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, 2009**

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 - 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, 2009 (with comparative figures as of March 31, 2009 and for the period June 30, 2008) 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	**JAIME J. BAUTISTA**
Chief Finance Officer	President
August 14, 2009	August 14, 2009

Annex "A"

PAL HOLDINGS, INC.
AND SUBSIDIARIES

Quarterly Consolidated Financial Statements
For the Three Months Ended June 30, 2009

PAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

		June 30, 2009 (Unaudited)		March 31, 2009 (Audited)
ASSETS				
Current Assets				
Cash and cash equivalents	₱	4,274,443	₱	5,836,988
Short-term investments		971,010		374,205
Receivables - net		4,591,046		5,150,551
Expendable parts, fuel, materials and supplies		897,906		938,806
Other current assets		5,074,354		8,553,245
Total Current Assets		**15,808,759**		**20,853,795**
Noncurrent Assets				
Property, plant and equipment -net		64,687,367		65,450,855
Deposits on aircraft leases		3,186,518		3,154,548
Deferred tax assets		578,763		581,936
Available-for-sale-investments		816,993		819,510
Investment properties		1,441,080		1,450,045
Other noncurrent assets		2,790,660		3,402,856
Total Noncurrent Assets		**73,501,381**	**-**	**74,859,750**
TOTAL ASSETS	₱	**89,310,140**	₱	**95,713,545**

		June 30, 2009 (Unaudited)		March 31, 2009 (Audited)
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	₱	6,541,831	₱	6,888,223
Current portion of long-term liabilities		8,229,769		10,296,454
Accounts payable		3,430,170		3,577,514
Accrued liabilities		13,161,266		14,574,625
Advances from related parties		481,090		481,090
Unearned transportatin revenue		4,938,025		5,188,611
Total Current Liabilities		**36,782,151**		**41,006,517**
Noncurrent Liabilities				
Long-term liabilities - net of current portion		36,158,086		42,112,420
Accrued employee benefits payable		4,426,154		4,200,028
Reserves and other noncurrent liabilities		7,906,486		6,046,552
Total Noncurrent Liabilities		**48,490,726**		**52,359,000**
TOTAL LIABILITIES		**85,272,877**		**93,365,517**
Equity				
Capital stock - P 1 par value				
Authorized and issued		5,421,568		5,421,568
Capital in excess of par		17,517,283		17,517,283
Other components of equity:				
Cumulative translation adjustment		(3,774,781)		(3,498,429)
Net changes in fair value of available- for- sale investments		124,900		125,143
Revaluation increment in Property		1,430,108		1,497,302
Retained Earnings/(Deficit)		(17,357,890)		(19,130,991)
Treasury Stock		(56)		(56)
		3,361,132		**1,931,820**
Minority interest		**676,131**		**416,208**
Total Equity		**4,037,263**		**2,348,028**
TOTAL LIABILITIES AND EQUITY	₱	**89,310,140**	₱	**95,713,545**

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

	FOR THREE MONTHS ENDED JUNE 30,			
		2009		**2008**
REVENUE				
Passenger	₱	13,679,889	₱	16,552,565
Cargo		841,821		1,287,603
Interest income		57,154		91,232
Others		4,278,665		1,496,824
		18,857,529		**19,428,224**
EXPENSES				
Flying Operations	₱	7,673,204	₱	10,144,936
Maintenance		2,638,983		2,488,045
Aircraft and traffic servicing		2,278,397		2,032,319
Financing charges		941,113		930,918
Passenger service		1,267,246		1,256,860
Reservation and sales		1,000,850		1,228,003
General and administrative		881,278		837,097
Others		161,342		2,672,336
		16,842,413		**21,590,514**
NET INCOME (LOSS)	₱	**2,015,116**	₱	**(2,162,290)**
OTHER COMPREHENSIVE INCOME/(LOSS)				
Net changes in fair value of available-for-sale Investments	₱	510	₱	(768)
Net changes in fair value of derivative assets		(324,882)		4,110,757
Increase in revaluation increment due to appraisal		-		34,627
Effect of foreign exchange translation		(1,509)		1,207,967
		(325,881)		**5,352,583**
TOTAL COMPREHENSIVE INCOME (LOSS)	₱	**1,689,235**	₱	**3,190,293**
Net income (loss) attributable to:				
Equity Holders of the Parent	₱	**1,705,907**	₱	**(1,830,315)**
Non-controlling Interest		**309,209**		**(331,875)**
Total comprehensive income (loss) attributable to:				
Equity Holders of the Parent	₱	**1,429,312**	₱	**2,705,031**
Non-controlling Interest		**259,923**		**485,362**
Earnings (Loss) Per Share				
Computed based on Net Income (Loss)	₱	**0.31**	₱	**(0.34)**
Computed based on Total Comprehensive Income (Loss)		**0.26**		**0.50**

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

Computed based on net income
6/30/2009 three months = 1,705,907 / 5,421,512
6/30/2008 three months = (1,830,315) / 5,421,512

Computed based on total comprehensive income
6/30/2009 three months = 1,429,312 / 5,421,512
6/30/2008 three months = 2,705,031 / 5,421,512

PAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(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 Invesments	Revaluation Increment in Property	Deficit	Treasury Stock	Total	Non-controlling Interest	Total
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
Transfer to deficit to additional paid-in capital	-	(253,729)		-	-	-	253,729	-	-		-
Total other 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	-	-	-	-
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	**5,421,568**	**17,517,283**	**-**	**436,937**	**272,962**	**1,422,694**	**(10,041,775)**	**(56)**	**15,029,613**	**2,768,881**	**17,798,494**
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 other comprehensive income for the year	-	-		567,938	(145,096)	157,297	(10,972,902)		(10,392,763)	(1,867,310)	(12,260,073)
Transfer of portion of revaluation increment in									-		-
property realized through depreciation - net of									-		-
related deferred tax and foreign exchange adjustment	-	-				(84,262)	84,262		-	-	-
Total income and expense for the year	-	-	-	567,938	(145,096)	73,035	(10,888,640)	-	(10,392,763)	(1,867,310)	(12,260,073)
BALANCES AT MARCH 31, 2009	**₱ 5,421,568**	**₱ 17,517,283**	**₱ -**	**₱ (3,498,429)**	**₱ 125,143**	**₱ 1,497,302**	**₱ (19,130,991)**	**₱ (56)**	**₱ 1,931,820**	**₱ 416,208**	**₱ 2,348,028**
Total other comprehensive income for the year	-	-		(276,352)	(243)	-	1,705,907		1,429,312	259,923	1,689,235
Transfer of portion of revaluation increment in									-		-
property realized through depreciation - net of									-		-
related deferred tax and foreign exchange adjustment	-	-				(67,194)	67,194		-	-	-
Total income and expense for the year	-	-	-	(276,352)	(243)	(67,194)	1,773,101	-	1,429,312	259,923	1,689,235
BALANCES AT JUNE 30, 2009	**₱ 5,421,568**	**₱ 17,517,283**	**₱ -**	**₱ (3,774,781)**	**₱ 124,900**	**₱ 1,430,108**	**₱ (17,357,890)**	**₱ (56)**	**₱ 3,361,132**	**₱ 676,131**	**₱ 4,037,263**

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

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	₱ 2,015,116	₱ (2,162,190)
Adjustments for:		
Depreciation	1,803,473	1,254,756
Provision for doubtful accounts,retirement benefits, contingencies and others-net	164,373	176,441
Gain on buyback of unsecured claims	(1,509,638)	-
Effect of remeasurement of derivative financial instruments	(1,475,401)	-
Interest income	(16)	(28)
Dividend income	-	(133,570)
Loss (gain) on disposal of property and equipment and others	596,751	-
Operating income (loss) before working capital changes	1,594,658	(864,591)
Decrease (increase) in:		
Receivables	412,714	225,916
Expendable parts, fuel, materials and supplies	35,781	295,100
Other current assets	666,177	151,344
Increase (decrease) in:		
Accounts payable	190,125	(55,436)
Unearned transportation revenue	(222,297)	205,624
Net increase (decrease)of accrued employee benefits payable and other noncurrent liabilities	221,816	2,842,417
Net cash generated from operations	2,898,974	2,800,374
Interest received	16	28
Net cash provided by (used in) operating activities	**2,898,990**	**2,800,402**
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(774,670)	(4,691,766)
Investments in:		
Short-term investments	(597,544)	-
Available-for-sale investments	-	(1,288,740)
Dividend income received	-	4,400
Net changes in other noncurrent assets	499,495	(22,583)
Net cash used in investing activities	**(872,719)**	**(5,998,689)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment (payment) of:		
Notes payable - net	(314,568)	1,854,743
Long term obligations	(6,511,010)	(1,308,314)
Advances for future stock subscription	3,260,152	-
Net cash used in financing activities	**(3,565,426)**	**546,429**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(23,391)**	**910,983**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(1,562,546)**	**(1,740,875)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**5,836,989**	**14,783,695**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**₱ 4,274,443**	**₱ 13,042,820**

PAL HOLDINGS, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
AS OF JUNE 30, 2009 and 2008

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 the Group'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 2009	Quarter Ended June 2008
International		
Revenue	₱ 12,120,034	₱ 14,023,522
Income	307,237	3,271,019
Domestic		
Revenue	4,671,494	4,299,323
Income (Loss)	297,245	1,143,948
System		
Revenue	16,791,528	18,322,845
Income (Loss)	604,482	4,414,967

The reconciliation of the total net income reported by reportable segments to the net income in the Statements of Income from April to June 2009 as follows:

	Quarter Ended June 2009	Quarter Ended June 2008
Income (Loss)	₱ 604,482	₱ 4,414,967
Add(Deduct) Unallocated Items:		
Non-transport revenues and other income	2,065,988	916,182
Non-transport expenses & other charges	(978,477)	(3,414,380)
Other Comprehensive Income (Loss)	4,910	11,859
Net Loss	₱ 1,696,903	₱ 1,928,628

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
Following are the new and amended accounting standards and interpretations that will become effective subsequent to March 31, 2009 and have not been early adopted by the Group.

Effective in fiscal year 2010

- Revised PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*, clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

- PFRS 8, *Operating Segments*, adopts a full 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 its financial statements with a securities commission or similar party.

- Revised PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs when such costs are directly attributed to the acquisition, construction or production of a qualifying asset.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, has changes in respect of the holding companies' separate consolidated financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required, and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) all instruments in the subordinate class have identical features, (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro-rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, requires 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 the award credits and deferred over the period that the award credits are fulfilled. Management has yet to complete its assessment of the impact of adopting IFRIC 13 in fiscal year 2010.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies that when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*, clarifies that assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- Amendment to PAS 16, *Property, Plant and Equipment*, replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*. It also clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. PAS 7, *Statement of Cash*

Flows, is also revised to require cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales to be shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*, revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

  It also revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. It further revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. It also deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investment in Associates*, clarifies that if an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. It also defines an investment in an associate as a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 31, *Interest in Joint Ventures*, clarifies that if a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*, provides that when discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*, provides that expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. It also deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*, provides that changes in circumstances relating to derivatives, specifically derivatives designated or redesignated as hedging instruments after initial recognition, are not reclassifications. It further removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge. It also requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*, revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*, removes the reference to the use of a pretax discount rate to determine fair value, thereby allowing use of either a pretax or post-tax discount rate depending on the valuation methodology used and removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in fiscal year 2011

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*. The revised PFRS 3 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. The revised PAS 27 requires, among others, that a change in ownership interests of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss. The amendment also changes the accounting for losses incurred by the subsidiary and loss of control of a subsidiary.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 17, *Distributions of Noncash Assets to Owners*, provides guidance on when to recognize a dividend payable, how to measure it, and the accounting treatment for the difference between the carrying amount of the assets distributed and the carrying amount of dividends payable when an entity settles the dividend payable. The interpretation applies to all non-reciprocal distribution of noncash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5), including those giving the owners a choice of receiving either noncash or cash alternative, provided that all owners of the same class of equity instruments are treated equally and the noncash assets distributed are not ultimately controlled by the same party or parties both before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

Effective in fiscal year 2013

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion.

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 subsequent to fiscal year 2009.

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 30,2009.

	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.

The Group considers the market for a financial instrument as active when transactions regularly take place on an arm's length basis. On the other hand, market for a financial instrument is considered as inactive when market price is not current or when there is a significant decline in the volume and level of trading activity and the available prices vary.

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. Otherwise, these are classified as noncurrent assets.

The Group has no held-to-maturity investments as of June 30, 2009 and March 31, 2009.

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.

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 fair value through profit or loss. 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.

<u>Offsetting Financial Instruments</u>
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. The latest appraisal report is as of March 31, 2009.

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. 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)	12 to 20
Other aircraft	5 to 10
Spare engines	12 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

PAL 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. PAL 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 depreciable investment properties 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, if 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 (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. 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 in the notes to consolidated financial statements 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 in the notes to consolidated financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

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 (e.g., when passengers and cargo are lifted). 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 of comprehensive 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 of the Group includes changes in revaluation increment in property, gains and losses on remeasuring 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
The Parent Company 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 income tax

Current income 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 income tax

Deferred income 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 income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income 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 income 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 income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments with other subsidiaries and associates, deferred income 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 income 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 income tax asset to be utilized. Unrecognized deferred income 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 income tax asset to be recovered.

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

Foreign Currency-Denominated Transactions and Translations
Transactions denominated in currencies other than the USD are recorded using the exchange rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at statement of financial position date. Any resulting foreign exchange gains or losses are taken to income or loss in the consolidated statement of comprehensive 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 year, as applicable, by the weighted average number of issued and outstanding shares of stock during the year, after giving retroactive effect to any stock dividends declared or stock rights exercised. The Group has no dilutive potential common shares.

Events After the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events), if any, are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

II: Financial Risk Management Objectives and Policies

Risk Management Structure

Board of Directors (BOD)
The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and policies of the Group.

Financial Risk Committee
The Financial Risk Committee has the overall responsibility for the development of financial risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group approach to financial risk issues in order to make relevant decisions.

Finance Risk Office
The Finance Risk Office is responsible for the comprehensive monitoring, evaluating and analyzing of the Group financial risks in line with the policies and limits set by the Finance Risk Committee.

Financial Risk Management

The Group's principal financial instruments, other than derivatives, consist of loans, cash and cash equivalents, short-term investments, investments in bonds and equities, and deposits. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and financial liabilities such as trade receivables, trade payables and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are market risks (consisting of foreign exchange risk, cash flow interest rate risk, price interest rate risk, equity price risk and fuel price risk), liquidity risk, counterparty risk and credit risk.

The Group uses derivative financial instruments to manage its exposures to currency, interest and fuel price risks arising from the Group's operations and its sources of financing. The details of PAL's derivative transactions, including the risk management objectives and the accounting results, are discussed in this note.

Market risks
Increasing market fluctuations may result in significant equity, cash flow and profit volatility risks for the Group. Its operating activities as well as its investing and financing activities are affected by changes in foreign exchange rates, interest rates and fuel prices. The Group seeks to manage and control these risks primarily through its regular operating and financing activities, and through execution of a documented hedging strategy.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in analyzing and managing its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and fuel price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Foreign exchange risk
The Group is exposed to foreign exchange rate fluctuations arising from its revenue, expenses and borrowings in currencies other than its functional currency. The Group manages this exposure by matching its receipts and payments for each individual currency. Any surplus is sold as soon as practicable. The Group also uses foreign currency forward contracts and options to hedge a portion of its exposure. The Group's significant foreign currency-denominated monetary assets and liabilities (in USD equivalent) as of June 30, 2009 and March 31, 2009 are as follows:

	June 30, 2009	March 31, 2009
Financial assets and financial liabilities		
Financial Assets		
Cash	**₱ 1,769,229**	₱ 738,290
Receivables	**2,717,219**	3,888,819
Others*	**1,832,316**	1,698,934
	6,318,764	6,326,043
	June 30, 2009	March 31, 2009
Financial Liabilities		
Accounts payable	**2,841**	1,141,064
Accrued expenses	**4,307,589**	4,001,400
Others**	**1,364,509**	1,440,022
	5,674,939	6,582,486
Net foreign currency-denominated financial assets (liabilities)	**643,825**	(256,443)
Nonfinancial liabilities		
Accrued employee benefits	**(4,450,714)**	(4,200,028)
Unremitted tax collections	**-**	(145,508)
Provisions	**(1,614,015)**	(1,583,593)

	(6,064,729)	(5,929,129)
Net foreign currency-denominated monetary liabilities	**(₱ 5,420,904)**	(₱ 6,185,572)

∗ *Includes miscellaneous deposits, security deposits and currency forwards.*

∗∗ *Substantially pertaining to notes payable to a local bank.*

The Group recognized PHP 32,078 foreign exchange loss for the period April to June 2009 and P752,727 foreign exchange gain in March 31, 2009.

The Group's foreign currency-denominated exposures comprise primarily of Philippine peso (PHP) and JPY. Other foreign currency exposures include Canadian dollar (CAD), Euro (EUR), Australian dollar (AUD), Singaporean dollar (SGD), and Hong Kong dollar (HKD).

Cash flow interest rate risk

The Group's policy on interest rate risk is designed to limit the Group's exposure to fluctuating interest rates. Before taking into account the effects of interest hedging, the ratio of floating rate to the total borrowings is 0.68:1 and 0.67:1 as of June 30, 2009 and March 31, 2009, respectively.

PAL has interest rate swap agreements (either as freestanding instruments or embedded in certain long-term obligations) to manage its interest rate exposure relative to the financing of three Airbus 330-300 and two Airbus 340-300. The interest rate swap agreements relative to the financing of two Airbus 330-300 aircraft require the exchange, at semi-annual intervals, the difference between PAL's fixed interest rates and the counterparties' floating interest rates. The effect of these swap agreements (aggregate notional amount of $36,082 as of June 30, 2009 and March 31, 2009) is to effectively fix PAL's interest rate exposure under these financing agreements to rates ranging from 6.50% to 6.61%. With respect to the junior loan financing of one Airbus 330-300 and two Airbus 340-300, PAL agreed with the counterparties to exchange, at semi-annual intervals, the difference between PAL's floating interest rates and the counterparties' fixed interest rates. These swap agreements (aggregate notional amounts of $4,694 and $5,416 as of June 30, 2009 and March 31, 2009, respectively) effectively convert the Parent Company's fixed interest rate exposure relative to these junior loan financing agreements of 7.95% into floating rate exposure based on six-month LIBOR plus margin.

Price interest rate risk

PAL's interest rate swaps, designated as cash flow hedges, classified as available for sale, are subject to price interest rate risk. The prices of these investments are monitored based on their current fair values, which are affected by the changes in market factors such as interest rates.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The prices of these investments are monitored based on their current fair values.

Fuel price risk

PAL is exposed to price risk on jet fuel purchases. This risk is managed by a combination of strategies with the objective of managing price levels within an acceptable band through various types of derivative and hedging instruments. In managing this significant risk, PAL has a portfolio of swaps, collars, and compound structures with sold options or option combinations with extendible or cancellable features. PAL implements such strategies to manage and minimize the risks within acceptable risk parameters.

PAL's fuel derivatives are viewed as economic hedges and are not held for speculative purposes. Short-term exposures are hedged primarily with fuel derivatives indexed to jet fuel. On long-term exposures, PAL also uses fuel derivatives indexed to crude oil as proxy hedges due to liquidity constraints in the refined oil products market (i.e., jet fuel).

PAL uses a Value-at-Risk (VaR) computation to estimate the potential three-day loss in the fair value of its fuel derivatives. The VaR computation is a risk analysis tool designed to estimate statistically the maximum potential loss from adverse movement in fuel prices.

Assumptions and limitations of VaR
The VaR methodology employed by PAL uses a three-day period due to the assumption that not all positions could be undone in a single day given the size of the positions. The VaR computation makes use of Monte Carlo simulation with multi-factor models. Multi-factor models ensure that the simulation process takes into account mean reversion and seasonality. It captures the complex dynamics of the term structure of commodity markets, such as contango and backwardation. The VaR estimates are made assuming normal market conditions using a 95% confidence interval and are determined by observing market data movements over a 90-day period.

The estimated potential three-day losses on its fuel derivative transactions, as calculated in the VaR model, amounted to PHP 47,926 and PHP 83,298 as of June 30, 2009 and March 31, 2009, respectively.

The high, average and low VaR amounts are as follows:

	High	Average	Low
April 1, 2009 to June 30, 2009	**₱ 77,418**	**₱ 34,951**	**₱ 10,102**
April 1, 2008 to March 31, 2009	₱ 1,135,119	₱ 390,662	₱ 75,536

Liquidity risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments (e.g., long-term obligations) or that a market for derivatives may not exist in some circumstances.

The Group's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The tables below summarize the maturity analysis of the Group's financial liabilities based on contractual undiscounted payments (principal and interest):

June 30, 2009

	2009						
	<1 Year	**>1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**>4-<5 Years**	**>5 Years**	**Total**
Accounts payable and accrued expenses	**₱ 12,681,190**	**₱ –**	**₱ –**	**₱ –**	**₱ –**	**₱ –**	**₱ 12,681,190**
Notes payable (noncurrent portion is included under "Other noncurrent liabilities")	**6,575,204**	**–**	**–**	**–**	**–**	**–**	**6,575,204**
Obligation under finance lease	**7,305,087**	**7,401,451**	**5,561,960**	**3,123,191**	**8,325,603**	**7,512,504**	**39,229,796**
Other long-term liabilities	**2,236,650**	**2,315,774**	**1,126,849**	**1,102,000**	**1,016,375**	**3,381,269**	**11,178,917**
Other liability (under "Accrued expense" and "Other noncurrent liabilities") (Note 16)	**414,014**	**414,014**	**414,014**	**414,014**	**345,005**	**–**	**2,001,061**
Due to related parties	**481,090**	**–**	**–**	**–**	**–**	**–**	**481,090**
Derivative instruments							
Contractual receivable	**(1,761,957)**	**–**	**–**	**–**	**–**	**–**	**(1,761,957)**
Contractual payable	**1,933,784**	**–**	**–**	**–**	**–**	**–**	**1,933,784**
Fuel derivatives	**1,121,985**	**3,145,344**	**–**	**–**	**–**	**–**	**4,267,329**
	₱ 30,987,047	**₱ 13,276,583**	**₱ 7,102,823**	**₱ 4,639,205**	**₱ 9,686,983**	**₱ 10,893,773**	**₱ 76,586,414**

March 31, 2009

	2009						
	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	Total
Accounts payable and accrued expenses	₱ 12,087,477	₱ –	₱ –	₱ –	₱ –	₱ –	₱ 12,087,477
Notes payable (noncurrent portion is included under "Other noncurrent liabilities")	6,918,535	–	–	–	–	–	6,918,535
Obligation under finance lease	7,869,350	7,484,637	6,538,084	3,437,187	8,579,991	9,106,483	43,015,732
Other long-term liabilities	4,110,205	4,537,384	3,989,973	1,064,509	1,000,108	3,597,512	18,299,691
Other liability (under "Accrued expense" and "Other noncurrent liabilities")	414,008	414,008	414,008	414,008	414,008	34,525	2,104,565
Due to related parties	481,090	–	–	–	–	–	481,090
Derivative instruments							
Contractual receivable	(1,483,021)	–	–	–	–	–	(1,483,021)
Contractual payable	1,509,701	–	–	–	–	–	1,509,701
Fuel derivatives	906,896	2,690,811	–	–	–	–	3,597,707
	₱ 32,814,241	₱ 15,126,840	₱ 10,942,065	₱ 4,915,704	₱ 9,994,107	₱ 12,738,520	₱ 86,531,477

Note: Coupon cash flows on floating rate liabilities are determined using projected rates. In the case of derivatives, where the settlement mechanism is gross, the contractual cash inflows and outflows are presented by time bucket. Where the settlement mechanism is net, the future undiscounted cash flows are used, where the estimated forward or swap curve is compared against contractually agreed rates or prices.

Counterparty risk

The Group's counterparty risk encompasses issuer risk on investment securities; credit risk on cash in banks, time deposits, and security deposits; and settlement risk on derivatives. The Group manages its counterparty risk by transacting with counterparties of good financial condition and selecting investment grade securities. Settlement risk on derivatives is managed by limiting aggregate exposure on all outstanding derivatives to any individual counterparty, taking into account its credit rating. Credit limits are set in line with the long-term rating of the counterparty as determined by Standard & Poor's and Moody's. These limits are regularly monitored, reviewed and adjusted as deemed necessary. The Group also enters into master netting arrangements and implements counterparty and transaction limits to avoid concentration of counterparty risk.

The table below shows the maximum counterparty exposure before taking account any collateral and other credit enhancements of the Group as of June 30, 2009 and March 31, 2009:

	June 30, 2009	March 31, 2009
Cash in banks and cash equivalents	**₱4,213,706**	₱5,759,600
Short-term investments	**971,010**	374,205
Accounts receivable - net	**4,051,051**	4,588,469
Investment in MAC	**250,800**	255,200
Derivative instruments	**1,018,879**	3,266,113
Margin deposits, lease deposits and others	**7,375,653**	8,856,496
	₱ 17,881,099	₱23,100,083

Credit risks

The Group's exposure to credit risk arises from the possibility that agents and other counterparties may fail to fulfill their agreed obligations and that the collaterals held may not be sufficient to cover the Group's claims. To manage such risk, the Group, through its Credit and Collection Department, employs a credit evaluation process prior to the accreditation or re-accreditation of its travel and cargo agents. The Group considers, among other factors, the size, paying habits and the financial condition of the agents. To further mitigate the risk, the Group requires from its agents financial guarantees in the form of cash bonds, letters of credit and assignment of time deposits.

The Group, to the best of its knowledge, has no significant concentration of credit risk with any counterparty.

III: Financial Instruments

Classification of financial instruments

The Group exercises judgment in classifying a financial instrument, or its component parts, 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, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

Fair Values of Financial Instruments

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	June 30, 2009		March 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash	**₱ 1,530,015**	**₱ 1,530,015**	₱ 1,069,407	₱ 1,069,407
Loans and Receivables				
Cash equivalents	**2,744,428**	**2,744,428**	4,767,581	4,767,581
Short-term investments	**971,010**	**971,010**	374,205	374,205
Accounts receivable - net				
General traffic				
Passenger	**2,574,479**	**2,574,479**	3,497,957	3,497,957
Cargo	**356,080**	**356,080**	237,752	237,752
IATA	**95,016**	**95,016**	324,234	324,234
Others	**64,002**	**64,002**	2,130	2,130

Non-trade*	**961,474**	**961,474**	526,395	526,395
Margin deposits, lease deposits and others	**7,375,590**	**7,034,728**	8,856,496	8,613,562
	15,142,079	**14,801,217**	18,586,750	18,343,816
Available-for-sale Investments				
Equity investments				
Quoted	**515,428**	**515,428**	516,291	561,291
Unquoted	**301,517**	**301,517**	303,219	303,219
	816,945	**816,945**	819,510	819,510
Derivative Assets				
Fair value through profit or loss	**P1,018,879**	**P1,018,879**	3,266,113	3,266,113
Accounted for as cash flow hedges			–	–
	1,018,879	**1,018,879**	3,266,113	3,266,113
	₱ 18,507,918	**₱ 18,167,056**	₱ 23,741,780	₱ 23,498,846
Financial Liabilities				
Financial liabilities carried at amortized cost				
Accounts payable and accrued expenses	**₱ 12,681,190**	**₱ 12,681,190**	₱ 12,087,477	₱ 12,087,477
Notes payable	**6,541,831**	**6,541,831**	6,888,223	6,888,223
Obligations under finance leases	**35,445,829**	**35,550,284**	36,971,165	37,408,513
Other long-term liabilities	**8,942,026**	**9,329,312**	15,437,709	16,503,573
Due to related parties	**481,090**	**481,090**	481,090	481,090
Other liability (under accrued expense and other noncurrent liabilities)	**1,659,765**	**1,749,436**	1,690,364	1,705,229
	65,751,731	**66,333,143**	73,556,028	75,074,105
Derivative liability				
Fair value through profit or loss	**3,290,058**	**3,290,058**	6,869,339	6,869,339
Accounted for as cash flow hedges	**37,515**	**37,515**	37,721	37,721
	3,327,573	**3,327,573**	6,907,060	6,907,060
	₱ 81,760,494	**₱ 82,341,906**	₱ 80,463,088	₱ 81,981,165

** Excludes receivables arising from statutory requirements (net of allowance amounting to PHP 539,996 and PHP 562,081 of June 30, 2009 and March 31, 2009 respectively)*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalent, short-term investments and receivables
The carrying amounts of cash and cash equivalents approximate fair value. The carrying amounts of receivables approximate fair value due to their short-term settlement period.

Current financial instruments
Similarly, the historical cost carrying amounts of receivables, miscellaneous deposits, accounts payable and accrued expenses approximate their fair values due to the short-term nature of these accounts.

Debt investments (available-for-sale investments)
The fair values of debt investments are generally based upon quoted market prices. If market prices are not readily available, fair values are estimated by obtaining quotes

from counterparties or from independent entities that offer pricing services by adjusting the quoted market prices of comparable investments.

Equity investments (available-for-sale investments)
The fair values of equity investments are generally based upon quoted market prices. Unquoted equity investments are carried at cost (subject to impairment) if the fair value cannot be determined reliably or where the variability in the range of fair value estimates is significant.

Security deposits
The fair value of refundable deposits is determined using discounted cash flow techniques
based on prevailing market rates. Discount rates used are 2.47% to 2.49% and 1.65% to 1.67% for June 30, 2009 and March 31, 2009, respectively.

Long-term obligations and short-term, fixed rate notes payable
The fair value of long-term obligations (whether fixed or floating) is generally based on the present value of expected cash flows with discount rates that are based on risk-adjusted benchmark rates (in the case of floating rate liabilities with quarterly repricing, the carrying value approximates the fair value in view of the recent and regular repricing based on current market rates). The discount rates used range from 1.01% to 5.01% and 0.92% to 4.17% for USD-denominated loans in June 30, 2009 and March 31, 2009, respectively. The discount rates used amounted to 2.10% and 2.25% for JPY-denominated loans for in June 30, 2009 and March 31, 2009, respectively.

The carrying value of the short-term, fixed rate notes payable approximates its fair value due to the short-term settlement period of the notes (i.e., effect of discounting is minimal)

Derivatives
The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of interest rate swap transactions is the net present value of estimated future cash flows.

The fair values of fuel derivatives that are actively traded on an organized and liquid market are based on published prices. In the absence of an active and liquid market, and depending on the type of instrument and the underlying commodity, the fair value of fuel derivatives is determined by the use of either present value methods or standard option valuation models. The valuation inputs on these fuel derivatives are based on assumptions developed from observable information, including (but not limited to) the forward curve derived from published or futures prices adjusted for factors such as seasonality considerations and the volatilities that take into account the impact of spot prices and the long-term price outlook of the underlying commodity. The fair values of fuel derivatives with extendible or cancelable features are based on quotes provided by counterparties.

Derivative Financial Instruments
The derivative financial instruments set out in this section have been entered into to achieve PAL's risk management objectives. PAL's derivative financial instruments are accounted for at fair value through profit or loss, except for interest rate swaps and certain fuel derivatives (which are accounted for as cash flow hedges).

The following table provides information about PAL's derivative financial instruments outstanding as of March 31, 2009 and 2008 and the related fair values:

	June 30, 2009		March 31, 2009	
	Asset	**Liability**	Asset	Liability
Fuel derivatives	**₱ 1,010,162**	**₱ 3,257,600**	₱ 3,231,733	₱ 6,829,390
Interest rate swaps	**–**	**37,515**	–	37,721
Currency forwards	**–**	**2,119**	–	–
Structured currency derivatives	**8,717**	**30,340**	34,380	39,948
	₱ 1,018,879	**₱ 3,327,574**	₱ 3,266,113	₱ 6,907,059

As of June 30, 2009 and March 31, 2009, the positive and negative fair values of derivative positions that will settle in 12 months or less are classified under "Other current assets" (PHP959,163 in June 2009 and PHP3,087,048 in March 2009) and "Accrued expenses" (PHP1,962,101 in June 2009 and PHP3,999,464 in March 2009), respectively. The positive and negative fair values of derivative positions that will be settled in more than 12 months are classified under "Other noncurrent assets" (PHP59,668 in June 2009 and PHP179,065 in March 2009) and "Other noncurrent liabilities" (PHP1,365,472 in June 2009 and PHP2,907,596 in March 2009), respectively. The derivative asset (liability) balances include amounts arising from derivative settlements that are currently due to (due from) the PAL. The amounts totaled (PHP112,016) and (PHP249,276) as of June 30, 2009 and March 31, 2009, respectively.

Fuel derivatives

PAL is dependent on jet fuel to run its operations. Approximately 30.12% and 47.32% of its operating expenses represent jet fuel consumption for June 30, 2009 and March 31, 2009, respectively.

The dramatic increase in all energy prices over the years is another reason why jet fuel and oil have become a large portion of its expenses. In order to hedge against adverse market condition and to be able to acquire jet fuel at the lowest possible cost, PAL enters into fuel derivatives. PAL does not purchase or hold any derivative financial instruments for trading purposes.

PAL accounted for certain fuel derivatives as cash flow hedges as such instruments are utilized to reduce the variability of the cash flows of forecasted jet fuel purchases. These hedges, consisting of fuel caps and floors (collar structures), and fixed swaps are linked to specified fuel indices and have various monthly maturities up to June 30, 2010.

As of June 30, 2009, there are no outstanding fuel derivatives accounted for as cash flow hedges.

PAL's other fuel derivatives, which provide economic hedges against jet fuel price risk, are not accounted for as accounting hedges. These derivatives include leveraged collars, written calls, swaps and other structures with extendible or cancelable features and are carried at fair values in the consolidated statement of financial position, with fair value changes being reported immediately in the consolidated statement of comprehensive income. The net negative fair value of these fuel derivatives as of June 30, 2009 and March 31, 2009 amounted to PHP2,135,374 and PHP3,348,381, respectively.

Interest rate swaps

The interest rate swap agreements relative to the financing of two Airbus 330-300 aircraft have aggregate notional amount of $36,082 as of June 30, 2009 and March 31, 2009, respectively, and have expiry dates from August 27, 2009 to September 24, 2009. Under the agreements, PAL agreed with the counterparties to exchange, at semi-annual intervals, the difference between PAL's fixed interest rates and the counterparties' floating interest rates. The effect of these swap agreements is to effectively fix PAL's interest rate exposures under these financing agreements to rates ranging from 6.50% to 6.61%. The unpaid swap costs amounting to PHP1,940 as of March 31, 1999 were converted into long-term liabilities in 1999 and included as part of the outstanding principal balances of the related Aircraft secured claims.

PAL's currency forwards are carried at fair value in the consolidated statements of financial position, with the fair value changes being reported immediately in the consolidated statements of comprehensive income. Impact of fair value changes are not significant.

Structured currency derivatives

PAL entered into structured currency derivatives consisting of compound option structures with combination of long calls with knockout and short put with leverage features. These contracts are carried at fair value in the consolidated statement of financial position. The fair value changes of the derivative instruments are recognized directly in the consolidated statement of comprehensive income. The outstanding structured currency derivatives are composed of option to buy EUR in USD and buy USD in various currencies (i.e., JPY, CAD, AUD and SGD).

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

<u>Results of Operations</u>

PAL Holdings' consolidated total comprehensive income for the three months ended June 30, 2009 amounted to PHP1,689.2 million, a decrease of 47% from the same period of the previous fiscal year of PHP3,190.4 million. Consolidated net income (loss) from operations however, showed a significant increase of 193% from (PHP2,162.2) million as of June 30,2008 to PHP2,015.1 million in the current period.

Consolidated revenues for the three months ended June 30, 2009 amounted to PHP 18,857.5 million, 3% lower than last year's same period figure of PHP19,428.2 million. The decrease was brought about mainly to the drop in passenger revenues offset by other income earned during the period. The decline in passenger revenues was primarily brought about by lower net yield per Revenue Passenger Kilometer (RPK). Revenues also include cargo, recoveries arising from surcharges, and other income earned during the period.

Other income which increased by 186% was the result of the gain recognized on the debt buyback of PAL from its ultimate parent Trustmark Holdings Corporation. In May 2009, Trustmark purchased certain unsecured claims against PAL from various debt holders amounting to PHP5,264.9 milliion in face value. These claims are carried in the books at amortized cost amounting to PHP 4,825.1 million. In June 2009, PAL purchased these unsecured claims from Trustmark at the same price that they were bought by Trustmark.

The increase also included unrealized gains resulting from changes in the fair valuation of outstanding derivative instruments which did not qualify for hedge accounting.

Consolidated expenses for the current period decreased by PHP4,748.1 million or 22% from the previous year's period total of PHP 21,590.5 million. This was mainly due to lower expenses related to flying operations which decreased by 24%, reservation and sales which decreased by 19% and other expenses by 94%.

The decrease in flying operations was attributable mainly to the decrease in fuel costs. The decrease in fuel expenses by 39.1% was a result of the drop in average fuel price per barrel from US$ 133.05 in 2008 to US$ 70.28 in 2009.

The decrease in other expenses was mainly due to the reclassification of the unrealized gain resulting from changes in the fair valuation of outstanding derivative instruments which did not qualify for hedge accounting to "Other Income" under "Revenues". This was part of "Other Expenses" in the same period of last year.

Higher aircraft, engine and component repair costs had the effect of increasing maintenance expenses by 6%.

"Other Comprehensive Income/Loss" accounts, which reflects the movements of all non-owner changes in equity declined by 106%. This was mainly the result of the reduction in the net changes in the value of derivative assets resulting from the fair valuation of outstanding fuel hedges recognized in equity. Another significant portion of the other comprehensive income is the effect of foreign exchange translation which resulted to a loss of PHP1.5 million. This is due to the decrease in the monthly average of the US $ rates vis-à-vis the Philippine peso.

Financial Condition

The Company's consolidated total assets as of June 30, 2009 amounted to PHP 89,310.1 million or 7% lower than the March 31, 2009 balance of PHP 95,713.6 million.

The difference was brought about by the downward movement in total current assets by 24%. This was attributable to the decrease in cash and cash equivalents by 27% due to servicing of debts offset by the long-term advances received from the Lucio Tan Group of Companies. Receivables also decreased by 11% as a result of lower passenger and cargo ticket sales coupled with the effect of the provision for doubtful account recognized during the quarter. On the other hand, other current assets also dropped by 41% due to the effect of the remeasurement to fair value of certain financial assets and derivative instruments. On the contrary, this remeasurement paved the way to increase other non current assets by 18%.

Total liabilities decreased by 9%. This is on account of lower long-term liabilities by 14% due to the principal payments made on various loans and the effect of the debt buyback of certain unsecured claims from Trustmark Holdings Corporation. The remeasurement to fair value of certain derivative instruments also had the effect of decreasing the accrued liabilities balance grouped under current liabilities and in the other liabilities balance grouped under reserves and other liabilities. The "Reserves and Other Liabilities" account which increased by 31% also includes the long term advances received from the Lucio Tan Group of Companies.

As of June 30, 2009 the Company's equity balance amounted to PHP4,037.3 million, up by by PHP 1,689.2 million or 72% from the March 31, 2009 balance of PHP 2,348.0 million. The increase was mainly the result of net income recognized for the quarter ended June 30, 2009.

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 three months ended June 30,2009 amounted to PHP 1,429.3 million lower by 47% from last years' level of PHP2,705.0 million.

2. Current Ratio

   The Company has a current ratio of 0.43 as of June 30, 2009 compared to 0.51 as of March 31, 2009.

3. Debt to Equity ratio

   Debt to Equity ratio as of June 30,2009 was 21.12 compared to 39.76 as of March 31, 2009

4. Earnings Per Share

   The Company reported an Earnings (Loss) per share based on net income (loss) of PHP0.32 as of June 30,2009 as compared to (PHP 0.34) as of June 30, 2008 and based on total comprehensive income of PHP0.26 per share as of June 30, 2009 as compared to PHP 0.50 as of June 30, 2008.

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) or 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 Participation)	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 the PAL signed in December 2006 operating lease agreements for the lease of two (2) brand new Boeing 777-300ER aircraft scheduled to be delivered in November 2009 and January 2010.

Also, on October 30, 2006 a purchase agreement with Boeing was finalized wherein PAL placed a firm order for four (4) new Boeing 777-300ER aircraft scheduled to be delivered in fiscal years 2010 to 2012. Subsequent to fiscal year 2009, PAL and Boeing agreed to reschedule the deliveries of these aircraft from their aforementioned original delivery schedules to fiscal years 2013 and 2014.

PAL on July 28, 2008 exercised its right to purchase two (2) of the five (5) option Airbus 320-200 aircraft scheduled for delivery in fiscal year 2011.

PAL embarked on a comprehensive renovation of its long-range wide body fleet, highlighted by the reconfiguration of the passenger cabin from a tri-class to bi-class layout, along with a major upgrade of the interiors and amenities. As of July 2009 the passenger cabins of the three (3) B747-400 aircraft have already been reconfigured.

In April 2009, PAL's Board of Directors authorized management to finalize the terms of the sale of one of its parcel of land with a carrying value of PHP 323.5 million. This property is included under the caption "Other Current Assets" in the Statement of Financial Position.

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-(27%)
2. Short term investments- H-159%
3. Receivables – net H - (11%)
4. Other Current Assets – H- (41%)
5. Other noncurrent assets – H-(18%)
6. Notes payable – H-(5%)
7. Current portion of long-term liabilities – H-(20%)
8. Accrued liabilities – H-(10%)
9. Unearned transportation revenue – H-(5%)
10. Long-term liabilities –net of current portion – H-(14%)
11. Accrued employee benefits payable – H-5%
12. Reserves and other noncurrent liabilities –H- 31%
13. Cumulative translation adjustment- H- 8%
14. (Deficit)- H- (9%)
15. Passenger – H-(17%) V-(13%)
16. Cargo- H-(35%)
17. Interest income – H-(37%)
18. Other revenue- H-186% V-15%
19. Flying Operations – H-(24%) V-(12%)
20. Maintenance – H-6%
21. Aircraft and traffic servicing – H-12%
22. Reservation and sales – H-(19%)
23. General and administrative – H-5%
24. Others – H-(94%) V-(13%)
25. Net income (loss) – H-193% V -22%
26. Net changes in fair value of available-for-sale investments – H-(166%)
27. Net changes in fair value of derivative assets – H-(108%) V-(23%)
28. Increase in revaluation increment due to appraisal – H-(100%)
29. Effect of foreign exchange translation – H-(100%) V-(6%)
30 Total Comprehensive income – H-(47%) V-(7%)

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
AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2008 (UNAUDITED)
AMOUNTS IN THOUSANDS (PHP)

RECEIVABLES	TOTAL	CURRENT	OVER 30 DAYS	OVER 60 DAYS	OVER 90 DAYS	OVER 120 DAYS	OVER 180 DAYS	OVER 1 YR.	Items under Litigation
TYPE OF ACCOUNTS RECEIVABLE									
TRADE RECEIVABLES	₱ 3,426,024	₱ 2,490,534	₱ ######	₱ ######	₱ 2,138	₱ 24,874	₱ 401,285	₱ 213,295	₱ -
NON-TRADE RECEIVABLES	5,753,456	563,942	######	68,960	97,334	27,419	412,705	########	1,385,743
TOTAL	9,179,480	3,054,476	######	######	99,472	52,293	813,990	########	1,385,743
ALLOWANCE FOR D.A.	4,588,434								
RECEIVABLES - NET	₱ **4,591,046**								

Average Collection Period-trade receivables - 30 days

Normal Operating Cycle - 365 days