COVER SHEET

P W 9 4

S.E.C. Registration Number

P A L H O L D I N G S , I N C .

(Company's Full Name)

7 T H F L O O R A L L I E D B A N K C E N T E R

6 7 5 4 A Y A L A A V E . M A K A T I C I T Y

(Business Address: No. Street City / Town / Province)

SUSAN LEE

Contact Persons

7368466

Company Telephone Number

0 3 3 1

Month Day

Fiscal Year

1 7 - Q

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO
SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarter period ended **June 30, 2008**

2. SEC Identification Number **PW- 94** 3. BIR Tax Identification No. **430-000-707-922**

4. Exact name of registration as specified in its charter **PAL HOLDINGS, INC.**

5. **Metro Manila, Philippines**
(Province, country or other jurisdiction of incorporation or organization)

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

7. **7/F Allied Bank Center, 6754 Ayala Avenue, Makati City** **1200**
Address of principal office including postal code Postal Code

8. **(632) 816-33-11 loc. 3785; 736-8466**
Registrant's telephone number, including area code

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

10. Securities registered pursuant to Section 8 and 12 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	**5,421,512,096**

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

Yes **[X]** No **[ ]**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC 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 financial statements of PAL Holdings, Inc. (the "Company") and its subsidiaries as of and for the period ended June 30, 2008 (with comparative figures as of March 31, 2008 and for the period June 30, 2007) are filed as part of this Form 17-Q as Annex " A".

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

The information required by Part IV, Paragraph a(2)(b) of SRC 12 is attached hereto as Annex " B"

PART II – OTHER INFORMATION

Not Applicable – There are no disclosures not made under SEC form 17-C

SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its Behalf by the undersigned thereunto duly authorized.

Susan T. Lee
Chief Finance Officer
August 15, 2008

Jaime J. Bautista
President
August 15, 2008

Annex "A"

PAL HOLDINGS, INC.
AND SUBSIDIARIES

Quarterly Consolidated Financial Statements
For the Three Months Ended June 30, 2008

PAL HOLDINGS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

		Jun 30, 2008 (UNAUDITED)		March 31, 2008 (AUDITED)
ASSETS				
Current Assets				
Cash and cash equivalents	P	13,042,820	P	14,783,695
Available-for-sale-investments		1,388,050		92,364
Receivables - net		5,840,790		5,756,942
Expendable parts, fuel, materials and supplies		1,303,151		1,486,013
Other current assets		13,461,546		5,397,117
Total Current Assets		**35,036,357**		**27,516,131**
Noncurrent Assets				
Property, plant and equipment -net		58,888,602		48,522,977
Deposits on aircraft leases		2,768,287		2,534,673
Deferred tax assets		344,442		320,352
Available-for-sale-investments		957,782		916,797
Investment properties		1,647,548		1,533,364
Other noncurrent assets		8,097,622		3,840,967
Total Noncurrent Assets		**72,704,283**		**57,669,130**
TOTAL ASSETS	P	**107,740,640**	P	**85,185,261**
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	P	5,391,695	P	3,440,235
Current portion of long-term liabilities		5,337,730		5,368,235
Accounts payable		6,489,970		5,583,487
Accrued liabilities		19,468,028		11,136,180
Due to related parties		481,090		481,090
Income tax payable		201,179		187,109
Unearned transportatin revenue		6,793,618		6,127,234
Total Current Liabilities		**44,163,310**		**32,323,570**
Noncurrent Liabilities				
Long-term liabilities - net of current portion		33,683,224		30,511,652
Accrued employee benefits payable		3,503,504		3,237,802
Reserves and other noncurrent liabilities		8,592,108		4,504,136
Total Noncurrent Liabilities		**45,778,836**		**38,253,590**
TOTAL LIABILITIES		**89,942,146**		**70,577,160**
Equity				
Attributable to the equity holders of the parent:				
Capital stock		5,421,568		5,421,568
Additonal paid-in capital		17,517,283		17,517,283
Other components of equity		(7,909,182)		(10,614,212)
Treasury Stock		(56)		(56)
		15,029,613		**12,324,583**
Minority interest		**2,768,881**		**2,283,518**
Total Equity		**17,798,494**		**14,608,101**
TOTAL LIABILITIES AND EQUITY	P	**107,740,640**	P	**85,185,261**

PAL HOLDINGS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

(UNAUDITED)

		For Three Months Ended June 30,		
		2008		2007
REVENUE				
Passenger	**P**	**16,552,565**	P	14,894,777
Cargo		**1,287,603**		1,215,175
Interest income		**91,232**		211,851
Others		**1,089,545**		1,182,820
		19,020,945		17,504,623
EXPENSES				
Flying Operations		**10,144,936**		7,294,481
Maintenance		**2,488,045**		2,009,852
Aircraft and traffic servicing		**2,032,319**		2,012,823
Financing charges		**930,918**		1,085,911
Passenger service		**1,256,860**		1,262,443
Reservation and sales		**1,228,003**		894,965
General and administrative		**837,097**		695,684
Others		**2,264,957**		635,726
		21,183,135		15,891,885
NET INCOME (LOSS)	**P**	**(2,162,190)**	P	1,612,738
OTHER COMPREHENSIVE INCOME				
Net changes in fair value of available-for-sale Investments		**(768)**		128,514
Net changes in fair value of derivative assets		**4,110,757**		(91,274)
Increase in revaluation increment due to appraisal		**34,627**		(61)
Effect of foreign exchange translation		**1,207,967**		(645,258)
		5,352,583		(608,079)
TOTAL COMPREHENSIVE INCOME	**P**	**3,190,393**	P	1,004,659
Net income (loss) attributable to:				
Equity Holders of the Parent		**(1,830,315)**		1,364,651
Minority Interest		**(331,875)**		248,087
	P	**(2,162,190)**	P	1,612,738
Total comprehensive income attributable to:				
Equity Holders of the Parent		**2,705,030**		869,359
Minority Interest		**485,363**		135,300
	P	**3,190,393**	P	1,004,659
EARNINGS (LOSS) PER SHARE				
Computed based on net income(loss)	**P**	**(0.34)**	P	0.25
Computed based on Total Comprehensive Income		**0.50**		0.16

Earnings per share is determined by dividing net income/total comprehensive income by the number of shares outstanding

Computed based on net income

6/302008 = (1,830,315)/5,421,568

6/30/2007 = 1,364,651/5,421,568

Computed based on Total Comprehensive Income

6/30/2008 = 2,705,030/5,421,568

6/30/2007 = 869,359/5,421,568

PAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED JUNE 30,2008 AND 2006
(Amounts in thousands)
(Unaudited)

	Capital Stock	Capital in Excess of Par	Deposit from future stock subscription	Cummulative Translation Adjustment	Net Changes in Fair Values for Available-for-sale	Revaluation Increment in Property	Deficit	Treasury Stock	Total	Minority Interest	Total
BALANCES AT MARCH 31, 2006	P **400,000**	P **12,033**	P **4,814,850**	P **(1,860,443)**	P **27,511**	P **1,020,824**	P **(14,537,023)**	P **(56)**	P **(10,122,304)**	P **1,485,616**	P **(8,636,688)**
Total comprehensive income for the year				(1,471,143)	170,176	287,908	5,939,284		4,926,225	881,409	5,807,634
Transfer of portion of revaluation increment in									-		-
property realized through depreciation - net of									-		-
related deferred tax and foreign exchange adjustment						(38,339)	38,339		-		-
Total income and expense for the year	-	-	-	(1,471,143)	170,176	249,569	5,977,623	-	4,926,225	881,409	5,807,634
Conversion of deposits for future stock subscription to advances from related parties			(4,814,850)						(4,814,850)		(4,814,850)
Conversion of advances from parent company to equity	5,021,568	4,017,254							9,038,822		9,038,822
BALANCES AT MARCH 31, 2007	**5,421,568**	**4,029,287**	**-**	**(3,331,586)**	**197,687**	**1,270,393**	**(8,559,400)**	**(56)**	**(972,107)**	**2,367,025**	**1,394,918**
Total comprehensive income for the year				(623,614)	128,374	(52)	1,364,651		869,359	135,300	1,004,659
Transfer of portion of revaluation increment in									-		-
property realized through depreciation - net of									-		-
related deferred tax and foreign exchange adjustment						(27,927)	27,927		-		-
Total income and expense for the year	-	-	-	(623,614)	128,374	(27,979)	1,392,578	-	869,359	135,300	1,004,659
BALANCES AT JUNE 30, 2007	**5,421,568**	**4,029,287**	**-**	**(3,955,200)**	**326,061**	**1,242,414**	**(7,166,822)**	**(56)**	**(102,748)**	**2,502,325**	**2,399,577**
BALANCES AT MARCH 31, 2007	**5,421,568**	**4,029,287**	**-**	**(3,331,586)**	**197,687**	**1,270,393**	**(8,559,400)**	**(56)**	**(972,107)**	**2,367,025**	**1,394,918**
Conversion of advances from parent company to equity	-	3,079,567		-	-	-	-	-	3,079,567		3,079,567
Conversion of advances from parent company to equity		10,662,158							10,662,158		10,662,158
Additional paid-in capital applied against deficit	-	(253,729)		-	-	-	253,729	-	-		-
Total comprehensive income for the year	-	-		(734,781)	72,552	223,294	(6,100)	-	(445,035)	(83,507)	(528,542)
Transfer of portion of revaluation increment in											-
property realized through depreciation - net of											-
related deferred tax and foreign exchange adjustment	-	-		-	-	(69,420)	69,420	-	-	-	-
and other changes											
Total income and expense for the year	-	13,487,996	-	(734,781)	72,552	153,874	317,049	-	13,296,690	(83,507)	13,213,183
BALANCES AT MARCH 31, 2008	**5,421,568**	**17,517,283**	**-**	**(4,066,367)**	**270,239**	**1,424,267**	**(8,242,351)**	**(56)**	**12,324,583**	**2,283,518**	**14,608,101**
Total comprehensive income for the year	-	-		4,503,304	2,723	29,318	(1,830,315)		2,705,030	485,363	3,190,393
Transfer of portion of revaluation increment in											
property realized through depreciation - net of											
related deferred tax and foreign exchange adjustment	-	-				(30,891)	30,891		-	-	-
Total income and expense for the year	-	-	-	4,503,304	2,723	(1,573)	(1,799,424)	-	2,705,030	485,363	3,190,393
BALANCES AT JUNE 30, 2008	P **5,421,568**	P **17,517,283**	P **-**	P **436,937**	P **272,962**	P **1,422,694**	P **(10,041,775)**	P **(56)**	P **15,029,613**	P **2,768,881**	P **17,798,494**

PAL HOLDINGS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

		For Three Months Ended June 30,		
		2008		**2007**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	P	(2,162,190)	P	1,612,738
Adjustments for:				
Depreciation		1,254,756		1,451,862
Financing charges		-		1,085,911
Interest income		(28)		(211,851)
Dividend income		(133,570)		(209,333)
Foreign exchange loss (gain) - net		-		458,152
Realization of hedged and non-hedged derivatives		-		(363,309)
Taxes and licenses paid relating to increase in capital stock		-		9,039
Loss (gain) on disposal of property and equipment and others		-		18,540
Operating income (loss) before working capital changes		(1,041,032)		3,851,749
Decrease (increase) in:				
Receivables		225,916		68,746
Expendable parts, fuel, materials and supplies		295,100		338,194
Other current assets		151,344		(536,932)
Increase (decrease) in:				
Accounts payable		(55,436)		23,579
Accrued liabilities		-		(155,882)
Unearned transportation revenue		205,624		(133,706)
Net cash settlement on derivative transactions		-		261,125
Provision for doubtful accounts		176,441		115,763
Net increase (decrease)of accrued employee benefits payable		61,777		211,091
Increase (decrease) in other noncurrent liabilities		2,780,640		(92,429)
Net cash generated from operations		2,800,374		3,951,311
Financing charges paid		-		(478,008)
Interest received		28		167,013
Dividend received		4,400		209,333
Income taxes paid (including final and withheld taxes)		-		(233,536)
Net cash provided by (used in) operating activities		**2,804,802**		**3,616,100**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment		(4,691,766)		(1,046,487)
Investments in available-for-sale instruments		(1,288,740)		-
Proceeds from disposal of:				
Property and equipment		-		2,596
Return of various deposits		-		165,824
Net changes in other noncurrent assets		(22,583)		474,128
Net cash used in investing activities		**(6,003,089)**		**(403,939)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of long term obligations		(1,308,314)		(953,915)
Availments of notes payable		1,854,743		425,879
Payments of notes payable		-		(994,487)
Taxes and licenses paid relating to increase in capital stock		-		(9,039)
Net cash used in financing activities		**546,429**		**(1,531,562)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**910,983**		**(908,243)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(1,740,875)**		**772,356**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**14,783,695**		**20,573,060**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**P**	**13,042,820**	**P**	**21,345,416**

PAL HOLDINGS, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
AS OF JUNE 30, 2008 AND 2007

Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68.1

i) The Company's consolidated interim financial reports are in compliance with generally accepted accounting principles (GAAP) in the Philippines as set forth in the Philippine Financial Reporting Standards (PFRS). The financial statements of Philippine Airlines, Inc were originally presented in United States dollars, which is their functional currency were restated to Philippine peso for purposes of business combination in accordance with PAS 27.

ii) Explanatory comments on the seasonality or cyclicality of interim operations.

PAL experiences a peak in holiday travel during the months of January, April, May, June and December.

iii) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows which are unusual because of their nature, size, or incidence.

Not applicable. There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

iv) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

Not Applicable. There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

v) Issuances, repurchases, and repayments of debt and equity securities.

Not Applicable. There were no issuances, repurchases, and repayments of debt and equity securities.

vi) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

Not applicable. There were no dividends paid during the period.

vii) Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting.

Segment Information of Philippine Airlines, Inc. :

PAL's domestic and international destinations constitute its reportable geographical segments, which is consistent with how PAL's management internally disaggregates financial information for the purpose of evaluating performance and making operating decisions. Segment information for each reportable geographical segment is shown in the following table:

	Quarter Ended June 2008	**Quarter Ended June 2007**
International		
Revenue	PHP 14,326,661	PHP13,636,817
Income	468,094	1,116,759
Domestic		
Revenue	4,309,258	3,133,133
Income	404,029	90,599
System		
Revenue	18,635,919	16,769,950
Income	872,123	1,867,358

The reconciliation of the total income reported by reportable segments to the net income in the Consolidated Statements of Comprehensive Income from April to June 2008 is presented as follows:

	Quarter Ended June 2008	**Quarter Ended June 2007**
Income	PHP 872,123	PHP 1,867,358
Add(Deduct) Unallocated Items:		
Non-transport revenues and other Income	380,597	520,020
Non-transport & other charges	(3,417,432)	(769,182)
Net Income (Loss)	(2,164,712)	1,618,196
Other Comprehensive Income	4,122,616	(90,361)
Total Comprehensive Income	1,957,904	1,527,835

viii) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

Not applicable. The Company has no material event subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

ix) The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

Not applicable. There were no changes in the composition of the Company during the interim period.

x) Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

Not applicable. The Company has no contingent liabilities or assets.

xi) Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

Not applicable. There were no contingencies and any other events or transactions that are material to an understanding of the current interim period.

Annex "B"

PAL HOLDINGS, INC.
AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

The financial statements form part of this 17Q.

Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared using the historical cost convention, except for land and buildings and improvements which are carried at revalued amounts and available-for-sale investments and derivative financial instruments which are carried at fair value. The consolidated financial statements are presented in Philippine peso the Parent Company's functional and presentation currency, and rounded to the nearest thousand, except when otherwise indicated.

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

Future Changes in Accounting Policies
The following are the new and revised accounting standards and Philippine Interpretations that will become effective to the Group subsequent to March 31, 2008.

- Amendments to PAS 23, *Borrowing Costs (Revised)* (effective for annual periods beginning on or after January 1, 2009). PAS 23 has been revised to require capitalization of borrowing costs related to a qualifying asset.

- PFRS 3R, *Business Combinations*, and PAS 27R, *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after July 1, 2009). PFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine SEC for purposes of issuing any class of instruments in a public market.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from private entities providing public services.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008), requires disclosure of customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to award credits and deferred over the period that the award credits are fulfilled.

- Philippine Interpretation IFRIC 14, *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction* (effective for annual periods beginning on or after January 1, 2008), provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*.

The Group is currently assessing the impact of these standards, amendments and interpretations. The effects and required disclosures of the adoption of the relevant standards, amendments and interpretations, if any, will be included in the consolidated financial statements when these are adopted.

Consolidation

The consolidated financial statements consist of the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared using consistent accounting policies as those of the Parent Company. The following are subsidiaries of the Parent Company as of June 30, 2008.

	Nature of Operations	Percentage of Ownership
Through direct holdings:		
PAL	Air transport	81.57%
PR	Holding company	82.33%*
Through indirect holdings:		
Abacus Distribution Systems Philippines, Inc.	Lessor of computerized reservations systems	70.23%
Pacific Aircraft Ltd.	Aircraft financing-related company	84.67%
Pearl Aircraft Ltd.	Aircraft financiang-related company	84.67%
Peerless Aircraft Ltd.	Aircraft financing-related company	84.67%
Synergy Services Corp.	Manpower supply	54.19%

* Indirect holdings in PAL is 3.8%

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany accounts and transactions with subsidiaries are eliminated in full.

The equity and net income attributable to minority interests of the consolidated subsidiaries are recognized and, where material, are shown separately in the consolidated statement of financial position and consolidated statement of comprehensive income, respectively.

Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Parent Company. If losses applicable to the minority interest in a

subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

Cash and Cash Equivalents

Cash includes 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 acquisition and that are subject to an insignificant risk of change in value.

Financial and Derivative Instruments

Financial assets and financial liabilities carried in the Group's consolidated statement of financial position include cash and cash equivalents, receivables, available-for-sale investments, deposits on aircraft leases, short-term and long-term loans, and derivative instruments such as fuel, interest rate and currency derivative instruments.

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date the Group commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of assets within the period generally established by regulation or convention in the market place.

The fair value for financial instruments including derivatives traded in active markets at the statement of financial position date is based on their quoted market prices 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 asking prices are not available, the price of the most recent transaction is used since it 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 discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. In the absence of a reliable basis of determining fair value, investments in unquoted equity securities are carried at cost, net of impairment.

Financial instruments are classified as debt or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a debt, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

When financial assets and financial liabilities are recognized initially, they are measured at fair value. In the case of financial assets not classified as at fair value through profit or loss and other

liabilities, fair value at initial recognition includes any directly attributable transaction cost. The Group determines the classification of its financial instruments upon initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year-end.

"Day 1" difference
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a "Day 1" difference) in the consolidated statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated net income or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss (FVPL)
Financial assets and financial liabilities at fair value through profit or loss include financial instruments held for trading and financial instruments designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statements of comprehensive income. Interest earned or incurred and dividend income is recorded when the right of payments has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial instruments may be designated as at fair value through profit or loss by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and 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 or financial liabilities, or both financial assets and financial liabilities, which are managed and their performance is 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.

Assets and liabilities classified under this category are carried at fair value in the consolidated statement of financial position, with any gains or losses being recognized in the consolidated net income or loss.

The Group accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly to profit or loss, except when the derivative is treated as an effective accounting hedge, in which case the fair value change is

either reported in profit or loss with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) under "Cumulative Translation Adjustment" account.

Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes trade receivables arising from operations, deposits for aircraft leases and security and refundable deposits. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, and through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

Held-to-Maturity Investments

Held-to-maturity investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Where the Group sells other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale investments. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes fees paid or received between parties to the contract that are an integral part of the effective interest rate, issuance costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, and through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the statement of financial position date and as noncurrent assets if maturity date is more than a year from the statement of financial position date.

Available-for-Sale Investments

Available-for-sale investments are nonderivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognized as part of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated net income or loss in the consolidated statement of comprehensive income. The effective yield and (where applicable) results of foreign exchange restatement for available-for-sale investments are reported immediately in the consolidated net income or loss. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the statement of financial position date.

Other Financial Liabilities

Other financial liabilities pertain to financial liabilities that are not held for trading nor designated as at fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations (e.g., payables and accruals) or borrowings (e.g., Long-term obligations).

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Derivatives and Hedge Accounting

Freestanding derivatives

For the purpose of hedge accounting, hedges are classified primarily either as: 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); or hedge of a net investment in a foreign operation. The Group did not designate any of its derivatives as fair value hedges. The Group designated its pay-fixed, receive-floating interest rate swaps and certain fuel derivatives as cash flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in the consolidated statement of changes in equity under "Cumulative translation adjustment" account, net of related deferred tax. The ineffective portion is immediately recognized as part of "Other Income or Expense" in the consolidated statement of comprehensive income. The early adoption of the amendments to PAS 1, *Presentation of Financial Statements,* allowed all non owner changes in equity, included under the "Cumulative translation adjustment" account in the statement of changes in equity, to be recognized as other comprehensive income in the Group's consolidated statement of comprehensive income. This non owner changes in equity represents mainly the net gains arising from fair value changes of outstanding derivative instruments which qualify for hedge accounting.

For cash flow hedges with critical terms that match those of the hedged items and where there are no basis risks (such as the pay-fixed, receive-floating interest rate swaps), the Group expects the hedges to exactly offset changes in expected cash flows relating to the hedged risk (e.g., fluctuations in fuel price and benchmark interest rates). This assessment on hedge effectiveness is performed on a quarterly basis by the Group by comparing the critical terms of the hedges and the hedged items to ensure that they continue to match and by evaluating the continued ability of the counterparties to perform their obligations under the derivatives contracts.

For cash flow hedges with basis risks (such as crude oil derivatives entered into as proxy hedges for forecasted jet fuel purchases), the Group assesses the effectiveness of its hedges (both on a prospective and retrospective basis) by using a regression model to determine the correlation of the percentage change in prices of underlying commodities used to hedge jet fuel to the percentage change in prices of jet fuel over a specified period that is consistent with the hedge time horizon or 30 data points whichever is longer.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to income or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statement of comprehensive income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted

transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the consolidated statement of comprehensive income.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in the consolidated statement of comprehensive income.

Embedded derivatives
Embedded derivatives are accounted for at fair value through profit or loss when the entire hybrid contracts (composed of the host contract and the embedded derivative) are not accounted for at fair value through profit or loss the economic risks of the embedded derivatives are not closely related to those of their respective host contracts, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Derecognition of Financial Assets and Financial Liabilities
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- 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 the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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 modification

is treated as a derecognition of the carrying value of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset may be impaired.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of receivables, an impairment loss 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 financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. Any loss determined is recognized in income.

The Group initially assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or 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 a 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 the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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.

Assets carried at cost
If there is objective evidence that an impairment loss on financial assets carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an
unquoted equity instrument 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 current market rate of return for a similar financial asset.

Available-for-sale (AFS) investments
In case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in income - is removed from equity and recognized in income. Impairment losses on equity investments are not reversed through income. Increases in fair value after impairment are recognized directly in the consolidated statement of changes in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in income, the impairment loss is reversed through income.

Offsetting Financial Instruments
Financial assets and financial 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, and 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 the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value represents the current replacement cost.

Property and Equipment
Property and equipment (except land and buildings and improvements) are stated at cost less accumulated depreciation and any impairment in value. Land is stated at revalued amount, less any impairment in value. Buildings and improvements are stated at revalued amounts less accumulated depreciation and any impairment in value. Revalued amounts were determined based on valuations undertaken by professionally qualified appraisers. Revaluations are made with sufficient regularity.

For subsequent revaluations, the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Effective April 1, 2007, any resulting increase in the asset's carrying amount as a result of the revaluation is recognized as other comprehensive income credited directly to equity as Revaluation increment in property, net of the related deferred tax liability. Any resulting decrease is directly charged against the related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

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 and other significant assets under construction and other directly attributable costs of bringing the asset to its working condition and location for its intended use. Manufacturers' credits that reduce the price of the aircraft, received from aircraft and engine manufacturers are recorded upon delivery of the related aircraft and engines. Such credits are applied as a reduction from the cost of the property and equipment (including those under finance lease).

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation, which commences when the asset is available for use, is computed on a straight-line basis over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements	8 to 40
Passenger aircraft (owned and under finance lease)	18 to 20
Other aircraft	10
Spare engines	18 to 20
Rotable and reparable parts	3 to 18
Other ground property and equipment	3 to 8

Expenditures for heavy maintenance on passenger aircraft are capitalized at cost and depreciated over the estimated number of years until the next major overhaul or inspection. Generally, heavy maintenance visits are required every five to six years for airframe and 10 years for landing gear. Other maintenance and repair costs are expensed as incurred.

The estimated useful lives, depreciation method and residual values are reviewed periodically to ensure that the periods and method of depreciation and residual values are consistent with the expected pattern of economic benefits from items of property and equipment. Any changes in estimate arising from the review are accounted for prospectively.

When assets are sold or retired, their costs, accumulated depreciation and any impairment in value and related revaluation increment are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized as income and included in the consolidated statement of comprehensive income.

The portion of Revaluation increment in property, net of related deferred tax, realized through depreciation or upon the disposal or retirement of the property is transferred to retained earnings. Construction in progress represents the cost of aircraft and engine modifications 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.

Asset Retirement Obligation

The Parent Company is required under various aircraft lease agreements to restore the leased aircraft to their original condition and to bear the cost of dismantling and restoration at the end of the lease term. The Parent Company provides for these costs over the terms of the leases, based on aircraft hours flown until the next scheduled checks.

Investment Properties

Investment properties include parcels of land and building and building improvements not used in operations.

Investment properties are measured initially at cost, including any transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Investment properties are subsequently measured at cost less accumulated depreciation (except land) and any impairment in value. Land is subsequently carried at cost less any impairment in value.

Depreciation and amortization of building and building improvements is calculated on a straight-line basis over the estimated useful lives ranging from six to eight years.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by cessation of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

When an item of property and equipment previously carried at revalued amount is transferred to investment properties, the carrying value at the date of reclassification is treated as the deemed cost of the investment property. The corresponding revaluation increment, net of the related deferred tax liability, of the asset is retained in equity and released to retained earnings when the asset is derecognized.

Investment properties are derecognized when they are either disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized as income in the consolidated statement of comprehensive income in the year of retirement or disposal.

Impairment of Property and Equipment and Investment Properties

The carrying values of property and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units are written down to their recoverable amounts. The recoverable amount is the greater of net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses, if any, are recognized as expense in the consolidated statement of comprehensive income.

Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease, if any, 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 extension granted, unless the 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 substantial change to the asset.

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

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. Obligations arising from aircraft under finance lease agreements are classified in the consolidated statements of financial position as part of Long-term obligations.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease expense is recognized in the consolidated statement of comprehensive income on a straight-line basis over the terms of the lease agreements.

Provisions and Contingencies

Provisions are recognized when (i) the Group has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of the obligation. 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 pretax 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 interest expense.

Contingent liabilities are not recognized in the consolidated statement of financial position. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed 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.

Revenue and Related Commissions

Passenger ticket and cargo waybill sales are initially recorded as Unearned transportation revenue in the consolidated statement of financial position until recognized as Revenue in the consolidated statement of comprehensive income when the transportation service is rendered. Revenue also includes recoveries from surcharges during the year.

The related commission is recognized as expense in the same period when the transportation service is provided and is included as part of Reservation and sales in the consolidated statement ofcomprehensive income. The amount of commission not yet recognized as expense is treated as a prepayment and is reflected as a reduction of Unearned transportation revenue in the consolidated statement of financial position.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income includes changes in revaluation increment in property, gains and losses on re-measuring available-for-sale financial assets, and any effective portion of gains and losses on hedging instruments in cash flow hedges.

Interest and Dividend Income

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

from available-for-sale equity investments is recognized when the Group's right to receive payment is established.

Liability Under Frequent Flyer Program

PAL operates a frequent flyer program called "Mabuhay Miles." The incremental cost of providing awards in exchange for redemption of miles earned by members is accrued in the accounts as an operating cost and a liability after allowing for miles which are not expected to be redeemed. The liability is adjusted periodically based on awards earned, awards redeemed, and changes in the frequent flyer program.

Retirement Benefits Cost

Retirement benefits cost under the defined benefit plan 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. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the present value of defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period when the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

Retirement benefits cost includes current service cost, interest cost, amortization of unrecognized past service costs, actuarial gains and losses, experience adjustments, effect of any curtailment or settlement and changes in actuarial assumptions over the expected average remaining working lives of covered employees. The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plan.

Retirement benefits cost under the defined contribution plan is based on the established amount of contribution and is recognized as expense in the same year as the related employee services are rendered.

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.

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 amounts are those that have been enacted or substantively 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 at the statement of financial position 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, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits 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 and unused NOLCO can be utilized. Deferred tax, however, is 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 the transaction, affects neither the accounting profit nor taxable profit or loss.

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply 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 statement of financial position date.

Income tax relating to items recognized directly in equity is recognized in equity and not included in the calculation of comprehensive income for the period.

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.

Functional Currency and Foreign Currency Translation

Each entity in the Group determines its own functional currency and the items included in the separate financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the functional currency rate of exchange at balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results of operations and financial position of all Group entities (none of which has the functional currency of a hyperinflationary economy) that have functional currencies different from the Philippine peso presentation currency, which is the functional and presentation currency of the Parent Company, are translated into the presentation currency as follows:

a. assets and liabilities for each financial position presented are translated at the closing rate at the closing rate at statement of financial position date;

b. income and expenses for each income statement presented are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

c. capital stock and other equity items resulting from transactions with equity holders (i.e., additional paid-in capital) and equity items resulting from income and expenses directly recognized in equity (i.e., revaluation increment in property) are translated using the rates prevailing on the transaction dates; and

d. all resulting exchange differences are recognized as a separate component of equity, in the account "Cumulative translation adjustment".

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold or disposed of, exchange differences that were recorded in equity are recognized in the consolidated statement of income.

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS) is calculated based on net income (loss) before other comprehensive income and total comprehensive income for the year. EPS is calculated by dividing net income (loss) before other comprehensive income or total comprehensive income for the quarter, as applicable, by the number of issued and outstanding shares of stock during the quarter.

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

Results of Operations

PAL Holdings' consolidated comprehensive income for the three months ended June 30, 2008 amounted to PHP3,190.4 million, an increase of 218% from the same period of the previous fiscal year of PHP 1,004.7 million. Consolidated net income (loss) from operations however showed a decline of 234% from PHP 1,612.7 million as of june 30, 2007 to (PHP 2,162.1) million in the current period.

Consolidated revenues for the quarter amounted to PHP 19,020.9 million, 9% higher than last year's same quarter figure. The increase was brought about mainly by the increase in passenger revenues due to higher net yield per Revenue Passenger Kilometer (RPK) and in the number of passengers carried. Revenues also include cargo, recoveries arising from surcharges; interest income and other income earned during the quarter.

Consolidated expenses for the first quarter of the current fiscal year rose by PHP5,291.2 million or 33% versus the previous year's quarter total of PHP 15,891.9 million. This was largely due to higher expenses related to flying operations, maintenance, reservation and sales and other expenses.

Flying operations grew by 39%. This was attributable mainly to the increase in fuel costs. The rise in fuel expenses for the quarter ended June 2008 was a result of the escalation in average price per barrel of aviation fuel from US$ 78.17 in 2007 to US$ 133.05 in 2008 as well as higher fuel consumption as a result of the increase in flights.

Higher aircraft, component and engine repair costs contributed mainly to the increase in maintenance expenses by 24%.

Increase in selling expenses recognized related to transportation service provided as well as in the cost incurred under the frequent flyer program resulted in an increase in reservation and sales by 37%.

The changes in the fair value of outstanding derivative instruments which did not qualify for hedge accounting net of foreign exchange gains recognized arising from the movements of the Philippine peso vis a vis the US dollar, contributed mainly to the increase in "Other Expenses" by 256 % over the same quarter figure of the previous year. These expenses were offset to a large extent by the corresponding gains recognized from changes in the fair valuation of outstanding derivative assets amounting to PHP 4,110.8 million classified as part of "Other Comprehensive Income".

Another significant portion of the other comprehensive income is the effect of foreign exchange translation which resulted to a gain of PHP 1,208 million or an increase of 287% from last year. This is due to the increase in the monthly average of the US $ rates vis-à-vis the Philippine peso from PHP 41.756 as of March 31, 2008 to PHP 44.896 as of June 30, 2008.

Financial Condition

As of June 30, 2008, the Company's consolidated total assets amounted to PHP 107,740.6 million or 27% higher than the March 31, 2008 balance of PHP 85,185.3 million.

Total current assets grew by PHP 7,520.2 million or 27% as compared with the March 31, 2008 balance of PHP 27,516.1 million. This is attributable mainly to the upward movement in other current assets by PHP 8,064.4 million. This was principally due to the recognition of current derivative assets resulting from the remeasurement to fair value of certain financial assets as well as derivative instruments. These increases, however, were partly reduced by the decrease in cash and cash equivalents by 12% due to servicing of debts; payments made for the acquisition of Bombardier Q300 and Q400 aircraft; and advance payments made for the B 777-300 aircraft and for the remaining four Q400 aircraft to be acquired. In May 2008, PAL launched its "PAL Express" flights using a fleet of smaller Q300 and Q400 aircraft for the purpose of serving domestic inter-island tourist destinations and other cities.

Consolidated total non current assets rose by 26%. This is due to the increase in property and equipment balance by PHP 10,365.6 million or 21%. The increase is attributable mainly to the acquisition of five turboprop aircraft (three Q300s and two Q400s) which PAL took delivery in May and June 2008 and for one A320 aircraft delivered in April 2008. The increase was also due to the pre-delivery payments made for B 777-300 aircraft scheduled for delivery in March 2010 and for the remaining four Q400 aircraft scheduled for delivery in July and August 2008. However, the increases were offset in part by the depreciation expense recognized during the period, which had the effect of reducing the carrying values of the assets. Likewise, the effect of the remeasurement to fair value of certain financial assets and derivative instruments caused the increase in other non-current assets balance to PHP 8,097.6 million or 111%.

Consolidated total liabilities increased by 27% or PHP 19,364.9 million over the March 31, 2008 balance of PHP 70,577.2 million. The upward movement in liabilities, among others, was due to the availment of short term notes payable from several local banks as well as additional long term obligations incurred during the same period in support of the acquisition of one A320 aircraft under capital lease. The effect of the remeasurement to fair value of certain derivative instruments resulted in the increase in the accrued liabilities balance grouped under current liabilities and in the other liabilities balance by 75% grouped under reserves and other liabilities.

As of June 30, 2008, the Company's equity balance amounted to PHP 17,798.57 million, up by PHP 3,165.9 million or 22% from the March 31, 2008 balance of PHP 14,608.1 million. The improvement was brought about mainly by the effect of the changes in fair value of outstanding derivative instruments which directly had an impact on the stockholders' equity , included under the cumulative translation adjustment caption.

The Company's key performance indicators are the following:

1. Total Comprehensive Income

   The Company's consolidated total comprehensive income attributable to parent for the quarter ended June 30, 2008 amounted to PHP 2,705 million higher by 211% from last years' level of PHP 869.4 million.

2. Current Ratio

   The Company has a current ratio of 0..79 as of June 30, 2008 compared to 0.85 as of March 31, 2008.

3. Debt to Equity ratio

   Debt to Equity ratio as of June 30, 2008 was 5.05 compared to 4.83 as of March 31, 2008

4. Earnings Per Share

   The Company reported an Earnings per share based on net income (loss) of (PHP0.34) as of June 30, 2008 as compared to PHP 0..25 as of June 30, 2007 and based on total comprehensive income of PHP 0.50 per share as of June 30, 2008 as compared to of PHP 0.16 as of June 30, 2007.

The manner by which the Company calculates the above indicator is as follows:

Current ratio – Current assets/Current liabilities
Debt to equity ratio – Total liabilities/Total Equity
Earnings (Loss) per share – Net income (loss) / total comprehensive income attributable to holders of parent company over common shares issued and outstanding

PAL'S TOP FIVE KEY PERFORMANCE INDICATORS –QUALITATIVE FACTORS

Mission Statement	Key Performance Indicator	Measurement Methodology
To maintain aircraft with the highest degree of airworthiness, reliability and presentability in the most cost-effective manner	Aircraft Maintenance Check Completion	Number of checks performed less number of maintenance delay over number of checks performed
To conduct & maintain safe, reliable, cost & effective flight operations	Number of aircraft related accidents/ incidents	By occurrence and monitoring by Flight Operations Safety Office
To achieve On Time Performance on all flights operated	Percentage Deviation from Industry Standards (OTP Particpation)	Number of flights operated less number of flights delayed over total flights operated
To provide safe, on time, quality and cost effective inflight service or total passenger satisfaction	Number of safety violations incurred by cabin crew	Number of incidents of safety violation incurred by cabin crew per month
To maximize the revenue generation in passenger and cargo sales through increased yields by diversifying market segments and efficient management of seat inventory and cargo space	Net Revenues generated from passengers and cargoes carried	Percentage Deviation from Budget/Forecasted Revenues

I There are no known trends, demands, commitments, events or uncertainties that may have a material impact on the Group's liquidity.

ii. There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

iii. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

iv. Commitments for capital expenditures

As part of its refleeting program PAL entered into a Purchase Agreement with Airbus for nine (9) Airbus A320-200 on firm order for delivery in 2008 and 2009 with options for five (5) more aircraft for delivery from 2010 to 2013. As of July 2008 , six (6) Airbus A 320-200 are already part of PAL's operating fleet, four of which were delivered in FY 07-08 and the other two delivered in April, and July 2008. The remaining three (3) Airbus 320-200 are scheduled for delivery in August, October and December 2008.

In May 2008, PAL started the operations of "PAL Express" . This low fare unit of PAL will operate a fleet of turbo-prop aircraft to service inter-island routes and provincial points. PAL is in the process of acquiring nine turbo-prop aircraft (three Bombardier Q300 aircraft and six Bombardier Q400 aircraft) to comprise PAL Express' initial fleet which will be based both in Manila and Cebu. As of July 2008, three (3) Bombardier Q 300 aircraft and four (4) Bombardier Q 400 aircraft have been delivered to and accepted by PAL. The remaining two (2) Bombardier Q 400 are scheduled for delivery in August 2008.

Also, two (2) brand new Boeing 777-300ER aircraft on operating leases are scheduled to be delivered in fiscal year 2010; while four (4) new Boeing 777-300ER aircraft directly ordered by PAL from Boeing are scheduled to be delivered in fiscal years 2010 to 2012.

PAL is also in the midst of a comprehensive cabin refurbishment on its current wide body fleet, which will see a new bi-class product alongside a major upgrade of interiors and amenities.

iv. There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from the Group's continuing operations.

v. There are no significant elements of income or loss that did not arise from the Company's continuing operations.

vi. The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item:

1. Cash and cash equivalents- H-(12%) V-(5%)
2. Available-for-sale- investments – H-(1403%)
3. Expendable parts, fuel, materials and supplies – H-(12%)
4. Other Current Assets – H- 149%
5. Property, plant and equipment –net – H- 21%
6. Deposits on aircraft leases –H-9%
7. Deferred tax assets –H -8%
8. Other noncurrent assets – H –111%
9. Notes payable – H- 57%
10. Accounts payable– H-16%
11. Accrued liabilities – H-75%
12. Income tax payable – H-(100%)
13. Unearned transportation revenue – H- 11%
14. Long-term liabilities –net of current portion – H-10%

15. Accrued employee benefits payable – H-8%
16. Reserves and other noncurrent liabilities –H- 91%
17. Other components of equity– H-25%-V-5%
18. Passenger – H-11%
19. Cargo H-6%
20. Interest income – H-(57%)
21. Others – H- (8%)
22. Flying Operations – H-39% V-12%
23. Maintenance – H-24%
24. Financing charges – H- (14%)
25. Reservation and sales – H-37%
26. General and administrative – H –20%
27. Others – H- 256% V- 8%
28. Net income (loss) – H-(234%) V -(21%)
29. Net changes in fair value of available-for-sale investments – H-(101%)
30. Net changes in fair value of derivative assets – H-4604% V 22%
31. Increase in revaluation increment due to appraisal incme – H-56865%
32. Effect of foreign exchange translation – H-(287%) V-10%
33. Total Comprehensive income – V- 11% H-218%

All of these material changes were explained in detail in the management's discussion and analysis of financial condition and results of operations stated above.

vi. Generally, PAL experiences a peak in holiday travel during the months of January, April, May, June and December.

PAL HOLDINGS, INC. AND SUBSIDIARIES
SUMMARY OF RECEIVABLES
AS OF JUNE 30, 2008 (UNAUDITED)
(in thousand PHP)

	Total	Current	31-90 Days	91-180 Days	181-360 Days	over 360 Days	Past Due accounts & Items in Litigation
TYPE OF ACCOUNTS RECEIVABLE							
Trade Receivables	4,632,953	4,562,915	34,346	23,615	5,343	6,734	-
Non Trade Receivables	4,745,552	462,280	320,088	109,803	526,344	2,491,523	835,515
Total	9,378,505						
Less: Allowance for Doubtful Account	3,537,715						
NET RECEIVABLES	**5,840,790**						

Average Collection Period- trade receivables - 30 days

Normal Operating Cycle = 365 days