926,945	17,907,049,902
	₱53,246,015,367	₱49,936,968,003

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC.**UNAUDITED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

	Quarters Ended	
	2011	2010
REVENUE		
Sale of air transportation services:		
Passenger	₱6,301,738,415	₱6,031,142,255
Cargo	463,041,211	478,509,224
Ancillary revenue (Note 19)	755,392,561	492,491,969
	7,520,172,187	7,002,143,448
EXPENSES		
Flying operations (Note 20)	3,628,008,840	2,710,678,699
Aircraft and traffic servicing (Note 20)	745,346,988	662,988,965
Depreciation and amortization (Note 12)	629,130,513	496,299,200
Repairs and maintenance (Note 20)	588,412,398	560,773,291
Aircraft and engine lease (Note 26)	407,380,484	388,146,511
Reservation and sales	376,882,319	320,848,805
General and administrative (Note 21)	190,437,022	191,738,120
Passenger service	183,377,468	157,651,199
Other expenses (Note 23)	30,368,526	13,834,395
	6,779,344,558	5,502,959,185
OPERATING INCOME	740,827,629	1,499,184,263
OTHER INCOME (EXPENSE)		
Interest expense (Notes 16 and 17)	(231,409,842)	(232,021,690)
Foreign exchange gains (losses)	98,993,423	361,308,444
Fuel hedging gains (losses) (Note 8)	623,796,983	14,471,448
Interest income (Notes 7 and 8)	152,084,639	3,079,301
Fair value gains of financial assets designated at fair value through profit or loss (Note 8)	(23,911,738)	
Equity in net income (loss) of joint venture (Note 13)	8,782,920	4,055,971
	628,336,385	150,893,474
INCOME (LOSS) BEFORE INCOME TAX	1,369,164,014	1,650,077,737
PROVISION FOR (BENEFIT FROM) INCOME TAX	168,567,613	92,990,391
NET INCOME (LOSS)	1,200,596,401	1,557,087,346
Net unrealized losses on available-for-sale investment (Note 8)	(1,175,626)	-
Benefit from income tax (Notes 8 and 24)	3,628	-
OTHER COMPREHENSIVE LOSS, NET OF TAX	(1,171,998)	-
TOTAL COMPREHENSIVE INCOME (LOSS)	₱1,199,424,403	₱1,557,087,346
Basic/Diluted Earnings (Loss) Per Share		
(Note 24)	₱2.0	₱2.7

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THREE MONTHS ENDED MARCH 31, 2011**

(With Comparative Audited Figures as of March 31, 2010)

	Common Stock (Note 18)	Capital Paid in Excess of Par Value (Note 18)	Treasury Stocks	Net unrealized losses on available-for-sale investment (Note 8)	Retained Earnings	Total Equity
Balance at January 1, 2011	₱613,236,550	₱8,405,568,120		(₱2,714,902)	₱8,890,960,134	₱17,907,049,902
Net income	–	–		–	1,200,596,401	1,200,596,401
Other comprehensive income (loss)	–	–		(1,171,998)		(1,171,998)
Total comprehensive income	–	–		(1,171,998)	1,200,596,401	1,199,424,403
Treasury stocks			(158,547,360)			(158,547,360)
Balance at March 31, 2011	₱613,236,550	₱8,405,568,120	(158,547,360)	(₱3,886,900)	₱10,091,556,535	₱18,947,926,945

	Common Stock	Capital Paid in Excess of Par Value	Retained Earnings	Total Equity
Balance at January 1, 2010	₱582,574,750	₱4,703,920,250	₱1,968,466,854	₱7,254,961,854
Net income	–	–	1,557,087,346	1,557,087,346
Other comprehensive income (loss)	–	–	–	–
Total comprehensive income	–	–	1,557,087,346	1,557,087,346
Balance at March 31, 2010	₱582,574,750	₱4,703,920,250	₱3,525,554,200	₱8,812,049,200

CEBU AIR, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	₱1,369,164,014	₱1,650,077,737
Adjustments for:		
Depreciation and amortization (Note 12)	629,130,513	496,299,200
Interest expense (Notes 16 and 17)	231,409,842	232,021,690
Unrealized foreign exchange losses (gains)	(159,479,323)	(367,731,352)
Fuel hedging losses (gains) (Note 8)	(623,796,983)	(14,471,448)
Interest income (Note 7 and 8)	(152,084,639)	(3,079,301)
Fair value gain of financial assets at fair value through profit or loss (Note 8)	23,911,738	
Equity in net loss (income) of joint venture (Note 13)	(8,782,920)	(4,055,971)
Operating income before working capital changes	1,309,472,242	1,989,060,555
Decrease (increase) in:		
Receivables	(18,008,541)	393,332,329
Other current assets	(14,339,598)	(98,106,713)
Expendable parts, fuel, materials and supplies	(62,222,940)	9,821,836
Financial assets at fair value through profit or loss (derivatives)	220,644,904	42,013,720
Increase (decrease) in:		
Accounts payable and other accrued liabilities	592,770,507	(255,604,093)
Unearned transportation revenue	691,884,471	1,064,038,351
Financial liabilities at fair value through profit or loss (derivatives)		
Due to related parties	500,976	36,934,786
Noncurrent liabilities	482,312	20,886,001
Net cash generated from operations	2,721,184,333	3,202,376,772
Interest paid	(185,870,919)	(210,360,445)
Interest received	203,278,667	3,079,301
Net cash provided by operating activities	2,738,592,081	2,995,095,628
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Notes 12 and 27)	(1,616,406,219)	(90,299,841)
Decrease (increase) in other noncurrent assets	(22,487,440)	(3,333,454)
Net cash used in investing activities	(1,638,893,659)	(93,633,295)

(Forward)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of:		
Long-term debt	₱ (556,510,040)	₱ (490,558,193)
Net cash provided by (used in) financing activities	(556,510,040)	(490,558,193)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	(14,554,211)	(11,230,177)
NET INCREASE IN CASH AND CASH EQUIVALENTS	543,188,382	2,410,904,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,763,288,972	3,840,859,455
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱10,291,923,143	₱6,240,533,418

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Cebu Air, Inc. (the 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 Company is at 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City.

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

The Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Company is 65.36%-owned by CP Air Holdings, Inc. (the Parent Company or CPAHI).

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

The Company is registered with the Board of Investments (BOI) as a new operator of air transport on a non-pioneer status. Under the terms of the registration and subject to certain requirements, the Company is entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four years. The Company can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight years.

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

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

On May 24, 2005, the 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 Company is abolished;
- b. The Company shall be subject to RCIT;
- c. The Company shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges;
- d. Change in RCIT rate from 32.00% to 35.00% for the next three years effective on November 1, 2005, and 30.00% starting on January 1, 2009 and thereafter;
- e. 70.00% cap on the input VAT that can be claimed against output VAT; and
- f. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

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

On December 16, 2008, the Company was registered as 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. The said registration was valid for one year effective from December 9, 2009 until December 8, 2010, which was still valid as of December 31, 2010 through temporary operating permit. The registration provides incentives, rights and privileges such as imposition of five percent (5.00%) tax on gross income earned in lieu of national and local taxes.

In accordance with Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, the consolidated financial statements include the accounts of Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL), Surigao Leasing Limited (SLL) and Sharp Aircraft Leasing Limited (SALL). CALL, ILL, BLL, SLL and SALL are SPEs in which the Company does not have equity interest. CALL, ILL, BLL, SLL and SALL acquired the passenger aircraft for lease to the Company under finance lease arrangements (Note 12) and funded the acquisitions through long-term debt (Note 16).

The accompanying consolidated financial statements of the Company and its special purpose entities (SPEs) (the Group) were approved and authorized for issue by the board of directors (BOD) on May 13, 2011.

2. Summary of Significant Accounting Policies

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, its functional currency. All values are rounded to the nearest peso except when otherwise indicated.

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 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.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2010. The following new and amended standards did not have an impact on the accounting policies, financial position or performance of the Group.

New Standards and Interpretations

- PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC) 17, *Distributions of Non-cash Assets to Owners*

Improvements to PFRSs 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*

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

Significant Accounting Policies

Revenue Recognition

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

Sale of air transportation services

Passenger ticket and cargo waybill sales are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until recognized under Revenue account in the consolidated statement of comprehensive income when the transportation service is rendered by the Group (e.g., when passengers and cargo are lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

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

Ancillary revenue

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

Interest income

Interest on cash, cash equivalents and other short-term cash investments is recognized as the interest accrues using the effective interest method.

Expense Recognition

Expenses are recognized when it is probable that 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.

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at the fair value of the consideration given. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The Group has no HTM investments as of March 31, 2011 and as of December 31, 2010.

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

Determination of fair value

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

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

'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. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss, when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Financial assets and financial liabilities at FVPL

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

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

As of March 31, 2011 and as of December 31, 2010, the Group's financial assets at FVPL consist of derivative assets, as well as private and government debt and equity securities (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 three months ended March 31, 2011 and 2010.

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

As of March 31, 2011 and as of December 31, 2010, 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.

The AFS investment of the Group represents a quoted equity security (Note 8).

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 (Note 14).

Financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

This accounting policy applies primarily to the Group's debt, accounts payable and other accrued liabilities and other obligations that meet the above definition (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 (Note 4).

AFS investments

The Group assesses at each statement of financial position 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. Cost also includes asset retirement obligation (ARO) relating to the leased passenger aircraft.

Subsequent costs are capitalized as part of Property and Equipment account only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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%

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.

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 Group recognizes the present value of these costs as ARO asset (included under 'Property and equipment') 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 (included in interest expense) over the lease term.

The Group regularly assesses the provision for ARO and adjusts the related asset and liability (Note 3).

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.

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 49.00% and 35.00% investments in Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP) are accounted for under the equity method (Note 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.

Impairment of Nonfinancial Assets

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

At each statement of financial position 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 reporting 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Common Stock

Common stocks are classified as equity and 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.

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 10.0% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation as of reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any 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 risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Income Taxes

Current tax

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

Deferred tax

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

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

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax 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 had not capitalized any borrowing costs for the quarter ended March 31, 2011 and 2010 as all borrowing costs from outstanding long-term debt relate to assets that are at states 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 System (PDS) closing rate prevailing at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the 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.

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 Period

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

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32 (Amended), *Financial Instruments: Presentation - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

- PAS 12 (Amended), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- PFRS 7 (Amended), *Financial Instruments - Disclosures: Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- Philippine Interpretation IFRIC-14 (Amended), *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC-14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

- **Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate***
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.
- **Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments***
This Interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to PFRSs 2010

Improvements to IFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010. The amendments are listed below:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

3. 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 judgment 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.

The fair values of the Group's financial instruments are presented in Note 5.

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 26).

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 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 26).

Estimates

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

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 provisions for credit losses on receivables are discussed in more detail in Note 9.

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 100.0% 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 details of expendable parts, fuel, materials and supplies are disclosed in Note 10.

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 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 noncurrent assets and noncurrent liabilities, which results in increase of depreciation expense and interest expense.

The details and the carrying value of ARO asset and liability are disclosed in Note 17.

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.

The details and the carrying value of property and equipment are disclosed in Note 12.

e. Recognition of deferred tax assets

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

f. 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.

The carrying values of property and equipment and investment in JV are disclosed in Notes 12 and 13, respectively.

g. *Estimation of pension and other employee benefit costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

The present value of the defined benefit obligation, other details for the retirement plan and other employee benefit cost are disclosed in Note 22.

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 March 31, 2011 and as of December 31, 2010, the balances of the Group's unearned transportation revenue amounted to ₱5.3 billion and ₱4.6 billion, respectively. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

4. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, financial assets at FVPL, 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 shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and both the internal and external audit functions of the Group. Furthermore, it is also the Audit Committee's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The Audit Committee also aims to ensure that:

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

Enterprise Risk Management Group (ERMG)

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

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

Corporate Governance Compliance Officer

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

Day-to-day Risk Management Functions

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

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

ERM Framework

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

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

1. Internal Environmental Scanning - it involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the business unit.
2. Objective Setting - the Group's BOD mandates the Group's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Event Identification – it identifies both internal and external events affecting the group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment - the identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
5. Risk Response - the Group's BOD, through the oversight role of the ERMG, approves the Group's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities - policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.

7. Information and Communication - relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring - the ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

Risk Management Support Groups

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

1. Corporate Security and Safety Board (CSSB) - under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. Corporate Supplier Accreditation Team (CORPSAT) - under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
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.

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

Credit quality per class of financial assets

The Group rates its financial assets based on an internal and external credit rating system.

For financial assets such as designated financial assets at FVPL and AFS investments, the Group assesses their credit quality using external credit ratings from Standard & Poor's (S&P). Financial assets with at least A- are identified as high grade, at least B- as standard grade and not rated (NR) if the credit rating is not performed by an external credit rating agency.

Collateral or credit enhancements

As collateral against trade receivables from sales ticket offices or agents, the Group requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Group's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of March 31, 2011 and as of December 31, 2010, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statement of financial position) amounted to ₱ 140.0 million and ₱136.9 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 reporting date to the contractual maturity date or if earlier the expected date the assets will be realized.

Financial liabilities

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

Market Risk

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

Foreign currency risk

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

The Group does not have any foreign currency hedging arrangements.

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of March 31, 2011 and as of December 31, 2010 follow:

	2011	2010
US dollar	₱43.39 to US\$1.00	₱43.84 to US\$1.00
Singapore dollar	₱34.44 to US\$1.00	₱34.16to SGD1.00
Hong Kong dollar	₱5.58 to US\$1.00	₱5.64to HKD1.00

The following table sets forth the impact of the range of reasonably possible changes in the US dollar - Philippine peso exchange value on the Group's pre-tax income for the three months ended March 31, 2011 and the year ended December 31, 2010. (in thousands).

	March 31, 2011		December 31, 2010 (Audited)	
	₱5	(₱5)	₱5	(₱5)
Change in pre-tax income	(₱1,879,005)	₱1,879,005	(₱1,833,907)	₱1,833,907

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 P264.1 million, P989.8 million as of March 31, 2011 and December 31, 2010 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 three Months ended March 31, 2011 and for the year ended December 31, 2010.

	March 31, 2011 (Unaudited)		December 31, 2010 (Audited)	
Changes in interest rates	1.50%	(1.50%)	1.50%	(1.50%)
Change in pre-tax income	(P43,077,974)	P43,077,974	(P42,709,321)	P42,709,321

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

5. Fair Value Measurement

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

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

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

Investments in 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 discount rates of 6.93% in 2011 and 8.72% in 2010.

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 3.29% to 3.72% as of March 31, 2011.

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 operating segment mainly derived from rendering transportation services. All sales are made to external customers.

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

	2011	2010
Revenue	₱8,403,830,152	₱7,385,058,612
Net income (loss)	1,200,596,401	1,557,087,346
Depreciation and amortization	629,130,513	496,299,200
Interest expense	231,409,842	232,021,690
Interest income	152,084,639	3,079,301

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:

	2011	2010
Total segment revenue of reportable operating segment	₱7,520,172,187	₱7,002,143,448
Nontransport revenue and other income	883,657,965	382,915,164
Total revenue	₱8,403,830,152	₱7,385,058,612

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:

	2011	2010
Total segment income of reportable segment	₱740,827,629	₱1,499,184,263
Add (deduct) unallocated items:		
Nontransport revenue and other income	883,657,965	382,915,164
Nontransport expenses and other charges	(255,321,580)	(232,021,690)
Benefit from (provision for) income tax	(168,567,613)	(92,990,391)
Net income (loss)	1,200,596,401	1,557,087,346
Other comprehensive loss	(1,171,998)	
Total comprehensive income (loss)	₱1,199,424,403	₱1,557,087,346

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 10.0% or more to the revenues of the Group.

7. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand	₱14,694,238	₱14,424,238
Cash in banks	244,647,245	669,548,018
Short-term placements	10,032,581,660	9,079,316,716
	₱10,291,923,143	₱9,763,288,972

Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn an average interest of 4.10% and 4.03% for three months ended March 31, 2011 and 2010 respectively, on short-term placements denominated in Philippine peso. Moreover, short-term placements in US dollar earn an average of 0.65% in 2011.

Interest income on cash and cash equivalents, presented in the consolidated statements of comprehensive income, amounted to ₱101.9 million and ₱3.1 million for three months ended March 31, 2011 and 2010 respectively.

8. Investment and Trading Securities

Financial Assets at FVPL

This account consists of:

	2011	2010
Designated at FVPL		
Quoted debt securities:		
Private	₱2,063,912,062	₱2,086,089,903
Government	968,171,158	1,017,480,478
	3,032,083,220	3,103,570,381
Quoted equity securities	299,174,050	285,950,784
	3,331,257,270	3,389,521,165
Derivative financial instruments		
not designated as accounting hedges	893,069,545	489,917,466
	₱4,224,326,815	₱3,879,438,631

On June 30, 2010, the Group acquired from JGSHI the financial assets designated at FVPL and AFS by execution of deed of assignment.

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.

As of March 31, 2011, the Group earned interest income of P50.2 million from debt securities as financial assets designated at FVPL.

The financial assets designated at FVPL are shown net of unrealized loss amounting to P23.9 million.

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 March 31, 2011 and 2010, the Group has outstanding fuel hedging transactions with notional quantity of 645,000 US barrels and 365,000 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. The options have various maturity dates through December 31, 2011.

Fair value changes on derivatives

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

	2011	2010
Balance at beginning of period		
Derivative assets	P489,917,466	P227,794,364
Derivative liabilities	-	-
	489,917,466	227,794,364
Net changes in fair value of derivatives	623,796,983	474,255,226
	1,113,714,449	702,049,590
Fair value of settled instruments	(220,644,904)	(212,132,124)
Balance at end of period	P893,069,545	P489,917,466
Attributable to:		
Derivative assets	P893,069,545	P489,917,466

AFS Investment

This account represents investment in a quoted equity security. As of March 31, 2011 and December 31, 2010, the carrying value of AFS investment amounted to P113.4 million and P114.5 million respectively.

In 2011, the Group recognized unrealized loss on AFS amounting to P3.9 million, net of tax amounting to P1.2 million.

9. **Receivables**

This account consists of:

	2011	2010
Trade receivables	P473,536,682	P471,465,815
Interest receivable	83,625,348	134,819,376
Due from related parties (Note 25)	122,839,219	86,576,474
Others	380,553,977	402,132,066
	1,060,555,226	1,094,993,731
Less allowance for credit losses	230,270,186	232,584,140
	P830,285,040	P862,409,591

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

Others include receivable under a sublease agreement amounting to ₱223.1 million with another airline company denominated in US dollar. This receivable is fully provided with allowance for credit losses.

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

	2011							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days	Past Due and Impaired	Total
		31-60 days	61-90 days	91-180 days				
Trade receivables	₱384,045,754	₱16,404,142	₱66,574,643	₱	181,268	₱6,330,875	₱473,536,682	
Interest receivable	83,625,348	-	-	-	-	-	83,625,348	
Due from related parties	122,839,219	-	-	-	-	-	122,839,219	
Others*	156,614,666	-	-	-	-	223,939,311	380,553,977	
	₱747,124,987	₱16,404,142	₱66,574,643	₱	₱181,268	₱230,270,186	₱1,060,555,226	

*Include nontrade receivables from derivative counterparties and employees

	2010							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days	Past Due and Impaired	Total
		31-60 days	61-90 days	91-180 days				
Trade receivables	₱392,545,415	₱29,123,386	₱24,822,321	₱12,190,557	₱6,453,261	₱6,330,875	471,465,815	
Interest receivable	134,819,376	-	-	-	-	-	134,819,376	
Due from related parties	86,576,474	-	-	-	-	-	86,576,474	
Others*	128,907,670	-	739,356	38,400,282	7,831,493	226,253,265	402,132,066	
	₱742,848,935	₱29,123,386	₱25,561,677	₱50,590,839	₱14,284,754	₱232,584,140	₱1,094,993,731	

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

	2011		
	Trade Receivables	Others	Total
Balance at beginning of year	₱6,330,875	₱226,253,265	₱232,584,140
Unrealized foreign exchange (loss) gain on allowance for credit losses		(2,313,954)	(2,313,954)
Provision for credit losses (Note 21)			
Write-off			
Balance at end of year	₱6,330,875	₱223,939,311	₱230,270,186

	2010		
	Trade Receivables	Others	Total
Balance at beginning of year	₱6,330,875	₱239,185,934	₱245,516,809
Unrealized foreign exchange gain on allowance for credit losses	-	(12,932,669)	(12,932,669)
Provision for credit losses (Note 21)	2,127,309	-	2,127,309
Write-off	(2,127,309)	-	(2,127,309)
Balance at end of year	₱6,330,875	₱226,253,265	₱232,584,140

As of March 31, 2011 and December 31, 2010 the specific allowance for credit losses on trade receivables and other receivables amounted to ₱6.3 million and ₱223.9 million, and ₱6.3 million and ₱226.2 million, respectively.

10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2011	2010
At cost:		
Expendable parts	₱244,286,588	₱246,212,162
Fuel	162,588,117	100,926,756
Materials and supplies	25,380,270	22,893,117
	₱432,254,975	₱370,032,035

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under 'Repairs and maintenance' account in the consolidated statement of comprehensive income) for three months ended March 31, 2011 and 2010 amounted to ₱37.9 million and ₱49.7 million, respectively. The cost of fuel reported as expense under 'Flying operations' amounted to ₱3.2 billion and ₱2.3 billion in 2011 and 2010, respectively (Note 20).

11. Other Current Assets

This account consists of:

	2011	2010
Prepaid rent	₱141,228,713	₱135,568,016
Advances to suppliers	34,319,536	50,042,184
Prepaid insurance	73,948,130	39,089,719
Others	28,917,022	39,373,884
	₱278,413,401	₱264,073,803

Prepaid rent pertains to advance rental on aircraft under operating lease and on office spaces in airports (Note 26).

12. Property and Equipment

This account consists of:

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
Acquisition Costs		
Passenger aircraft	₱36,876,293,802	₱34,334,987,863
Engines	2,020,924,139	1,696,909,369
Rotables	878,397,860	798,821,749
Ground support equipment	295,526,977	287,461,784
EDP equipment, mainframe and peripherals	506,466,636	481,156,584
Leasehold improvements	161,456,791	156,829,956
Transportation equipment	139,626,247	133,129,222
Furniture, fixtures and office equipment	68,466,854	64,624,423
Communication equipment	7,752,397	7,237,019
Special tools	12,447,980	12,390,580
Maintenance and test equipment	6,410,377	6,410,377
Other equipment	68,056,770	67,213,501
Construction in-progress	4,782,812,759	4,788,168,629
Total	45,824,639,589	42,835,341,056
Accumulated depreciation	9,477,946,223	8,849,639,977
Net book value	₱36,346,693,366	₱33,985,701,079

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 for delivery in the fourth quarter of 2010 and one Airbus A320 aircraft for delivery in the first quarter of 2011.

Under the terms of the ECA loan and the 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, or by the guarantors which are CPAHI and JGSHI. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of March 31, 2011 and December 31, 2010, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱28.6 billion and ₱26.6 billion, respectively.

On July 18, 2010, one ATR 72-500 turboprop aircraft was damaged due to a hard landing at the Ninoy Aquino International Airport (NAIA). On November 30, 2010, the Group disposed of the aircraft and settled the corresponding loan through proceeds from insurance after it was declared total loss. Accordingly, rights over the aircraft went to the insurers.

The Group took delivery of one ATR 72-500 turboprop aircraft in March 2011.

Operating Fleet

As of March 31, 2011 and as of December 31, 2010, the Group's operating fleet follows:

	2011	2010
Owned (Note 16):		
Airbus A319	10	10
Airbus A320	6	5
ATR 72-500	8	7
Under operating lease (Note 26):		
Airbus A320	9	9
	33	31

Construction in-progress represents the cost of aircraft and engine construction in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of March 31, 2011, the Group's capitalized pre-delivery payments as construction-in-progress amounted to ₱4.8 billion.

As of March 31, 2011 and December 31, 2010, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱467.9 million and ₱430.0 million, respectively.

13. Investment in Joint Ventures

This account represents the Group's 49.00% and 35.00% interest in A-plus and SIAEP, respectively. These jointly controlled entities 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 A-plus and SIAEP follow:

	March 31, 2011 (Unaudited)		
	A-plus	SIAEP	Total
Cost	₱87,012,572	₱304,763,900	₱391,776,472
Accumulated Equity in Net Income (Loss)			
Balance at beginning of period	30,116,847	(52,248,581)	(22,131,734)
Equity in net income (loss) for the period	9,632,048	(849,128)	8,782,920
Balance at end of period	39,748,895	(53,097,709)	(13,348,814)
Net Carrying Value	₱126,761,467	₱251,666,191	₱378,427,658

	December 31, 2010 (Audited)		
	A-plus	SIAEP	Total
Cost	₱87,012,572	₱304,763,900	₱391,776,472
Accumulated Equity in Net Income (Loss)			
Balance at beginning of period	21,590,662	(47,011,448)	(25,420,786)
Equity in net income (loss) for the period	30,485,667	(5,237,133)	25,248,534
Dividends received	(21,959,482)	-	(21,959,482)
Balance at end of period	30,116,847	(52,248,581)	(22,131,734)
Net Carrying Value	₱117,129,419	₱252,515,319	₱369,644,738

Selected financial information of A-plus and SIAEP follows:

	March 31, 2011		December 31, 2010	
	A-plus	SIAEP	A-plus	SIAEP
Total current assets	₱388,226,067	₱231,754,630	₱389,229,753	₱198,601,718
Total assets	259,916,017	681,821,863	440,003,102	827,498,709
Total current liabilities	182,108,466	162,216,875	199,744,327	136,071,974
Total liabilities	182,108,466	162,216,875	199,744,327	136,071,974
Net income (loss)	75,648,429	(20,229,911)	62,215,647	(14,963,237)

The fiscal year-end of A-plus and SIAEP is every March 31.

The undistributed earnings of A-plus included in the consolidated retained earnings amounted to ₱39.7 million and ₱30.1 million as of March 31, 2011 and December 31, 2010, respectively, which is not currently available for dividend distribution unless declared by A-plus.

The Group has no share of any contingent liabilities or capital commitments as of March 31, 2011 and December 31, 2010.

14. Other Noncurrent Assets

This account consists of:

	2011	2010
Creditable withholding tax	₱92,192,847	₱105,122,460
Refundable deposits	9,240,000	9,240,000
Others	248,901,747	213,484,694
	₱350,334,594	₱327,847,154

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

Others include option and commitment fees.

15. Accounts Payable and Other Accrued Liabilities

This account consists of:

	2011	2010
Accrued expenses	₱3,043,483,692	₱2,756,352,038
Trade payables (Note 26)	2,097,985,571	1,995,958,241
Airport and other related fees payable	543,579,245	435,286,079
Advances from agents and others	150,343,173	159,557,017
Accrued interest payable (Note 16)	117,503,709	118,666,608
Due to brokers	158,547,360	
Other payables	152,087,449	132,666,336
	₱6,263,530,199	₱5,598,486,319

Accrued Expenses

The Group's accrued expenses include accruals for:

	2011	2010
Maintenance	₱785,315,895	₱637,721,177
Compensation and benefits	356,065,527	519,578,237
Advertising and promotion	343,531,194	292,832,984
Training costs	245,660,407	221,810,780
Landing and take-off fees	225,585,199	237,135,007
Ground handling charges	220,960,673	185,902,242
Fuel	216,406,368	66,914,013
Navigational charges	205,417,311	185,830,569
Repairs and services	115,721,080	115,290,273
Rent (Note 26)	94,615,330	71,405,104
Aircraft insurance	44,440,533	41,059,836
Catering supplies	38,829,537	38,441,922
Reservation costs	2,637,452	11,773,991
Others	148,297,186	130,655,903
	₱3,043,483,692	₱2,756,352,038

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 non interest-bearing and are normally settled on a 60-day term. These inventories are necessary for the daily operations and maintenance of the aircraft, which include 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.

Interest Payable

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

Advances from Agents and Others

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

Other Payables

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

16. Long-term Debt

This account consists of:

	Interest Rates	Maturities	2011	
			US Dollar	Philippine Peso Equivalent
ECA loans	3.37% to 5.83%	Various dates through 2022	US\$234,374,078	₱10,169,491,259
	0.86% to 2.54% (US Dollar LIBOR 6 months + margin or 3 months + margin)		148,462,857	6,441,803,356
			382,836,935	16,611,294,615
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	52,719,581	2,287,502,620
	1.64% to 2.12% (US Dollar LIBOR 6 months + margin)		5,595,019	242,767,863
			58,314,600	2,530,270,483
			441,151,535	19,141,565,098
Less current portion			49,716,862	2,157,214,631
			US\$391,434,673	₱16,984,350,467

	Interest Rates	Maturities	2010	
			US Dollar	Philippine Peso Equivalent
ECA loans	3.37% to 5.83%	Various dates through 2022	US\$242,476,310	₱10,630,161,421
	0.86% to 2.54% (US Dollar LIBOR 6 months + margin or 3 months + margin)		117,484,686	5,150,528,642

			359,960,996	15,780,690,063
Commercial loans from foreign banks	4.11% to 5.67%	Various dates through 2017	54,455,626	2,387,334,644
	1.64% to 2.12% (US Dollar LIBOR 6 months + margin)		6,037,500	264,683,997
			60,493,126	2,652,018,641
			420,454,122	18,432,708,704
Less current portion			46,898,810	2,056,043,837
			US\$373,555,312	P16,376,664,867

ECA Loans

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

In 2008, the Group entered into ECA-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 Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the Company to BLL corresponds to the principal and interest payments made by BLL to the ECA-backed lenders. The semi-annual lease rentals to BLL are guaranteed by JGSHI. The Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

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

In 2010, the Group entered into ECA-backed loan facilities to fully finance the purchase of four Airbus A320 aircraft. 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 Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the 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 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, eight ATR 72-500 turboprop aircraft and three 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 three Airbus A320 aircraft, and equal principal repayments for the last six Airbus A319 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for Airbus A319 and A320 aircraft.

- Interest on loans from the ECA lenders related to CALL and BLL shall be at fixed rates, which range from 3.78% to 5.83% in 2010 and 2009 and 3.78% to 5.83% in 2008, respectively. Interest on loans from ECA lenders related to SLL shall be fixed at 3.37% for one aircraft and US dollar LIBOR 6 months plus margin for the other aircraft. Interest on loans from the ECA lenders related to SALL for the three Airbus A320 aircraft shall be US dollar LIBOR 3 months plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL and SALL 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 and SALL 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 CALL or BLL or SLL or SALL becomes insolvent, (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's and SALL'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, the Group, JGSHI or CPAHI of any transaction document or security interest, and (j) occurrence of an event of default under the lease agreement with the Company.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on secured assets, namely the aircraft.
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

On November 30, 2010, the 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 amounting to ₱638.1 million (US\$14.5 million) and ₱13.0 million (US\$0.3 million), respectively, 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.

As of March 31, 2011 and December 31, 2010, the total outstanding balance of the ECA loans amounted to ₱16.6 billion (US\$382.8 million) and ₱15.8 billion (US\$360.0 million), respectively. Interest expense amounted to ₱153.2 million and ₱164.9 million for three months ended March 31, 2011 and 2010, respectively.

Commercial Loans from Foreign Banks

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

In 2008, the Group also entered into a commercial loan facility, in addition to ECA-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 Company. The commercial loan facility is payable in 12 equal, consecutive, semi-annual installments starting six months after the utilization date.

The terms of the commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each Airbus A320 aircraft.
- Terms of six and five years for the engines and QEC Kit, respectively.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the two Airbus A320 aircraft and six ATR 72-500 turboprop aircraft, and equal principal repayments for the engines and the QEC Kit. Principal repayments shall be made on a quarterly and semi-annual basis for the two Airbus A320 aircraft, engines and the QEC Kit and six ATR 72-500 turboprop aircraft, respectively.
- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be US dollar LIBOR 3 months plus margin. On February 29, 2009, the interest rates on the two Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 4.11% to 5.67%.
- 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 March 31, 2011 and December 31, 2010, the total outstanding balance of the commercial loans from foreign banks amounted to ₱2.5 billion (US\$58.3 million) and ₱2.7 billion (US\$60.5 million), respectively. Interest expense amounted to ₱31.5 million and ₱37.3 million in 2011 and 2010, respectively.

17. Other Noncurrent Liabilities

This account consists of:

	2011	2010
ARO	₱2,116,846,981	₱2,070,145,159
Accrued maintenance	923,451,428	923,451,428
Pension liability (Note 22)	210,638,400	210,156,100
	₱3,250,936,809	₱3,203,752,687

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 both third party and the Group's engineers in 2007, which includes estimates of certain redelivery costs at the end of the operating aircraft lease (see Note 3).

In 2010, the Group employed third party professionals to re-evaluate the Group's estimates on ARO. In relation to this, the Group recorded additional ARO asset and liability amounting to ₱705.7 million.

The rollforward analysis of the Group's ARO follows:

	2011	2010
Balance at beginning of year	₱2,070,145,159	₱1,194,091,048
Additional provision for the year*		705,651,245
Accretion expense**	46,701,822	170,402,866
Capitalized during the year***		-
Payment of restorations during the year		-
Balance at end of year	₱2,116,846,981	₱2,070,145,159

* Related to the change in accounting estimates for the recognized ARO liability

** Included under interest expense account in the consolidated statements of comprehensive income

*** Related to recognized ARO liability for two additional Airbus A320 aircraft under operating lease agreements entered in January 2009

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 Company's common stock follow:

	2011	2010
Beginning of year	₱613,236,550	₱582,574,750
Issuance of shares during the year		30,661,800
End of year	₱613,236,550	₱613,236,550

The Company has 1.34 billion authorized shares at ₱1.00 par value per share. As of December 31, 2010, all of the Company's issued common stocks are outstanding. On March 30 and 31, 2011, the company acquired a total of 2 million shares of treasury stocks amounting to ₱ 158.5 million. The Company has 611.2 million outstanding common shares of stocks as of March 31, 2011.

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 debt-to-capital ratios follow:

	2011	2010
(a) Long term debt (Note 16)	₱19,141,565,098	₱18,432,708,704
(b) Capital	18,947,926,945	17,907,049,903
(c) Debt-to-capital ratio (a/b)	1.0:1	1.0:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of March 31, 2011 and December 31, 2010. Such ratio is currently being managed on a group level by the Group's ultimate parent.

Issuance of Common Shares of Stock

On October 26, 2010, the Company listed with the PSE its common stock, wherein it offered 212,419,700 shares to the public at ₱125.00 per share. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting to ₱3.8 billion. The Company incurred transaction costs incidental to the IPO amounting to ₱100.4 million, which is charged against Capital paid in excess of par value' in the consolidated statement of financial position.

19. Ancillary Revenue

Ancillary revenue consists of:

	2011	2010
Excess baggage fees	₱218,655,705	₱171,234,361
Rebooking, refunds and cancellation fees	121,588,197	57,922,844
Others	415,148,659	263,334,764
	₱755,392,561	₱492,491,969

Others pertain to revenues from in-flight sales and services provided through reservation system such as advance seat selection, website administration as well as commissions.

20. Operating Expenses

Flying Operations

Flying operations consists of:

	2011	2010
Aviation fuel expense	₱3,235,455,530	₱2,297,994,858
Flight deck	322,728,635	346,961,111
Aircraft insurance	43,563,805	38,105,587
Others	26,260,870	27,617,143
	₱3,628,008,840	₱2,710,678,699

Aircraft and Traffic Servicing

Aircraft and traffic servicing consists of:

	2011	2010
Airport charges	₱ 332,727,572	₱296,026,597
Ground handling	238,358,455	204,845,162
Others	174,260,961	162,117,206
	₱745,346,988	₱662,988,965

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.

21. General and Administrative Expenses

This account consists of staff-related expenses, provision for credit losses on receivables (Note 9), travel and transportation, rent, non-aircraft repairs and maintenance, utilities and insurance.

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 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:

	2011	2010
(a) Net income (loss) attributable to common shareholders	€1,200,596,401	€1,557,087,346
(b) Weighted average number of common shares for basic EPS	613,236,550	582,574,750
(c) Basic/diluted earnings (loss) per share	€2.0	€2.7

The Group has no dilutive potential common shares in 2011 and 2010.

25. Related Party Transactions

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.

26. Commitments and Contingencies

Operating Aircraft Lease Commitments

The Group entered into operating lease agreements with certain leasing companies which cover the following aircraft:

A320 aircraft

The following table summarizes the specific lease agreements on nine Airbus A320 aircraft:

<u>Date of Lease Agreement</u>	<u>Original Lessors</u>	<u>New Lessors</u>	<u>No. of Units</u>	<u>Lease Term</u>
December 23, 2004	CIT Aerospace International (CITAI)	Wilmington Trust SP Services (Dublin) Limited*	2	May 2005 - May 2012 June 2005 - June 2012
April 23, 2007	Celestial Aviation Trading 17 Limited (CAT 17)	Inishcrean Leasing Limited (Inishcrean)**	1	October 2007 - October 2016

May 29, 2007	CITAI	-	4	March 2008 - March 2014 April 2008 - April 2014 May 2008 - May 2014 October 2008 - October 2014
March 14, 2008	Celestial Aviation Trading 19 Limited (CAT 19)	GY Aviation Lease 0905 Co. Limited***	2	January 2009 - January 2017

* *Effective November 21, 2008 for the first aircraft and December 9, 2008 for the second aircraft.*

** *Effective June 24, 2009.*

*** *Effective March 25, 2010.*

On March 14, 2008, the Group entered into an operating lease agreement with CAT 19 for the lease of two Airbus A320 aircraft, which were delivered in 2009. On the same date, the Group also entered into another lease agreement with Celestial Aviation Trading 23 Limited (CAT 23) for the lease of two additional Airbus A320 aircraft to be received in 2012. In November 2010, the Group signed an amendment to the operating lease agreements with CAT 23, advancing the delivery of the two Airbus A320 aircraft from 2011 to 2012.

Lease agreements with CITAI, CAT 17 and CAT 19 were amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱405.4 million and ₱388.1 million for three months ended March 31, 2011 and 2010, respectively.

Operating Non-Aircraft Lease Commitments

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

Lease expenses relating to non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱60.3 million and ₱61.3 million in 2011 and 2010, respectively.

Aircraft and Spare Engine Purchase Commitments

As of December 31, 2009, the Group has existing commitments to purchase 15 additional new Airbus A320 aircraft, which are scheduled for delivery between 2010 and 2014, and one spare engine to be delivered in 2011. In 2010, the Group exercised its option to purchase five Airbus A320 aircraft and entered into a new commitment to purchase two Airbus A320 aircraft to be delivered between 2011 and 2014. As of December 31, 2010, the Group has existing commitments to purchase 22 new Airbus A320 aircraft, four of which were delivered on October 28, December 10, December 22, 2010 and January 25, 2011 respectively. The remaining 18 Airbus A320 aircraft are scheduled to be delivered between third quarter of 2011 and 2014. One spare engine was delivered in March 4, 2011.

Also in 2007, the Group has a commitment to purchase six ATR 72-500 turboprop aircraft and has exercised an option to purchase additional four ATR 72-500 turboprop aircraft. These turboprop aircraft will cater to destinations in the country's smaller airports. The Group has taken delivery of the initial six aircraft in 2008 and the remaining two were received during the first quarter of 2009. One ATR 72-500 turboprop aircraft is scheduled for delivery in March 2011. The Group terminated the purchase commitment for one ATR 72-500 turboprop aircraft.

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

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 Company has a pending tax assessment, the outcome of which is not presently determinable. 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.

27. Supplemental Disclosures to the Consolidated Statements of Cash Flows

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

On March 30 and 31, 2011, the Group acquired a total of 2,000,000 shares of treasury stocks pursuant to the share buyback program (SBP) as approved by the BOD on February 28, 2011. The transaction was paid on April 2011 amounting to ₱ 158.5 million.

In 2011, the Group acquired one Airbus A320 aircraft by assuming direct liabilities. This transaction is considered as a non-cash financing activity.

28. Events After the Statement of Financial Position Date

On May 12, 2011, the Group paid a regular cash dividend of ₱2.00 per share and a special cash dividend of ₱1.00 per share.