COVER SHEET

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S.E.C. Registration Number

PAL HOLDINGS, INC.

(Company's Full Name)

7TH FLOOR ALLIED BANK CENTRE

6754 AYALA AVE. MAKATI CITY

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

MA. CECILIA L. PESAYCO	8102451
Contact Persons	Company Telephone Number

0 3	3 1	AMENDED DEFINITIVE INFORMATION STATEMENT	0 5	
Month	Day	Form Type	Month	Day
Fiscal Year			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

STAMPS

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NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be informed that the Annual Stockholders' Meeting of **PAL HOLDINGS, INC.** will be held on Monday, 17 September 2007, at 9:00 a.m. at the Kachina Room, Century Park Hotel, Malate, Manila, for the following purposes:

I. Call to order
II. Proof of the required notice of the meeting
III. Proof of the presence of quorum
IV. Reading and approval of the minutes of the previous meeting and action therein
V. Report of Management and the Board of Directors
VI. Unfinished Business
VII. Appointment of Auditors
VIII. New Business: Waiver of Requirements of the Listing Rules
IX. Appointment of inspectors for election
X. Election of Directors
IX. Adjournment

The Board of Directors has fixed the close of business on 17 August 2007 as the record date of shareholders in good standing entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.

All shareholders are cordially invited to attend the meeting in person. However, if you are unable to attend, you may send us a proxy not later than the close of business on 7 September 2007 at the office of the Corporate Secretary, Atty. Ma. Cecilia L. Pesayco, at the 2nd Floor Allied Bank Center, 6754 Ayala Avenue, Makati City.

Registration shall begin at 8:00 a.m. In order to facilitate registration, shareholders attending in person or their proxy should bring appropriate identification cards bearing a picture such as a driver's license, company ID, and the like.

20 August 2007.

MA. CECILIA L. PESAYCO
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box:
   [ ] Preliminary Information Statement
   [✓] Amended Definitive Information Statement

2. Name of Registrant as specified in its charter: **PAL HOLDINGS, INC.**

3. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**

4. SEC Identification Number : **PW-94**

5. BIR Tax Identification Number : **430-000-707-922**

6. Address of principal office : **7/F Allied Bank Center**
   6754 Ayala Avenue, Makati

7. Registrant's telephone number, including area code : **(632) 736-8466**

8. Date of meeting : **17 September 2007**
   Time of meeting : **9:00 a.m.**
   Place of meeting : **Kachina Room, Century Park Hotel, Malate, Manila**

9. Approximate date on which the Information Statement is first to be sent or given to security holders : **24 August 2007**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate Registrant):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Stock	**5,421,567,685**

11. Are any or all Registrant's securities listed in a Stock Exchange?
    Yes [✓] No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange/ Common Stock

INFORMATION STATEMENT

A GENERAL INFORMATION

Item 1. Date, time and place of meeting of stockholders

(a)

Date	:	17 September 2007
Time	:	9:00 a.m.
Place	:	Kachina Room, Century Park Hotel, Vito Cruz, Manila
Mailing address of the Principal Office of the Company	:	7/F Allied Bank Center 6754 Ayala Avenue, Makati City

(b) This Information Statement and a copy of the Corporation's Management Report will be first sent out to all qualified stockholders on 24 August 2007.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. Dissenter's Right of Appraisal

Title X of the Corporation Code of the Philippines grants in favor of a shareholder the right to dissent and demand payment of the fair value of his share in certain instances, to wit: (1) in case an amendment to the articles of incorporation will change or restrict the rights of such stockholder or otherwise extend or shorten the term of the Company; (2) in case of the sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the Company's properties; or (3) in cases of merger or consolidation. Under Section 42 of the Corporation Code, a stockholder is likewise given an appraisal right in cases where a corporation decides to invest its funds in another corporation or business. The stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.

None of the proposed corporate actions qualifies as an instance for the exercise of the stockholder appraisal right.

Item 3. Interest of Certain Persons In Matters to be Acted Upon

(a) The interests of incumbent directors and nominees to the Board in the matters to be acted upon in the meeting consist solely of security holdings to the extent described in Item 4(d).

(b) The Corporation has not received any information from any director that he/she intends to oppose any matter to be acted upon in the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) The number of shares outstanding and entitled to vote in the stockholders' meeting is 5,421,567,687.

Each share is entitled to one (1) vote. With respect to the election of directors, however, the stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(b) All stockholders of record as of the close of business on 17 August 2007 are entitled to notice of, and to vote at, the Annual Stockholders' Meeting.

(c) Security ownership of certain record and beneficial owners (more than 5% of voting securities) as of 15 July 2007:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares	%age Held
Common	**Trustmark Holdings Corporation** • SMI Compound, C. Raymundo Ave., Maybunga, Pasig City • No relationship with Issuer other than as significant shareholder	Jaime J. Bautista appears on record as 99.99% owner of Trustmark and who together with Henry Sitosta, Tonny Chinlee, Peter	Filipino	5,297,280,230	97.70%

		Soo and Victor Yu comprise the Board of Directors (all acting as nominees/representatives of the Lucio Tan Group of Companies)			

(d) Security Ownership of Management as of 15 July 2007:

Title of Class	**Name of Beneficial Owner**	**Position**	**No. of Shares**	**Nature of Owner-ship**	**Citizen-ship**	**%age Held**
Common	Lucio C.Tan	Chairman	1,000	Direct	Filipino	Nil
Common	Mariano C. Tanenglian	Director	1,000	Direct	Filipino	Nil
Common	Harry C. Tan	Director	1,000	Direct	Filipino	Nil
Common	Jaime J. Bautista	Director President	500	Direct	Filipino	Nil
Common	Wilson T. Young	Director	500	Direct	Filipino	Nil
Common	Macario Te	Director	1	Direct	Filipino	Nil
Common	Ruben M. Co*	Director	500	Direct	Filipino	Nil
Common	Delfin C. Gargantiel	Director	500	Direct	Filipino	Nil
Common	Regnar C. Rivera	Director	2,000	Direct	Filipino	Nil
Common	Lucio K. Tan, Jr.	Director	1,000	Direct	Filipino	Nil
Common	Michael Tan	Director	1,000	Direct	Filipino	Nil
Common	All directors and officers As a group		9,001	Direct		0.00016%

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*Mr. Ruben Co resigned as Director on 2 August 2007 and was replaced by Ms. Juanita Tan Lee, Filipino, who has 500 shares in her name.

(e) No change in control has occurred since the beginning of the last fiscal year.

Item 5. Directors & Executive Officers

(a) Directors of the Corporation

Unless otherwise specified, the directors named hereunder were elected to office at the Annual Stockholders' Meeting held on 19 September 2006 to hold office until the next succeeding annual meeting and until their respective successors have been elected.

Name/Position	Age	Citizen-ship	Current Affiliations and Business Experience in the last 5 years	Term of Office/Period Served
Lucio C. Tan/ *Chairman*	73	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Himmel Industries Inc., Fortune Tobacco Corp., **Tanduay Holdings, Inc**., Tanduay Distillers, Inc., Grandspan Development Corp., Lucky Travel Corp., and **Eton Properties Philippines, Inc.**; Director of **Phil. National Bank**; majority stockholder of **Allied Banking Corp.**, Century Park Hotel and Charter House, Inc.,	1 year/ served as Chairman since 30 October 2000
Jaime J. Bautista/ *Director and President*	50	Filipino	Chairman and President of Basic Capital Investments Corp.; President of Cube Factor Holdings, Inc.; Vice Chairman, Board of Trustees of University of the East; Member, Board of Trustees of UERM Medical Center; Director of **MacroAsia Corp.** and **Eton Properties Philippines, Inc.**	1 year/served as director/President since 05 July 2000
Mariano C. Tanenglian/ *Treasurer and Director*	67	Filipino	Vice Chairman of Philippine Airlines, Inc., Director and Treasurer of Asia Brewery Inc., **Allied Banking Corp**., Basic Holdings Corp., Himmel Industries Inc., Fortune Tobacco Corp., **Tanduay Holdings, Inc.** Tanduay Distillers, Inc., Tanduay Brands International, Inc., Charter House Inc., Grandspan Development Corp., and **Eton Properties Philippines, Inc.**	1 year/served as director since 30 October 2000
Harry C. Tan/ *Director*	61	Filipino	Chairman of the Tobacco Board; Vice Chairman of **Eton Properties Philippines, Inc.**; Managing Director of Century Park Hotel; Director of **Allied Banking Corp.**, Basic Holdings Corp., Philippine Airlines, Inc.,	1 year/served as director since 30 October 2000

			Fortune Tobacco Corp., Asia Brewery Inc., Tanduay Distillers, Inc., and Foremost Farms, Inc.	
Lucio K. Tan Jr./ *Director*	41	Filipino	EVP of Fortune Tobacco Corp. and Foremost Farms, Inc.; Director of Allied Bankers Insurance Corp., Philippine Airlines, Inc., **Tanduay Holdings, Inc.**, Tanduay Brands International, Inc., Air Philippines Corp., and **Eton Properties Philippines, Inc.**	1 year/served as director since 26 July 2006
Michael G. Tan/ *Director*	41	Filipino	Chief Operating Officer of Asia Brewery, Inc.; Director of Allied Bankers Insurance Corp., Philippine Airlines, Inc., Philippine Airlines Foundation, Inc., **Tanduay Holdings, Inc**.; Air Philippines Corp. and **Eton Properties Philippines, Inc.**	1 year/served as director since 26 July 2006
Macario U. Te/ *Director*	77	Filipino	Chairman of MT Holdings Corp.; Director of **Philippine National Bank,** PNB Remittance Center Inc., PNB General Insurers Inc., PNB Holding Corporation, PNB Investment, Ltd., PNB Capital & Investment Corp., Oriental Petroleum & Minerals Corp., Waterfront Phils., Beneficial PNB-Life Corp., Bulawan Mining Corp., Nissan North Edsa, Fontana Golf Club, Inc.	1 year/served as director since June 1999
Wilson T. Young/ *Director*	51	Filipino	Director and President of **Tanduay Holdings, Inc**, Tanduay Brands International Inc.; Director of **Eton Properties Philippines, Inc.,** Air Philippines Corp., Flor De Caña Shipping, Inc.; Vice-Chairman, Board of Trustees of UERM Medical Center; Member, Board of Trustees of University of the East, Chief Operating Officer of Tanduay Distillers, Asian Alcohol Corp., and Total Bulk Corp.	1 year/served as director since 28 June 2000
Juanita Tan Lee* *Director*	63	Filipino	Director of **Eton Properties Philippines, Inc**.; Corporate Secretary of Asia Brewery, Inc., Asian Alcohol Corp., Charter House, Inc., Dominium Realty & Construction Corp., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco Int'l Corp.,	For the remainder of the term of Mr. Ruben Co who resigned/served as director since 2 August 2007.

			Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., Nugget Food Corp., Tanduay Distillers, Inc., Tanduay Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corp. Secretary of Basic Holdings, Inc., **Tanduay Holdings, Inc.**	
Delfin C. Gargantiel, Jr./ *Independent Director***	67	Filipino	Consultant of Allied Foundation, Inc.; Director of Allied Savings Bank and Allied Forex Company	1 year/served as director since 16 November 2004
Regnar C. Rivera/ *Independent Director***	78	Filipino	Director of Allied Savings Bank, Allied Banking Corp. – Hong Kong, Allied Leasing and Finance Corp., Rivera Farms, Inc., Lloreen's International, and **Eton Properties Philippines, Inc.**	1 year/served as director since 23 January 2004
Ruben M. Co*/ *Director*	53	Filipino	Owner/Proprietor of Global Arch Design	1 year/served as director since 19 September 2006
Antonino L. Alindogan, Jr.	68	Filipino	Independent Director of Philippine Airlines Lines and Eton Properties Philippines, Inc.; Director of House of Investments; Former Chairman of Development Bank of the Philippines; Former member of the Monetary Board of the Bangko Sentral ng Pilipinas.	Nominated to serve as independent director for 2007-2008
Enrique Cheng	74	Filipino	Independent Director of Philippine Airlines; Chairman of Landmark Corporation; Chairman/President of Phililippine Trade Center; Director/Vice-Chairman of Hideco Sugar Milling, Co., Inc.	Nominated to serve as independent director for 2007-2008

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*Ms. Juanita Tan Lee was appointed director on 2 August 2007, upon the resignation of Mr. Ruben Co who resigned for personal reasons.

** Not nominated to serve as independent directors for 2007-2008.

Among the incumbent directors, Messrs. Ruben Co and Regnar Rivera were elected as the independent directors.

For 2007-08, the Nomination Committee, in accordance with SRC Rule 38, approved the nomination by Mr. Jaime J. Bautista of Mssrs. Antonino Alindogan, Jr. and Enrique Cheng as independent directors after determining that they possess all of the qualifications and none of the disqualifications of an independent director provided for in the Code of Corporate Governance, SRC Rule 38, and the adopted Manual of Corporate Governance of the Company. Mr. Bautista is not related to either Mr. Alindogan or Mr. Cheng.

The rest of the above-named directors, except Mssrs. Delfin C. Gargantiel, Jr. and Regnar C. Rivera, were also approved by the Nomination Committee for nomination to the Board of Directors in the forthcoming Annual Shareholders' Meeting.

In its meeting of 26 July 2006, the Board of Directors approved the amendment of its corporate by laws to include the requirements of Section 38 of the Securities Regulation on independent directors. The application for the amendment of the corporate by laws has not been filed with the Securities and Exchange Commission pending an overall review of any other outdated provisions therein.

(b) Executive Officers of Registrant

Name/Position	**Age**	**Citizen-ship**	**Previous Affiliations (past 5 years)**	**Term of Office/Period Served**
Lucio C. Tan/ Chairman	73	Filipino	See above	1 year/served since 30 October 2000
Jaime J. Bautista/ Director and President	50	Filipino	See above	1 year/served since 5 July 2000
Mariano C. Tanenglian/ Treasurer and Director	67	Filipino	See above	1 year/served since 30 October 2000
Ma. Cecilia L. Pesayco/ Corporate Secretary	54	Filipino	Corporate Secretary of Allied Banking Corp., Allied Savings Bank, **Eton Properties Philippines, Inc., Tanduay Holdings Inc**., Air Philippines Corp., Zuma Holdings and	1 year/served since 5 July 2000

			Management Corp., East Silverlane Realty, Asia's Emerging Dragon Corp., Flor De Caña Shipping, Inc.	
Susan T. Lee/ Chief Finance Officer	36	Filipino	Tanduay Holdings, Inc. – Asst. to the CFO and Finance Manager	1 year/served since 3 February 2003

(c) Significant Employees

While Management values all its employees, it does not expect any extraordinarily significant contribution to the business of the Company by any single employee.

(d) Family Relationships

Directors Lucio C. Tan, Mariano C. Tanenglian and Harry C. Tan are brothers. Directors Lucio K. Tan, Jr. and Michael G. Tan are the sons of Director Lucio C. Tan.

(e) Involvement in Certain Legal Proceedings

Messrs. Lucio C. Tan and Mariano Tanenglian were charged on 01 December 1998 in their capacities as Chairman and Director/Treasurer, respectively, of Fortune Tobacco Corporation, with violation of Section 253 of the old National Internal Revenue Code, in relation to Section 45 (on corporate income tax returns), Sections 100 and 114 (value-added tax returns), Section 127(b) (ad valorem tax), and Section 252(b) and (d) thereof, in Criminal Cases Nos. 98-38181 to 98-38189 before Branch 75 of the Metropolitan Trial Court of Marikina City. In a "Joint Order" promulgated on 6 October 2006, the foregoing cases were dismissed and the above-named accused were acquitted. On 27 October 2006, an Entry of Judgment for the said case was issued by the MTC.

Except for the foregoing, none of the directors and executive officers of the Corporation are involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 6. Certain Relationships and Related Transactions

(a) On 17 August 2006, the Corporation acquired 100% of the outstanding capital stock of the following companies theretofore owned by the Lucio Tan Group of Companies: Pol Holdings, Inc.; Cube Factor Holdings, Inc.; Ascot Holdings, Inc.; Network Holdings and Equities, Inc.; Sierra Holdings and Equities, Inc.; and Maxell Holdings Corporation (collectively referred to as the "Subsidiaries"). Said Subsidiaries own an aggregate of 81.57% of Philippine Airlines, Inc.

(b) On 17 August 2006 and on 2 August 2007, the Board of Directors resolved to assume as debtor the liability/ies of the Subsidiaries in favor of its parent company, Trustmark Holdings Corporation, in the amounts of P9,038,821,834.00 and P3,079,567,739, respectively or a total of P12,118,389,573.00.

(c) Also at the board meeting on 17 August 2006 which was thereafter, approved at the meeting of the stockholders on 19 September 2006, the Corporation was authorized to issue a total of 5,021,567,685 shares to Trustmark Holdings Corporation in payment of its debt thereto in the amount of P9,038,821,834.00. The new shares were issued at an exchange price of P1.80 per share which price was arrived upon by negotiations between the parties taking into consideration the Company's latest book value of P0.56 per share as of 31 March 2006 and more importantly, the average trading price of the Company's shares for the months of June and July 2006 during which negotiations took place. As a result of the issuance of additional shares, Trustmark's equity interest in the Company increased from 69.1567% to 97.7314%.

The foregoing issuance of additional shares were approved by the Securities and Exchange Commission in its Certificate of Increase in Capital Stock dated 19 January 2007 and such shares were effectively listed with the Philippine Stock Exchange on 14 June 2007.

(d) In 2007, the Subsidiaries offered by way of *dacion en pago* its equity interests in Philippine Airlines, Inc. to the Corporation in full payment of the former's total indebtedness to the Corporation of

P12,118,389,573.00 (see [b] above paragraph). The Corporation accepted such offer in its board meeting on 19 June 2007.

(e) In its meeting on 19 July 2007, the Corporation also accepted the assignment by way of *dacion en pago* of the Subsidiaries' 82.3% interest in PR Holdings which in turn owns approximately 3% of PAL.

(f) In the meeting on 2 August 2007, the Board of Directors authorized the sale to Trustmark of its 100% interest in the Subsidiaries.

Item 7. Compensation of Directors and Executive Officers

(a) CEO and Top 4 Compensated Executive Officers

Since the Corporation has no significant commercial operations at present, the Corporation's President and Chief Executive Officer as well as the other officers of the Company did not receive a fixed basic monthly salary for the last three (3) years and there is no salary for the same in 2007. The Corporation has no contract with any of its executive officers.

(b) Directors and Executive Officers

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
	2005	N/A	N/A	520,000.00
TOP FOUR (4) Management	2006	N/A	N/A	480,000.00
	2007	N/A	N/A	520,000.00

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
	2005	N/A	N/A	850,000.00
All other named as a group	2006	N/A	N/A	960,000.00
	2007	N/A	N/A	920,000.00

The following constitute the Company's four (4) most highly compensated executive officers (on a consolidated basis):

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors.
2. Mr. Mariano C. Tanenglian is the Treasurer of the Company.
3. Mr. Jaime J. Bautista is the President of the Company.
4. Mr. Susan Tcheng Lee is the Chief Finance Officer of the Company.

Item 8. Independent Public Accountants

At present, the Corporation's external auditor is the auditing firm of SGV & Co., which is expected to be re-appointed at the shareholders' meeting. The audit partner in charge of the Corporation, Ms. Josephine Estomo, was first appointed in 2003. In accordance with SEC Memorandum Circular No. 8, Series of 2003, Ms. Estomo will no longer be re-appointed in 2007. Upon appointment of SGV & Co., the audit partner in charge of the Corporation will be Ms. Cynthia Manlapig.

There were no changes in, or disagreement with, the registrant's accountants on any accounting and financial disclosure during the two most recent fiscal years or any subsequent interim period.

Representatives of said auditing firm are expected to be present at the meeting and will have the opportunity to respond to appropriate questions and to make a statement if they so desire.

C. OTHER MATTERS

Item 9. Waiver of the Requirement of the Listing Rules

In its meeting on 30 May 1997, the shareholders approved the amendment of the Articles of Incorporation of the Company to deny therein the pre-emptive right of shareholders to subscribe to any new or additional issuances of shares. The denial of pre-emptive right now appears as Article Twelfth of the Company's Articles of Incorporation, approved by the Securities and Exchange Commission on July 17, 1997.

In the Revised Listing Rules issued in 2004, however, the Philippine Stock Exchange (the "Exchange") now requires that before any new shares equivalent to at least 10% but not more than 35% of the total issued capital stock of a company can be listed, the company shall first conduct a rights or public offering.

It should be noted that the denial of pre-emptive rights approved by the stockholders in 1997 was precisely intended to enable the Corporation to attract new investors and/or to raise additional working capital, if necessary. The new requirements of the Exchange, however, has effectively limited the Corporation's ability to explore its financing options and defeated the purpose of the denial of the pre-emptive rights. Hence, a waiver of such requirement is now sought from majority of the minority stockholders present or represented in the meeting called on 17 September 2007. It is submitted that the waiver herein sought is consistent with the denied preemptive right previously obtained from the stockholders.

Item 10. Action with Respect to Reports

Reading and Approval of the Minutes of the 2006 Annual Shareholders' Meeting.

The minutes of the previous meeting of the shareholders held on 19 September 2006 will be presented for approval at the Annual Shareholders' Meeting. The following are the significant matters discussed at the said meeting: (i) the Minutes of the Shareholders' Meeting held on 16 November 2004 were approved; (ii) the Report of Management and the Board of Directors were approved; (iii) all the acts of Management from date of the last shareholders' meeting and up to the date of said shareholders' meeting were approved; (iv) the authorized capital stock was increased from P400million to P20billion; (v) Article VII of the Articles of Incorporation to reflect the increase in authorized capital stock; (vi) the members of the Board of Directors were elected; and (vii) SGV & Co. was appointed External Auditor.

Item 11. Matters Not Required to be Submitted

The following matters are not required to be submitted to the stockholders but are nevertheless presented for good corporate governance:

(a) *Approval of the Chairman's Report on the Results of Operations and Management Reports for the year 2006 and 2007*

The President will report on the significant business transactions undertaken by the Corporation in 2006. The audited financial statements for the period ending 31 March 2007 of the Corporation will also be presented for approval of the stockholders.

(b) *Ratification of Acts, Resolutions and Transactions Entered into by the Board of Directors and Management of the Corporation from the date of the last annual stockholders' meeting as reflected in the minutes -*

The major resolutions approved by the Board in the preceding year are as follows:

DATE OF MEETING		MATTERS DISCUSSED
05-23-2006	-	1. Approval of the Deferment of the holding of the Annual Stockholders' Meeting, which is scheduled on the last Tuesday of May of every year as stated in the Corporation's By-Laws.

07-07-2006	-	1. Approval of the Annual Audited Financial Statements for the fiscal year ending March 31, 2006.
07-26-2006	-	1. Acceptance of the resignation of Pompeyo S. Tiu as director; 2. Election of Lucio K. Tan, Jr. and Michael G. Tan as new directors vice Pompeyo S. Tiu and Sylvia C. Lim; 3. Increase in authorized capital stock from P400 million to P20 billion; 4. Calling the Annual Stockholders' Meeting on 19 September 2006 with record date on 18 August 2006; 5. Amendment of By-Laws to include provisions of independent directors as required by Section 38 of the Revised Securities Code; 6. Management was instructed to finalize and present to the Board at the next meeting the terms and conditions for the acquisition of majority interest in Philippine Airlines, Inc.; and 7. Approval of the First Quarter Management Report for the period ended June 30, 2006.
08-17-2006	-	1. Acquisition of the following companies which collectively own 81.57% of Philippine Airlines, Inc.: - Pol Holdings, Inc. - Cube Factor Holdings, Inc. - Ascot Holdings, Inc. - Sierra Holdings & Equities, Inc. - Network Holdings and Equities, Inc. - Maxell Holdings Corporation 2. Approval of the assumption by the Corporation of the liabilities of the six holding companies, subject to the results of an ongoing audit of the accounts of the said companies.
09-19-2006	-	1. Organizational Meeting a. Election of Officers b. Appointment of members of Board Committees
11-09-2006	-	1. Approval of the Second Quarter Management Report for the period ended September 30, 2006.
02-12-2007	-	1. Approval of the Third Quarter Management Report

		for the period ended December 31, 2006.
03-22-2007	-	1. Approval of the Deferment of the holding of the Annual Stockholders' Meeting, which is scheduled on the last Tuesday of May of every year as stated in the Corporation's By-Laws.
06-27-2007	-	1. Assumption by the Corporation of the total outstanding liability of the following wholly owned subsidiaries to Trustmark Holdings Corp. in the aggregate amount of approximately P14Billion: a. Network Holdings and Equities, Inc.; b. Ascot Holdings, Inc.; c. Cube Factor Holdings, Inc.; d. Pol Holdings, Inc.; and e. Sierra Holdings and Equities, Inc. 2. Conversion of the Corporation's receivables from the six wholly-owned subsidiaries (Ascot Holdings, Inc.; Cube Factor Holdings, Inc.; Maxell Holdings Corp.; Network Holdings and Equities, Inc.; Pol Holdings, Inc.; and Sierra Holdings and Equities, Inc.) in the aggregate amount of approximately P23Billion into additional paid-in capital in said subsidiaries.
07-19-2007	-	1. Acceptance by the Corporation of the Philippine Airlines, Inc. (PAL) shares directly owned by its wholly-owned subsidiaries as payment by way of *dacion en pago* of the latter's obligations to the Corporation. Said subsidiaries own an aggregate of 8,823,640,223 shares equivalent to 81.57% of PAL. 2. Acquisition by the Corporation of the shares owned by its subsidiaries in PR Holdings, Inc. totaling 50,591,155 shares equivalent to 82.3% of PR Holdings, Inc.'s outstanding common shares. 3. Application of the Corporation's additional paid-in capital, which resulted from the earlier conversion into equity of the Company's obligations to Trustmark Holdings Corp., against its deficit. 4. Acquisition by the Corporation of the shares in PAL owned by the following related parties totaling 86,059,052.80 shares equivalent to 0.8% of PALs total outstanding common shares: a. Lucio Tan b. Mariano Tanenglian c. Harry Tan d. Joseph Chua 5. Convening of the annual shareholders' meeting of the Corporation on 17 September 17, 2007 with

		record date on 17 August 2007.
07-23-2007	-	1. Approval of the Corporation's results of audit of the Consolidated Financial Statements for the fiscal year ended March 31, 2007 as presented by the auditing firm of Sycip, Gorres, Velayo and Co.
08-02-07	-	1. Amending the earlier resolution to reduce to P3,079,567,740.00 the total debt to be assumed by Corporation from its subsidiaries. 2. Sale to Trustmark Holdings Corporation of the Corporation's 100% interest in its subsidiaries. 3. Acceptance of the resignation of Mr. Ruben Co as director and the election of Ms. Juanita Tan Lee as replacement to fill up the vacancy.

Copies of the minutes of the last Annual Shareholders' Meeting held on 19 September 2006 will be made available for inspection at the Annual Shareholders' Meeting by any shareholder desiring to review the same.

Item 12. Other Proposed Actions

(a) Election of Directors - A board of eleven (11) directors will be elected at the meeting.

Item 13. Voting Procedures

(a) Every shareholder shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Registrant, unless the law provides otherwise. Cumulative voting may be used in the election of the members of the Board of Directors.

(b) Votes required for election of director – the eleven nominees garnering the highest number of votes shall be elected directors. The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(c) Votes required for waiver of Listing Rules – majority of the minority stockholders present at the meeting.

(d) Votes required for (1) ratification of reports, acts and resolutions of the Board of Directors and Management, and (2) appointment of external auditor – majority vote of the shareholders.

(e) Voting shall be done orally and counting of votes shall be conducted by the Corporate Secretary (or his duly authorized representative) to be assisted by the Corporation's independent accountant - or by the representatives of SGV & Co., if necessary.

Item 14. Incorporation by Reference

The Corporation has incorporated by reference the audited financial statements for the period ending 31 March 2007 contained in its 2007 Management Report prepared in accordance with Rule 68 of the Securities Regulation Code.

The Corporation shall, on written request, provide to shareholders, without charge, the Management Report prepared pursuant to SEC Form 17-A. All such requests for a copy of the Management Report should be directed to the Office of the Corporate Secretary, Atty. Ma. Cecilia L. Pesayco, at the 2/F Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 17 August 2007.

PAL HOLDINGS, INC.

By:

MA. CECILIA L. PESAYCO
Corporate Secretary

PAL HOLDINGS, INC.

7th Floor Allied Bank Center, 6754 Ayala Avenue, Makati City

MANAGEMENT REPORT

Item 1. General Nature and Scope of Business

1. Corporate History

PAL Holdings, Inc. (the Company) was incorporated in 1930 as "Baguio Gold Mining Company". In 1996, the Securities and Exchange Commission approved the change in the Company's name to "Baguio Gold Holdings Corporation" and the change in its primary purpose to that of a holding company.

On May 30, 1997, the stockholders approved the increase in the Company's authorized capital stock from 200 million common shares to 4 billion common shares, both at a par value of P1.00 per share. On April 13, 1998, the stockholders amended the increase in the Company's authorized capital stock from 4 billion common shares to 2.8 billion common shares and 1.2 billion preferred shares both at P1 par value per share. On August 30, 1999, the stockholders further amended the authorized capital stock from 2.8 billion common shares and 1.2 billion preferred shares to 400 million common shares at ₱1 par value per share this was approved by the SEC on October 2, 2000.

On July 26, 2006 and September 19, 2006, the Board of Directors (BOD) approved the increase in authorized capital stock of the Company from P400 million to P 20 billion.

On August 17, 2006, the Board of Directors (BOD) approved the acquisition of the following holding companies which collectively control 84.67% of Philippine Airlines (PAL); Pol Holdings, Inc., Cube Factor Holdings, Inc., Ascot Holdings, Incorporated., Sierra Holdings & Equities, Inc., Network Holdings & Equities, Inc., and Maxell Holdings Corporation.

On January 19, 2007, the Securities and Exchange Commission (SEC) approved the increase in authorized capital stock to P20 billion and the change in corporate name to "PAL Holdings, Inc."

2. Description of the Business of Registrant and its Significant Subsidiaries

The Registrant is registered as a holding company and conducts operations as such with six (6) wholly owned subsidiaries. Below is a description of the Company's direct and indirect subsidiaries.

<u>6 Holding Companies</u>

The following companies are 100% owned by PAL Holdings, Inc.

1. Ascot Holdings, Incorporated - incorporated on March 17, 1992
2. Cube Factor Holdings, Inc. - incorporated on March 11, 1992
3. Pol Holdings, Inc. - incorporated on February 17, 1993
4. Network Holdings & Equities Inc. - incorporated on March 17, 1992
5. Sierra Holdings & Equities, Inc. - incorporated on March 17, 1992
6. Maxell Holdings Corp. - incorporated on June 02, 1999

These Companies are special purpose entities owned by investor groups to acquire ownership and hold investment in Philippine Airlines, Inc. (PAL) which is equivalent to 81.57%. They were organized primarily to engage in the purchase, retention, possession or in any other manner to acquire shares of stock, franchise, patents, bonds, mortgages, obligations, debts or credits of any person or entity legally constituted within or without the Philippines. These companies also collectively own 82.33% of PR Holdings, Inc. which itself owns 3.764% of PAL. This effectively gave the 6 aforementioned holding companies 84.67% ownership in PAL.

Philippine Airlines, Inc.

Philippine Airlines, Inc. (PAL), a corporation organized and existing under the laws of the Republic of the Philippines, was incorporated on February 25, 1941. It is the national flag carrier of the Philippines and its principal activity is to provide air transportation for passengers and cargo within and outside the Philippines.

PAL continues to fly to the most popular domestic jet routes and the international and regional points that are either most visited by Filipinos or provide a good source of visitors to the Philippines. As of 31 March 2007, PAL's route network covered 17 points in the Philippines and 32 international destinations.

PR Holdings, Inc.

PR Holdings, Inc. (PR) was organized by a consortium of investors for the purpose of bidding for and acquiring the shares of stock of PAL in accordance with the single-buyer requirement of the bidding guidelines set by the seller, the National Government of the Republic of the Philippines. PR acquired on March 25, 1992 67% of the outstanding capital stock of PAL.

PR was partially dissolved or liquidated on November 9, 1998 with a decrease in its authorized capital stock and retirement of some of its shares in exchange of PAL shares to retiring stockholders as return of capital.

As a holding company, PR's primary purpose is to purchase, subscribe, acquire, hold, use, manage, develop, sell, assign, exchange or dispose of real and personal property, including shares of stocks, debentures, notes and other securities of any domestic or foreign corporation. .

Principal products or services and their markets indicating their relative contributions to sales or revenues of each product or service:

Registrant's business is almost exclusively driven by the operations of PAL. Hence, provided below is a discussion of the relevant operations of PAL.

i) **Percentage of sales or revenues and net income contributed by foreign sales**

PAL's operations for FY2006-07 are described as follows:

During the year, PAL carried an average of 19,003 passengers (10,379 domestic and 8,623 international) and 347 tons of cargo (182 tons domestic and 165 tons international) per day.

Operations Summary: Systemwide

FY 2006-2007 (in million PHP)	Dom	Intl	Sys
Total Transport Revenues	12,242	50,541	62,783
% to Total Transport Revenues	19.5%	80.5%	100%

NET REVENUES BY ROUTE

Based on FY2006-07 results, the revenue contribution by route is shown below.

Transpacific	36.1%
Asia & Australia	44.0%
Total International	80.1%
Total Domestic	19.9%
Total System	100.0%
	======

International Passenger Services

As of 31 March 2007, PAL's international route network covered 32 cities (including 8 under joint service/codeshare arrangements with other international carriers) in 17 countries.

24 on-line points: *Guam, Honolulu, Las Vegas, Los Angeles, San Francisco, Vancouver, Melbourne, Sydney, Fukuoka, Nagoya, Okinawa, Osaka, Tokyo, Pusan, Seoul, Hongkong, Beijing, Shanghai, Xiamen, Taipei, Bangkok Jakarta, Saigon, Singapore*

8 points under joint service/code share arrangement: *Bahrain, Bandar Seri Begawan, Doha, Dubai, Kota Kinabalu, Kuala Lumpur, Macau, Muscat*

Transpacific

During the year, PAL flew an average of 21 flights a week to North America utilizing B747-400s and A340-300s : 9 times weekly non-stop flights to Los Angeles; 8 times weekly non-stop services to San Francisco; and 4 times a week to Vancouver, with an extension to Las Vegas. Technical stop on the return flights of Transpacific services are required in either Honolulu or Guam at certain times of the year to compensate for adverse wind conditions.

PAL also operated 3 times weekly non-stop services to Honolulu. Guam was served 5 times a week. The Airline is entitled to fly to 33 other US cities for unlimited frequencies under certain terms and conditions of the Philippines-US bilateral agreement.

Asia and Australia

PAL operated 121 departures per week out of Manila and Cebu to 9 countries in Asia and Australia. PAL flew 28 times a week to Hongkong; 14 times a week to Singapore; 13 times a week to Tokyo; 11 times a week to Seoul; 7 times a week to Bangkok, Saigon, Shanghai and Taipei; 6 times a week to Fukuoka, Nagoya and Xiamen; 5 times a week to Osaka; 4 times a week to Beijing and Pusan. Jakarta is served 4 times a week with the extension of four Singapore flights to Jakarta. Okinawa (triangulated with Fukuoka) is served 4 times a week. PAL also operated 3 times weekly services on the Manila-Melbourne-Sydney-Manila route.

Domestic Passenger Services

The domestic network covered 17 cities and towns in the Philippines. In FY2006-07, PAL flew approximately 3.2 billion ASKs on its domestic routes which represented 15.3% of the Airline's total capacity. PAL operated all its jet aircraft (B747-400, A340-300, A330-300, A320-200, A319-100 and B737s) on its domestic routes. PAL serves the following domestic destinations: Bacolod, Butuan, Cagayan de Oro, Cebu, Cotabato, Davao, Dipolog, General Santos, Iloilo, Kalibo, Legazpi, Manila, Puerto Princesa, Roxas, Tacloban, Tagbilaran, and Zamboanga.

Joint Services and Code Share Agreements

PAL continues to employ codesharing and other tactical alliances to broaden its route network and establish presence in cities where it does not fly.

PAL maintains codeshare agreements with Malaysia Airlines (in place since February 1999) covering a total of 13 weekly flights between Kuala Lumpur and Manila, Kota Kinabalu and Manila, Kota Kinabalu and Cebu, and Kuala Lumpur and Cebu

PAL also codeshares with Emirates Airlines (in place since September 1999) on 10 times weekly non-stop flights between Dubai and Manila; with Cathay Pacific (in place since November 2001) on daily services between Hongkong and Cebu; with Qatar Airways (in place since August 2002) on 9 times weekly service between Doha and Manila; with Royal Brunei Airlines (in place since March 2004) on 5 times weekly flights between Bandar Seri Begawan and Manila; with Air Macau (in place since September 2004) on 4 times weekly services between Macau and Manila; and with Gulf Air (in place since March 2006) on daily flights between Bahrain and Manila.

PAL's daily services between Manila and Saigon are operated under a codeshare agreement with Vietnam Airlines (in place since July 2001). PAL also has a similar agreement with Garuda Indonesia (since March 2001) on 4 weekly PAL-operated flights between Manila and Jakarta.

PAL codeshares with Air Philippines (in place since May 2002) on regular domestic services which the latter operates.

Frequent Flyer Programs

The PAL Mabuhay Miles provides opportunities for travel rewards through accumulation of mileage credits earned on flights with PAL and partner airlines. Members also earn miles through purchases and availment of services from partner establishments including credit cards, banks, telecommunications, hotels and resorts, tour operators, cruise services, insurance, car rentals, and other merchandise companies. PAL Mabuhay Miles has a website, "www.mabuhaymiles.com", which provides access to account information, and details on promotions and offers.

The SportsPlus Card is a privilege card designed for sports enthusiasts, which grants members the benefit of extra free baggage allowance.

ii) Distribution methods of the products or services

There are a total of six (6) sales and ticket offices in Manila, twenty- two (22) in other cities in the Philippines, and twenty-four (24) located in foreign stations. There are forty-four (44) general sales agents in selected international points and five (5) domestic sales agents which handle the promotions and sales of PAL's products and services.

PAL's website, "www.philippineairlines.com", has a booking facility which provides interactive booking of flights and ticket purchase. It also contains additional web pages that feature detailed descriptions of PAL destinations and a calendar of destination festivities. Functionalities include fares and tour modules, online training registration, route maps, flight schedules, dropdown lists, and online cargo booking.

Flight information via SMS/text messaging continue to be available to passengers. Cellphone subscribers can download the exact flight departure and arrival information through text messaging.

iii) Status of any publicly-announced new product or service

During the year, PAL also introduced improvements in its product and service offerings. PAL is in near completion of implementing electronic ticketing for all flights. The e-ticket is an electronic version of the paper ticket which is stored in the Airline's computer system. E-ticketing eliminates the need for the passenger to carry a paper ticket which is replaced by an itinerary receipt which is e-mailed, faxed, or can be picked up at any PAL ticket office.

PAL introduced the 'One by One' inflight service which offers the ala carte service method, new delectable signature dishes, and new dining ware. The new service is available to First and Business Class passengers on trans-Pacific flights.

The newly renovated international and domestic Mabuhay Lounges in the Mactan Terminal were inaugurated in September 2006.

The PAL Swingaround and PALakbayan are PAL's tour programs which continue to offer holiday packages in PAL's international and domestic destinations.

iv) Competitive business conditions and the registrant's competitive positions in the industry and methods of competition

PAL continues to maintain a strong market share in its international routes despite competition with flag carriers of the host countries where PAL flies and with the 'fifth freedom' carriers which fly to the Philippines en route to their final destinations.

The following table shows main competitors and PAL's total market and capacity share per route

PAL's Market and Capacity Share

Route	**Market Share**	**Capacity Share**	**Airline Competitors**
Transpacific	34.7%	34.2%	*Northwest Airlines, Air Canada,Korean Airlines, Asiana Airlines, Japan Airlines, Cathay Pacific, Eva Airways, China Airlines, Continental Airlines, Palau Micronesia Air*
Asia and Australia	31.5%	33.3%	*Japan Airlines, Cathay Pacific, Singapore Airlines, Thai Airways, Korean Airlines Asiana Airlines, China Airlines, Eva Airways, Qantas Airways, China Southern Airlines, Dragon Air, China Eastern Airlines, Royal Brunei Lufthansa, Air France, KLM, Northwest Airlines, Malaysia Airlines, Cebu Pacific, Jetstar Asia, Kuwait airways, Air Niugini*

PAL competes with the biggest carriers in the airline industry. Northwest Airlines, Continental Airlines and Japan Airlines are among the world's ten biggest airlines in terms of fleet size, passengers carried, and total sales. Cathay Pacific, Singapore Airlines, China Airlines, Korean Airlines, Thai Airways, and Qantas Airways are leading carriers in the Asia and Pacific region. Most of these international airlines belong to the largest alliances in the industry (including the Star Alliance, Wings, Sky Team and One World).

PAL still has the biggest share in the domestic market at 51.1% in the fiscal year ending March 2007. Cebu Pacific fared second to PAL with a 40.3% market share. Other domestic carriers are Air Philippines with 8.4% and Asian Spirit with 0.3% of the market.

The continuous enhancement of products and services, competitive fares, and an excellent safety record, enables PAL to hold its market share leadership. On the trans-Pacific routes, PAL has the advantage of providing the only nonstop service to mainland USA and Canada. The distinct Filipino flavor in the PAL inflight service which appeals strongly to the Filipino ethnic passengers is another advantage over the non-Filipino carriers.

v) Sources and availability of raw materials and the names of principal suppliers

PAL's jet fuel suppliers are: Air BP Limited, PT Pertamina, World Fuel Services, Win Both International Corporation, PTT Public Company Limited, China Aviation Oil Supply Limited Corporation, Shanghai Pudong International Airport Fuel Supply Co. Limited, Petron Corporation, Japan Energy Corporation, China Resources Petroleum Company Limited, Chevron Global Aviation, Pacific Fuel Trading Corporation, Hyundai Oilbank Company Limited, S-Oil Corporation, Pilipinas Shell Petroleum Corporation and Singapore Petroleum Company Limited.

PAL's inflight catering requirements are provided by its own inflight kitchen in Manila for all outgoing flights. For incoming flights, major suppliers include Flying Foods and Hacor in the United States, Singapore Airport Terminal Services Ltd. (SATS) in Singapore and Tokyo Flight Kitchen in Japan.

vi) Dependence on one or a few major customers and identification of any such major customers

PAL has a large network of customers all over the world and is not dependent on one or a few major customers.

vii) Transactions with and/or dependence on related parties

The Company's significant transactions with related parties are described in detail in Note 17 of the Notes to Consolidated Financial Statements.

viii) Patents, trademarks, licenses, franchises, concessions, royalty, agreements or labor contracts, including duration;

- **Maintenance**

PAL has a ten-year Technical Services Agreement (TSA) with Lufthansa Technik Philipines (LTP), which started in September 2000 for the maintenance and overhaul requirements of its fleet. PAL's Aircraft Engineering Department provides planning, monitoring and control of all maintenance activities and technical compliance of aircraft, engines and accessories with airworthiness standards and industry-accepted standards for safety, reliability, and customer acceptability.

Manhour rates for maintenance requirements are negotiated with LTP in accordance with the terms of the PAL-LTP TSA. Maintenance materials and parts are sourced from the original equipment manufacturers which include Airbus Industrie, Boeing, General Electric, CFM International, Honeywell, Goodrich, and Nordam Singapore.

Petron and Shell are PAL's jet fuel suppliers in the Philippines. Fuel uplifted in the international stations for the return flights are arranged with the oil companies that offer the most advantageous service at the particular airports.

- **Franchise**

PAL operates under a franchise, which extends up to the year 2034, granted by the Philippine Government under Presidential Decree No. 1590. As provided for under the franchise, PAL is subject to:

a. corporate income tax based on net taxable income, or

b. franchise tax of two percent of the gross revenue derived from non-transport, domestic transport and outgoing international transport operations, whichever is lower, in lieu of all other taxes, duties, fees, and licenses of any kind, nature, or description, imposed by any municipal, city, provincial or national authority or government agency, except real property tax.

As further provided for under its franchise, PAL can carry forward as a deduction from taxable income net loss incurred in any year up to five years following the year of such loss (see Note 21). In addition, the payment of principal, interest, fees, and other charges on foreign loans obtained by PAL, and all rentals, interest, fees and other charges paid by PAL to lessors for the lease of aircraft, engines, spares, other flight or ground equipment, and other personal property are exempt from all taxes, including withholding tax, provided that the liability for the payment of said taxes is assumed by PAL.

On May 24, 2005, the Expanded-Value Added Tax (E-VAT) law was signed as Republic Act (RA) No. 9337 or the E-VAT Act of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulation (RR) No. 16-2005 which provides for the implementation of the rules of the E-VAT law. Among the relevant provisions of RA No. 9337 are the following:

The franchise tax of PAL is abolished;

PAL shall be subject to the corporate income tax;

c. PAL shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges, as may be provided by PAL's franchise;

d. Change in corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter;

e. 70% cap on the input VAT that can be claimed against output VAT; and,

f. Increase in the VAT rate imposed on goods and services from 10% to 12% effective on February 1, 2006.

On November 21, 2006, the President signed into law RA No. 9361 which amends Section 110(B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters (the 70% cap on the input VAT that can be claimed against output VAT was deleted). The Department of Finance through the Bureau of Internal Revenue issued RR No. 2-2007 to implement the provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361, except VAT returns covering taxable quarters ending earlier than December 2006.

ix) Need of any government approval of principal products or services

Airline operations are regulated by the Philippine Government through the Civil Aeronautics Board (CAB) with regard to new routes, tariffs, and schedules; the Air Transportion Office (ATO) for aircraft and operating standards; and airport authorities for airport slots. PAL also conforms to the standards and requirements set by different foreign air authorities including the US Federal Aviation Authority (US FAA), the European Aviation Safety Agency (EASA), the Direction Generale De L'Aviation Civile (DGAC) for the French registered Airbuses, and the Irish Airworthiness Authority (IAA) for the Irish registered aircraft.

In coordination with the different government air transport agencies - the ATO and the Department of Transportation and Communications (DOTC) - PAL initiates improvement programs for the facilities in the country's domestic and international airports to conform with international standards and enhance the safety of PAL's operations.

x) Effects of existing or probable government regulations on the business

The Company strictly complies with and adheres to existing and probable government regulations.

xi) Estimate of the amount spent during each of the last three fiscal years on research and development activities, and if applicable the extent to which the cost of such activities are borne directly by customers;

NOT APPLICABLE

xii) Cost and effects of compliance with environmental laws

PAL, the Company's major subsidiary has fully complied with the following major environmental laws:

1. Republic Act (RA) 8749 "Clean Air Act" - Cost: P425,178.00 for the period covering FY2006-2007.
2. DENR Administrative Order (AO) No.34 "Revised Water Usage and Classification". Cost: none to PAL for the period FY2006-2007.
3. DENR Administrative Order No. 35 "Revised Effluent Regulations of 1990" LLDA Board Resolution No. 33, 41 & 42 "Implementation of the Environmental User's Fee System within the Laguna de Bay Region" - Cost: None to PAL for the period FY2006-2007.
4. Presidential Decree No. 1151 "Philippine Environmental Code" - Cost: none to PAL for the period FY2006-2007.
5. Presidential Decree No. 1586 "Establishing an Environmental Impact Assessment System" Cost: None to PAL for the period FY2006-2007.

6. Republic Act No. 6969 “Toxic and Hazardous Waste Management” – Cost: None to PAL for the period FY2006-2007.
7. Presidential Decree No. 1067 “The Water Code of the Philippines” – Cost: P12,513.75 for the period FY2006-2007

The effects of PAL’s compliance with environmental laws are as follows:

1. Regulatory compliance
2. Resource utilization
3. Waste generation reduction
4. Environmental cost reduction
5. Improved public image and community relations
6. Improved positive perception of regulators and NGOs
7. Strengthening of PAL’s commitment to continually improve its environmental performance in all aspects of its operations
8. Forging a partnership with ABS CBN’s Bantay Kalikasan, DENR, PRI and Gulf Oil in “Do-the- Environment-Good” projects
9. Appreciation and recognition from the DENR for the company’s commitment as adoptor of the “Green Philippine Highways” project.

xiii) Total number of employees and number of full time employees

The Company and its subsidiaries (namely Ascot Holdings, Incorporated, Pol Holdings, Inc., Cube Factor Holdings, Inc., Sierra Holdings & Equities Inc., Network Holdings & Equities, Inc., Maxell Holdings Corporation) have no regular employee. The Company does not have plans of hiring employees within the ensuing twelve months.

PAL Employees :

A. All budgeted and approved organizational changes, including headcount additions and replacements are approved by the Management Committee of PAL.

B. Count of Employees per Category (as of March 31, 2007):

TYPE OF EMPLOYEES	Number of Employees		TOTAL	CBA Expiration Date	Remarks
	With CBA	Without CBA			
Rank and File in other departments*	1,569	111	1,680		PALEA: on moratorium

Operations*					
Aircraft Engineering		39	43		
Airport Services	4	158	2,059		
Flight Operations	1,901	40	122		
(ground)	82	38	74		
Cabin Services (ground)	36	33	491		
Catering Services	458	13	20		
Inflight Planning and					
Standards	7	131	198	SIN: Jan. 1, 2006 - Dec. 31, 2008; Japan: expired on May 31, 2007; US: July 1, 2003- June 30,2008	Currently under negotiation
Foreign Local Hires	67				
		415	415		
		41	1,373		
Line Pilots	1,332				
Cabin Crew**		1,028	1,028		
		23	23		
Administrative					
Employees		2,070	7,526		
Expatriates	5,456				
TOTAL					

* PALEA members (Philippine Airlines Employees' Association)

** FASAP members (Flight Attendants and Stewards Association of the Philippines)

C. List of Supplemental Benefits

1) Travel Benefits
2) Monthly Rice Allocation
3) 13th and 14th Month Bonus
4) Vacation Leave (15-20 days)
5) Sick Leave (15-20 days)
6) Birthday Leave (1 day)
7) Emergency Leave (5 days)
8) Enrollment in the PAL Dependents' Medical Plan
9) Burial Aid
10) Group Protection Insurance
11) Group Personal Accident Insurance
12) Eyeglasses
13) Perfect Attendance Incentive Award

Note: There has not been any strike or threatened industrial action for the last 9 years.

xiv)Major risk/s involved in each of the businesses of the Company and subsidiaries and the procedures being undertaken to identify, assess and manage such risks.

Investment risk – the Company has available-for-sale investment which has unpredictable market prices.

Price risk- price fluctuations in cost of fuel which is based primarily in the international price of crude oil. Substantial increases in fuel costs or the unavailability of sufficient quantities of fuel is harmful to the business.

Regulatory risk – PAL is subject to extensive regulations which may restrict growth or operations or increase their costs.

Competition - PAL is exposed to increased competition with major international and regional airlines.

Security and safety risk - the impact of terrorist attacks on the airline industry severely affected the overall air travel of passengers.

Financial market risk- fluctuations of interest and currency rates.

Economic slowdown – reduces the demand or need for air travel for both business and leisure.

Procedures undertaken to manage risks

- PAL continues to comply with applicable statutes, rules and regulations pertaining to the airline industry in order to maintain the required foreign and domestic governmental authorizations needed for their operations.

- Increase in fuel cost and shortage in fuel can sometimes be offset by increase in passenger fares or the curtailment of some scheduled services.

-Airlines have been required to adopt numerous additional security measures in an effort to prevent any future terrorist attacks, and are required to comply with more rigorous security guidelines.

- PAL sees to it that it has remain competitive in the areas of pricing, scheduling (frequency and flight times), on-time performance, frequent flyer programs and other services.

- Proper fund management and monitoring is being done to avoid the adverse effects in the results of operations of the Company, cash flows and financial risks are managed to provide adequate liquidity to the Company.

3. Description of Property

PAL Holdings does not own any property. It has an annual lease contract for its office space with a monthly rental of ₱18,600. The lease contract is renewable annually and expires on 31 May 2008. The Company has no plans of acquiring any property in the next twelve months.

The Company's subsidiaries (namely Ascot Holdings, Incorporated, Pol Holdings, Inc., Cube Factor Holdings, Inc., Sierra Holdings & Equities Inc., Network Holdings & Equities, Inc., Maxell Holdings Corporation) do not own any real property either.

On the other hand, PAL's properties and equipment include its aircraft fleet, various parcels of land, and buildings.

The Company's fleet as of March 31, 2007 consists of :

Owned - Boeing 737-300	1
Under finance leases:	
Boeing 747-400	4
Airbus 340-300	4
Airbus 330-300	8
Airbus 320-200	3
Under operating leases:	
Boeing 747-400	1
Boeing 737-300	1
Boeing 737-400	1
Airbus A320-200	6
Airbus A319-100	3
Total	32

Aircraft covered by capital lease agreements that transfer substantially all the risks and give rights equivalent to ownership are treated as if these had been purchased outright, and the corresponding liabilities to the lessors, net of interest charges, are classified as Aircraft Secured Claims under Liabilities Covered by the Rehabilitation Plan in the Balance Sheets. The Aircraft Secured Claims provide for quarterly or semi-annual installments, generally ranging over 7 to 15 years until 2014 including balloon payments for certain capital leases at the end of the lease term, at fixed interest rates ranging from 6.03% to 7.96% and/or floating interest rates based on certain margins over six-month London Interbank Offered Rate (LIBOR), as applicable.

Aircraft covered by operating lease agreements contain terms ranging from 3 to 8 years. Total operating lease payments amounted to PHP 1,393.3 million for 2007 and PHP 1,644.5 million in 2006.

PAL owns land and buildings located at various domestic and foreign stations.

A. Domestic Properties

1.	Bacolod City	200,042 sq.m. (mortgaged)
2.	Mandurriao, Iloilo	1,300 & 1,700 sq.m. (mortgaged)
3.	Maasin, Iloilo	3,310 & 9,504 sq.m.
4.	Legazpi St., Makati	853 & 879 sq.m.
5,	Somerset Millenium, Makati	39 sq.m.
6.	Malate	266.40 sq.m.
7.	Paranaque City	375 sq.m. (mortgaged)
8.	Quezon City	627.1 sq.m.
9.	Bacoor, Cavite	126 sq.m.
10.	Ozamiz City	10,000 sq.m.

B. Foreign Properties

1. Two (2) condominium units, San Mateo, Daly City, California
2. Walnut Orchard, Glen County, California
3. Two (2) condo units, Hongkong
4. Two (2) office units, Sydney, Australia
5. Three (3) office units, Singapore
6. One (1) shop unit, Singapore

In addition, PAL owns cargo buildings located at the following domestic stations:

a.	Zamboanga	- 300 sq.m.
b.	Cebu	- 1,215 sq.m.
c.	Puerto Princesa	- 192 sq.m.
d.	Iloilo	- 1,000 sq.m.
e.	Butuan	- 192 sq.m.
f.	Kalibo	- 192 sq.m.
g.	Legaspi	- 192 sq.m.

The land where these buildings are situated are leased from the Air Transportation Office (ATO).

PAL's existing ground facilities service PAL's own requirements and some of the requirements of the foreign airlines that fly to the Philippines. These major ground facilities as of April 2007 are as follows:

The **PAL Learning Center (PLC**) in Ermita, Manila is a modern training facility. The Center aims to continue to provide world-class training to every employee regardless of area of specialization, reinforce the culture of service, and develop every employee into the total PAL professional committed to PAL's corporate values.

The facility serves as the home for the Airline's Training and Development Department, with the Airline's seven training units, namely: Corporate & Commercial Training Sub-department, Flight Deck Crew Training Sub-department, Inflight Services Training Division, Human Factor Division, PAL Personality Development Division, External Training & Development Services, and Training Administration & Logistics Division.

Likewise, the PLC is the headquarters of PAL's sales offices under the Office of the Country Manager-Philippines, i.e., Passenger Sales, Agency Sales, Metro Manila and Luzon Sales & Services and the Ticket Office.

The PLC boasts of new and modern training equipment and facilities, such as 13 classrooms, two (2) computer-based training (CBT) rooms; one (1) cockpit mock-up trainer (CMT) room as follows: one (1) flight management system (FMS-747) and three (3) flight management guidance system trainer (FMGS-Airbus); Frasca 172R simulator room; inflight service simulators for B747, A340, B737 and cabin safety simulator; a grooming room, a speech laboratory for personality development; five (5) computer training rooms. Support facilities include an auditorium/ projection room, museum, gym, canteen and a medical clinic. The PLC building with a total floor area of 6,787.56 sq. m. is leased from the Tan Yan Kee Foundation. A 4,328.80 sq.m. lot space is used for parking and driveway, with a 1,539.00 sq.m. annex parking.

The **PAL Inflight Center (IFC)** along Baltao St., Pasay houses PAL's inflight kitchen which is capable of producing more than 3.7 million meals annually to service PAL's catering requirements. PAL held 48% market share in terms of meal tray production while 52% was the combined share of MacroAsia and Miascor.

PAL IFC has a total land area of 22,093.00 sq.m. of which 68% is allocated to Catering Services and the remaining 32% for Cabin Services, warehouse and other offices. The land and building are leased from ManiIa International Airport Authority (MIAA).

The modern **NAIA Centennial Terminal 2** in Pasay that was inaugurated in August 1999 has been the home of PAL's flight operations. For the first time since PAL was founded 66 years ago, PAL's entire flight operation is housed in one terminal. This gives PAL a genuine hub for its operations where passengers from domestic flights connect seamlessly onto international flights and vice versa.

The terminal boasts of complete facilities for PAL's passengers' comfort and convenience; two Mabuhay Lounges – one each for domestic and international passengers, a big ticket office and spacious check-in and pre-departure areas.

It is also the home of the Airport Services Group and other support offices, i.e., Operations Control Center, Line Maintenance International Division, Aircraft Interior Maintenance Division, Flight Dispatch, Ticket Office, Treasury, Safety and Medical office.

Various airport support offices servicing PAL's foreign airline customers were retained at the **NAIA 1,** together with the Sampaguita Lounge. The areas occupied by PAL are leased from MIAA.

The recently upgraded **PAL Cargo Terminal (PCT**) near NAIA 1 in Pasay which houses PAL's domestic and international cargo operations and sales offices at the NAIA measures 5,727.55 sq.m.(warehouse) and 1,050.88 sq.m. (office space). PCT handles 132.48 tonnes of outbound cargo and 99.24 tonnes of inbound cargo daily (includes the 4 other international carriers coming in and out of Manila that are serviced by PAL). The land on which the PCT stands is leased from the MIAA.

PAL's **Data Center (DCB)** along Airport Road, Pasay**,** is the core of one of the most extensive computer systems in the Philippines. It houses two (2) Mainframe Computers, one hundred twenty (120) Unix systems, and PC servers. These equipment run the sophisticated systems like Reservations and Departure Control which are used in the daily operation of the airline. The DCB is also the center of applications development and maintenance, housing close to one hundred twenty (120) analysts and programmers. It is also the hub of PAL's domestic network, connecting the various PAL ticket offices and airports**.** The DCB, comprising 3,588.35 sq.m., is leased from the MIAA.

Other major ground facilities include a **Maintenance Base Complex** (**MBC**) in Nichols, Pasay City composed of the North and South sectors which refer to the areas north and south of Andrews Avenue respectively. It covers an area of 104,531.87 sq.m. (open) and 1,768.01 sq.m. (covered) land space leased from the MIAA. It also houses a Local Area Network (LAN) and Wide Area Network (WAN) that links together all of PAL's domestic on-line and office stations as well as the other major offices in Metro Manila.

MBC houses the Operations Group. Other facilities located in the MBC include Flight Operations and the B737 Flight Simulator Building, Aircraft Engineering, Airworthiness Management, Communications Operations, Fuel Management, Employee Benefits, Medical, Sports Complex, Corporate Logistics & Services, Operations Accounting, Ground Property, Material Sales Management, Comat Handling, Safety, Security, Ground Equipment Management, Communications Maintenance, Network Management & Telecom System, Construction and Facilities Management, Reservations Control Center/Telesales, General Materials Warehouse, Central Finance Records Warehouse, Aircraft Records Warehouse, Ticket Vault and other support offices. MBC also houses the K-9 Kennel Facility.

PAL owns the **PAL Center** building located along Legazpi St., Makati with a total floor area of 11,267.62 sq.m. It houses the Executive Offices, Commercial Group, Finance Group, Legal Department, Corporate Secretary's Office and the Domestic and International Ticket Offices.

The total rental payments for these ground facilities and other equipment amounted to PHP 398.8 million and PHP 379.9 million in fiscal years ended 2007 and 2006, respectively.

4. Legal Proceedings

There is no material legal proceeding to which the registrant is a party or of which any of its property is the subject. Except for PAL, neither is any of registrant's subsidiaries a party to any legal proceeding.

On 14 November 2006, PAL and the Manila International Airport Authority (MIAA) filed with the Court of Appeals in CA-G.R. CV No. 72976 (Manila International Airport Authority vs. Philippine Airlines, Inc.) a Compromise Agreement, pursuant to which, PAL will (i) pay to MIAA the total amount of Php 2.9 billion through monthly installments of Php 34.9 million due within the first five (5) days of each month, for a period of seven (7) years commencing on the month immediately following the approval by the Court of the Agreement and (ii) to pay in full all current billings from April 2006 onwards issued by MIAA not later than fifteen days from actual receipt of such billing.

On 26 March 2007, the Court of Appeals promulgated its decision approving the Compromise Agreement, notice of which was served to PAL on 04 April 2007
.
The Company and the other subsidiaries is not involved in, nor any of its properties the subject of any legal proceeding involving an amount exceeding PHP 3,109.6 million (10% of its current assets) as at the end of fiscal year March 31, 2007**.**

5. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2007.

Item 2. Directors and Executive Officers

Please refer to pages 5 thru 9 of the accompanying Information Statement.

Item 3. Management Discussion and Analysis

(a) Restatement to Philippine Peso

In line with the adoption of *PAS 21, The Effects of Changes in Foreign Currency Rates*, PAL determined that its functional currency is the US dollar. On May 20, 2005, the Philippine Securities and Exchange Commission approved the Company's application to use its functional currency, the US dollar, as its presentation currency. Accordingly, effective April 1, 2005, the Company proceeded in measuring its results of operations and financial position in US dollar.

Since the functional and presentation currency of the Company is in Philippine peso, for purposes of combination of the financial statements in accordance with *PAS 27, Business Combination,* there is a need for PAL and its subsidiaries to restate its financial statements to the Philippine peso.

The restatement to Philippines peso used the following procedures:

a.) Assets and liabilities for each balance sheet presented (including comparatives) were translated at the closing rate as of balance sheet date; equity except for capital stock, were translated using the average Philippine Dealing System (PDS) rates for the period April 2006 to March 31, 2007. Capital stock was translated using historical rate at the time PAL Holdings,Inc. and PAL became under common control.

b.) Income and expenses for each income statement (including comparatives) were translated using the average PDS rates for the period April to March 2007and 2006 respectively.

c.) All resulting exchange differences were recognized as a separate component of equity under the caption cumulative translation adjustment.

Consolidation

The consolidated financial statements referred to consist of the financial statements of the Company, the parent company and its subsidiaries. The financial statements of the subsidiaries are prepared as of March 31 of each year using consistent accounting policies as those of the Parent Company. Companies included in the consolidation are the 6 holding companies namely; Ascot Holdings, Inc., Cube Factor Holdings, Inc., Network Holdings & Equities Inc., Sierra Holdings & Equities, Inc., Pol Holdings, Inc. and Maxell Holdings Corporation.. These companies collectively own 81.57% of PAL. PR which is 82.33% owned by the 6 holding companies and has 3.764% of PAL was also included in the consolidation. These effectively gave PAL Holdings' 84.67% ownership over PAL. The Company used the pooling of interests method in the consolidated financial statements. Business combinations of entities under common control are currently scoped-out of PFRS3, Business Combinations, thus pooling of interests methods was used.

(b) <u>Results of Operations</u>

1. FY 2007 vs. FY 2006

The Company's consolidated net income after tax increased significantly from PHP 1,273.3 million last year to PHP 7,026.4 million for the fiscal year ended March 31, 2007. PAL's reported income of PHP 7,091.2 million is so far their highest ever earned in its 66 years history. The significant growth in the Company's financial performance by 452% can be attributed to the continued growth in profit margin coupled with the increase in the net benefit from PAL's income tax position.

Consolidated revenues for the current fiscal year increased to PHP 69,716.7 million from last years' figure of PHP 66,956.8 million. The 4.1% growth was brought about mainly by the increase in net yield per Revenue Passenger Kilometer (RPK) and in the number of passengers carried. Revenue, also includes among others, recoveries from surcharges recognized; credit memorandum received from Boeing with respect to the Settlement Agreement and Release in relation to the Boeing 747-400 Purchase Agreement; and the difference between the face amount of the MIAA claims, as stipulated in the compromise agreement, versus the fair value of the liability. Full discussion on this can be read in Note 15 of the Notes to consolidated financial statements.

Consolidated expenses for 2007 dropped by 1.6%. The decrease in expenses was brought about mainly by the effect of the appreciation of the Philippine peso vis-à-vis the US dollar from an average of level, expenses against the previous year would have resulted to higher expenses related to flying operations, maintenance, aircraft & traffic servicing, and passenger service offset by the decrease in other expenses.

The increase in flying operations can be attributed to increases in fuel expenses, aircraft leases and cockpit crew cost. Fuel cost grew by PHP 1,949.2 million or 9.8 % over last year's total of PHP 19,880.3 million as a result of the escalation in jet fuel prices per barrel from an average of US$ 71.79 in 2006 to US$ 79.81 in 2007. The phasing in of various A320-200 aircraft during the last six months of the previous fiscal year as well as the arrival of new A319-100s and the corresponding phase-out of various B737s had the effect of increasing aircraft lease charges by PHP 279.1 million. Likewise, improvements implemented by PAL in the pilots' pay increased cockpit crew cost by PHP 475.4 million or 41.7%.

Higher aircraft, component and engine repair costs contributed mainly to the increase in maintenance expenses. As a result of more flights operated in 2007, aircraft and traffic servicing expenses slightly increased as well. Growth in passenger traffic as well as improvements implemented by PAL in cabin crew benefits likewise increased passenger service expenses.

The continued appreciation of the Philippine Peso vis a vis the US Dollar resulted in a lower foreign exchange loss recognized, consequently reducing "other expenses" by PHP 1,363.7 million or 61% from the 2006 figure of PHP 2,247.9 million.

In accordance with PAS 12, *Income Taxes,* a reassessment was done on deferred tax assets and liabilities on all deductible temporary differences which resulted in the recognition of a deferred benefit from income tax amounting to PHP 2,768.2 million.

2. FY 2006 vs. FY 2005

The Company's consolidated net income after tax rose by 26% from PHP 1,012.5 million in the fiscal year ended 2005 to PHP 1,273.3 million in the fiscal year 2006. The restatement was a result of the retroactive recognition of an additional liability representing sick leave/vacation leave benefits pertaining to prior years, based on a recent actuarial valuation report. Consequently, an increase in expenses by PHP 321.5 million was recognized.

Consolidated revenues grew by 11.7 % due mainly to the increase in the number of passengers carried as well as in the net yield per revenue passenger kilometer (RPK). Starting April 1, 2005, revenues also included recoveries arising from surcharges during the year. Prior years' comparative amounts were restated to conform with this presentation.

Total expenses for the current fiscal year rose by 11.7 % to PHP 66,231.4 million. The increase of PHP 6,957.8 million was largely due to higher costs incurred for flying operations and maintenance. Fuel, which contributed the largest increase in flying operations expenses was brought about by higher fuel consumption and aviation fuel prices from an average price per barrel of US$ 53.77 in 2005 to US$ 71.79 in 2006. Higher aircraft, component and engine repair costs incurred during the current fiscal year increased the maintenance cost by 22.4%

The adoption of certain new accounting standards had the following effect on the results of operations.

PAS 21, The Effects of Changes in Foreign Exchange Rates, prohibits the capitalization of foreign exchange gains and losses. It requires foreign exchange gains and losses to be recognized in current income. With the transition of the Company's presentation of its financial statements to US dollars, the Philippine peso and currencies other than the US dollar were considered foreign currencies. Any movement of exchange rates of these currencies vis-a-vis the US dollar are now recognized as foreign exchange gain or loss in the income statement included under the caption "Others" in the expenses.

The foreign exchange loss of PHP 836.0 million recognized in FY 2005-2006 was a result of the conversion of the US dollar foreign exchange loss to the Philippine peso in accordance with the translation procedure under PAS 21, *The Effects of Changes in Foreign Exchange Rates*. This was 61.8% higher than the foreign exchange loss recognized in the previous year.

PAS 39, Financial Instruments: Recognition and Measurement, requires a financial asset or financial liability to be recognized at fair value. The standard also covers the accounting for derivative instruments. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value and are included in the determination of net income. Likewise, PAS 39 requires that if there is a substantial change in the terms of the financial liabilities (i.e., Liabilities Covered by the Rehabilitation Plan), the carrying values of these financial liabilities subjected to modifications should be derecognized. The effect of the adoption of PAS 39 on the financial assets and liabilities as well as the fair value changes on the derivative instruments for the current fiscal year amounted to PHP 629.6 million, included in Other Expenses in the Income Statement.

Consolidated Net income before income tax amounted to PHP 725.4 million, an increase of 8.5% from the previous fiscal year of PHP 668.4 million.

There were provisions for income tax recognized for the year for both current and deferred taxes where a net gain of PHP 547.9 million is expected to benefit future operations. This contributed to a higher net income of PHP 1,273.3 million in the fiscal year ended March 2006.

(c) Financial Condition

1. FY 2007 vs FY 2006

The Company's consolidated assets as of March 31, 2007 amounted to PHP 92,837.8 million, an 8% decrease over the March 31, 2006 balance of PHP 100,984.5 million. The decline was a result of the net decrease in available-for-sale investments, property and equipment, advance payments to aircraft and engine manufacturers, and current and other non current assets.

The decline in the fair values of available-for sale investments resulted to the decline of 67% in Available –for –sale investments.

Property, plant and equipment decreased by 8% from PHP 58,088.8 million as of March 31, 2006 to PHP 53,013.1 million as of March 31, 2007. This is on account of higher depreciation expense recognized during the year, which had the effect of reducing the net carrying values of the property plant and equipment. The Settlement Agreement and Release entered into with Boeing with respect to the Boeing 747-400 purchase agreement reduced the advance payments to aircraft & engine manufacturers balance as of March 31, 2007 to zero or 100%.

The restatement of foreign currency denominated current assets to the current exchange rates resulting from the appreciation of the Philippine peso vis-a-vis the US dollar contributed to the decrease in the total current assets. Other current and noncurrent assets as of March 31, 2007 dropped by 29% to PHP 2,960.4 million and by 20% to PHP 2,941.7 million respectively. This was primarily due to the effect of remeasurement to fair value of certain financial assets as well as derivative instruments.

The Company's decrease in notes payable by 74% and loans payable by 100% is related to the increase in advances from related parties by 205% as a result of the acquisition of the six holding companies which has liabilities amounting to PHP 23.0 million, PHP 9.0 million of which was assumed by the Company to Trustmark and was converted into equity at PHP 1.80 per share.

The increase in income tax payable by 399% is due to higher consolidated net income for the year.

Total liabilities decreased by 17% from PHP 109,621 million in 2006 to PHP 91,442.9 million. In 2007. Liabilities covered by the rehabilitation plan (current and non-current portion) decreased by PHP 10,574.5 million or 19% over the March 31, 2006 amount. This was mainly due to servicing of outstanding debts in accordance with the Amended and Restated Rehabilitation plan.

The decrease in deferred tax liabilities (net) by 76% is due to the recognition of deferred tax assets on all deductible temporary differences considering the improvement in the current and forecasted results of operations of PAL and the lower deferred tax liability in 2007 in relation to the changes in exchange rates affecting non-monetary assets and liabilities in accordance with PAS 12, Income taxes.

The net decline in the reserves and other noncurrent liabilities balances by 18% was primarily due to the Settlement Agreement and Release entered into with Boeing with respect to the Boeing 747-400 purchase agreement; adjustment on the liability under frequent flyer program based on awards earned and awards redeemed offset by the effect of the difference between the face amount and fair value of MIAA claims (refer to Note 15 of the notes to consolidated financial statements).

Consolidated stockholders' equity as of March 31, 2007 amounted to PHP 1,394.9 million, up by 116% from PHP (8,636.7) million in March 31, 2006. The improvement was a result of the net income after tax generated for the fiscal year 2007 and the increase in authorized capital stock of PAL Holdings from PHP 400 million to PHP 20 billion, PHP 5.0 billion of which was subscribed by Trustmark by way of conversion of loan to equity in October 2006. A minority interest in consolidated subsidiaries amounting to PHP 2,367 million was recognized upon the consolidation of the 6 holding companies and PR.

2. FY 2006 vs FY 2005

The Company's consolidated total assets as of March 31, 2006 amounted to PHP 100,984.5 million, a decrease of 11% over the March 31, 2005 balance of PHP 112,982.6 million. The decline was mainly due to the net decrease in property and equipment and advance payments to aircraft and engine manufacturers offset by the increase in current and other noncurrent assets.

Property and equipment and advance payments to aircraft & engine manufacturers balance as of March 31, 2006 decreased by 16% and 78% respectively as compared with the March 31, 2005 figures. The reduction reflects the effect of the final settlement with Airbus in June 2005 with respect to the terminated Airbus 320-200 Purchase Agreement; and the adjustment recognized on the claims made by manufacturers to reflect management's best estimate of the asset's recoverable amount and related liabilities' settlement amounts. The depreciation expense recognized for all flight and ground property and equipment during the fiscal year also had the effect of reducing the net carrying values of these assets.

Consolidated current and other noncurrent assets as of March 31, 2006 grew by 16% and 21% respectively, due to the increases in cash and cash equivalents by 21% as a result of higher cash earnings from operations; and in other assets (current and noncurrent) primarily due to the effect of the implementation of *PAS 39*, *Financial Instruments: Recognition and Measurement,* where the Company recognized derivative assets resulting from the remeasurement to fair value of certain financial assets as well as derivative instruments.

Available for sale investments (current and noncurrent) of PHP 2,772.3 million consisted primarily of the Company's investments in US Treasury bonds with maturities within one year and equity securities.

Consolidated total liabilities dropped by 12% over the March 31, 2005 figure of PHP 125,126.6 million. Liabilities covered by the rehabilitation plan (including current portion) decreased by PHP 12,327.3 million or 18% over the March 31, 2005 figure. This was mainly due to servicing of outstanding debts in accordance with the rehabilitation plan. Also, the adoption of *PAS 39*, *Financial Instruments: Recognition and Measurement*, had the effect of recognizing the fair value of the restructured financial liabilities with the previous liabilities being derecognized.

The net decline in the reserves and other noncurrent liabilities balances by 55% or PHP 5,643.1 million was mainly a result of the adjustment recognized on the claims made by manufacturers to reflect management's best estimate of the asset's recoverable amount and related liabilities' settlement amounts.

The Company recognized noncurrent derivative liabilities resulting from the remeasurement to fair value of various derivative financial instruments with the adoption of PAS *39, Financial Instruments: Recognition and Measurement,* starting April 1, 2005.

Accounts payable, was up by 8% over the March 31, 2005 due to the effect of the adoption of PAS *39, Financial Instruments: Recognition and Measurement,* starting April 1, 2005, where the Company recognized current derivative liabilities resulting from the remeasurement to fair value of various derivative financial instruments.

Higher accruals recognized for landing and take off fees as well as for engine and component repair costs contributed to the increase in accrued expenses by 18% over the March 31, 2005 figure of PHP 9,094.4 million.

The business combination resulted to a negative stockholders' equity of PHP (8,636.7) million As of March 31, 2006. This is due to the restatements made using the pooling of interest method. The acquisition cost was greater than the net book value of the equity of PAL as of April 1, 2005. This is still an improvement over last year by 29% .The improvement was a result of the accumulated net income generated for the period April 2005 to March 2006 which effectively increased the minority interest by 57% The adoption of *PAS 39, Financial Instruments: Recognition and Measurement,* beginning April 1, 2005 also had the effect of increasing the stockholders' equity balance resulting from changes in fair value of derivatives that were designated and qualified as effective hedges. Under this new accounting standard, these hedges are recorded in the stockholders' equity until the hedged items are recognized in earnings.

TOP FIVE KEY PERFORMANCE INDICATORS

The Company's business is still focused on money market placements and available-for-sale instruments**.**

The key indicators being used to evaluate company performance are the following:

1. Net income

   Results from the Company's operations for the fiscal year ended March 31, 2007 showed a net loss of P65.9 million compared to last year's net loss of P 0.65 million.

2. Current Ratio

   The Company has a current ratio of 0.17 as of March 31, 2007 as compared to 422:1 as of March 31, 2006

3. Earnings (Loss) per share

   The Company's (loss) per share as of March 31, 2007 is (P .012) as compared to last year's earnings per share of P .0016.

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

      Current ratio = current assets/current liabilities

      Earnings (loss) per share = Net income(loss)/ Common shares outstanding

PAL's key performance indicators are as follows:

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 delays 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 Division 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 for 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 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

In addition to the Qualitative Key Performance Indicators of PAL, the following comprise its Quantitative Financial Ratios:

	March 31, 2007	March 31, 2006
Profitability Factors:		
1. Return on Total Assets Net Income/Average Total Assets	7.34%	1.19%

2.Percentage of Operating Income Operating Income/Total Revenues	5.58%	8.05%
Asset Management:		
3.Number of Days Sales in Receivables (General Traffic) # of Days in a year/Receivables turnover	32.95	30.76
Financial Leverage:		
4. Interest Coverage Ratio Earnings before interest & taxes/Interest Charges	2.04	1.15

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

i. *Events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.*

On June 27, 2007, the Board of Directors of the Company approved the assumption of the outstanding liability of the 6 Holding Companies to Trustmark amounting to P14,078.3 million. In a subsequent board meeting in August, this was amended such that the Company will only assume liabilities of approximately P3 billion only.

On July 19, 2007, the Board of Directors of the Company approved the Company's acquisition of the 81.57% aggregate ownership of the 6 Holding Companies in PAL, and the latter's 82.33% ownership in PR, 3.76% owner of PAL. The acquisition will be made by way of a *dacion en pago* to pay-off P12,118.390 million liability of the Holding Companies to the Company. The remaining receivable of the Company from the Holding Companies after the dacion en pago transaction, if any, will be converted into additional paid –in capital in the Holding Companies.

Also in the August board meeting, the Company was authorized to transfer all of its interests in the Holding Companies to Trustmark. For and in consideration of the same, Trustmark has agreed to assume the Company's P136 million liability to the former stockholders of the Holding Companies when it first acquired the same, thereby relieving the Company of such obligation.

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

iii. *Commitments for capital expenditures*

PAL will be transferring its principal offices to a new location and is exploring the optimal arrangement for the property that will be vacated.

As part of its refleeting program, PAL took delivery of one (1) Airbus 320-200 aircraft in April 2007 and one (1) Airbus A 319-100 in May 2007 under operating lease agreements. Also, two (2) brand new Boeing 777-300ER aircraft on operating leases are scheduled to be delivered in 2010; while another two (2) new Boeing 777-300ER aircraft which were directly ordered by PAL from Boeing are scheduled to be delivered in 2010 and 2011.

On April 13, 2007, PAL entered into a 12-year finance lease agreement in support of the acquisition of one (1) Airbus 320-200 which was delivered on April 20, 2007. The agreement provides for fixed semi-annual principal and interest payments with a balloon payment at maturity. This delivery is part of the Purchase Agreement with Airbus for nine (9) Airbus A320-200 on firm order for delivery in 2008 and 2009 with options for five (5) more aircraft for delivery from 2010 to 2013.

On May 22, 2007, PAL finalized a supplemental agreement with Boeing relating to its exercise of purchase rights (under the Purchase Agreement with Boeing signed on October 30, 2006) for two (2) Boeing 777-300 ER aircraft for delivery in 2012.

iv. *There are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues of income from continuing operations.*

v . *There are no significant element of income that did not arise from continuing operations.*

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

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes:

1. Cash and cash equivalents - H- 9%
2. Available-for-sale- investment – H – (67%)
3. Expendable- H –25%
4. Other current assets – (29%)
5. Property, plant and equipment – cost H – (8%)
6. Property, plant and equipment – at appraised values – H-20%
7. Advance payments to aircraft and engine manufacturers H- (100%)
8. Available-for-sale-investments- Noncurrent – H-19%
9. Other noncurrent assets – H-(20%)
10. Notes payable – H (74%)
11. Current portion of liabilities by the rehabilitation plan – H-30%
12. Accounts payable – H-9%
13. Accrued liabilities – H-(13%)
14. Advances from related parties – H - 205%
15. loans payable – H- (100%)
16. Income tax payable – H- 399%
17. Unearned transportation revenue – H- 5%
18. Liabilities covered by the rehabilitation plan – net of current portion – H-(25%) V – (13%)
19. Deferred tax liabilities – net H-(77%)
20. Reserves and other noncurrent liabilities – H (18%)
21. Capital stock – H- 1255% V – 5%
22. Additional paid in capital – H – 100%
23. Cumulative translation adjustment – net of related deferred tax – H – 79%
24. Net changes in fair value of available-for sale investments, net of related deferred tax – H – 619%
25. Revaluation increment in Property – net of related deferred tax – H – 24%

26. Deficit – H – (41%) V –(6%)
27. Minority interest – H- 59%
28. Income before income tax – H-529% V- 6%
29. Provision for income tax – H – 350%
30. Net income – H- 452% V- 8%

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

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

Item 4. Market Price and Dividends

A. Market Information

The market for the registrant's common equity is the Philippine Stock Exchange. The high and low sales prices for each quarter for the past three years are as follows:

2007	**HIGH**	**LOW**
Second Quarter	Php4.75	Php 3.30
First Quarter	4.20	3.10
2006		
Fourth Quarter	4.00	2.80
Third Quarter	5.40	1.20
Second Quarter	1.68	0.80
First Quarter	1.08	0.78
2005	**High**	**Low**
Fourth Quarter	0.72	0.62
Third Quarter	0.90	0.70
Second Quarter	0.73	0.59
First Quarter	1.50	1.04

As of July 27, 2007, the latest practicable trading date, the registrant was traded at P7.30.

B. Holders

The number of shareholders of record as of June 30, 2007, was 6,827 and common shares outstanding as of the same date were 5,421,567,685.

The top 20 stockholders as of June 30, 2007 are as follows:

	Stockholders' Name	No. of Shares Held	% to Total
1	Trustmark Holdings Corp.	5,297,280,230	97.7075%
2	Pan Asia Securities Corp.	35,886,022	0.6619%
3	Wonderoad Corporation	10,251,679	0.1891%
4	Anthony Te	5,000,000	0.0922%
5	Emmanuel P. Te	5,000,000	0.0922%
6	R. Coyiuto Securities, Inc.	4,743,461	0.0875%
7	Cynthia Manalang	4,000,000	0.0738%
8	Citisecurities, Inc.	3,297,260	0.0608%

9	Fisher Tan Chua	2,003,182	0.0369%
10	BPI Securities, Inc.	1,802,574	0.0332%
11	Luys Securities, Inc.	1,039,276	0.0192%
12	Abacus Securities Corp.	977,537	0.0180%
13	Regina Capital Development Corp.	958,900	0.0177%
14	R.S. Lim & Co., Inc.	946,000	0.0174%
15	ATR Securities, Inc.	897,574	0.0166%
16	Standard Securities Corp.	877,549	0.0162%
17	Accord Capital Equities Corp.	836,236	0.0154%
18	Ansaldo Godinez & Co., Inc.	823,186	0.0152%
19	Wealth Securities, Inc.	691,869	0.0128%
20	SB Equities, Inc.	655,125	0.0121%

** The Company has no preferred shares.*

C. Dividends

1. The Company did not declare any cash dividends during the past three years in the period ended March 31, 2007. The Board of Directors may declare dividends only from the surplus profits arising from the business of the Company and in accordance with the preferences constituted in favor of preferred stock when and if such preferred stock be issued and outstanding.

2. There are no other restrictions that limit the ability to pay dividends on common equity or that are likely to do so in the future.

D. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction (for the past three years)

On 22 January 2007, the Company issued 5,021,567,685 new shares to Trustmark Holdings Corporation (Trustmark) as subscription to the increase in capital pursuant to a debt-to equity transaction.

On 01 March 2007, the Securities and Exchange Commission confirmed that the issuance of these new shares to Trustmark is exempt from the registration requirements of Section 8 of SRC.

Item 5. Consolidated Audited Financial Statements

See accompanying Index to Financial Statements and Supplementary Schedules.

Item 6. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

The audit of the Company's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2007 and 2006

Yr. 2007 - Estimated at P150,000.00 inclusive of out-of-pocket expenses for the audit of 2007 financial statements.

Yr. 2006 - P140,560.00 audit fee and out-of-pocket expenses for the audit of 2005 financial statements.

b.) Tax Fees

Yr. 2007 - P 757,120 various tax services

The fees paid covered various tax services and consultations in relation to the Company's restructuring projects including the indirect acquisition of Philippine Airlines, Inc.

2006 - None

c.) All Other Fees – None

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is confirmed at the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before its release.

(2) Other assurance and related services

There were no other assurance and related services by the external auditor that are reasonably related to the performance of the audit of the Company.

Item 7. Compliance with Leading Practices on Corporate Governance

Measures being undertaken by the Company to fully comply with the adopted leading practices on good corporate governance:

Measures are slowly being undertaken by the Company to fully comply with the adopted leading practices on good corporate governance and one of them is the election of independent directors.

Evaluation System

The Compliance officer is currently in charge of reviewing and evaluating the provisions of the Manual on Corporate Governance vis-a vis the Self Rating Form.

Deviations

There has been no deviation from the Company's Manual of Corporate Governance.

Plans to Improve

The Company will improve its Corporate Governance when appropriate and warranted as may be determined by the Board of Directors.

The Corporation shall, on written request, provide to shareholders, without charge, the Management Report prepared pursuant to SEC Form 17-A. All such requests for a copy of the Management Report should be directed to the Office of the Corporate Secretary, Atty. Ma. Cecilia L. Pesayco, at the 2/F Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

PAL Holdings, Inc.

7th Floor, Allied Bank Center, 6754 Ayala Ave., Makati City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PAL Holdings, Inc. is responsible for all information and representations contained in the consolidated financial statements for each of the three years in the period ended March 31, 2007. These financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data;(ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the stockholders and Board of Directors.

Signed under oath by the following:

Lucio C. Tan
Chairman of the Board

Jaime J. Bautista
President

Susan T. Lee
Chief Finance Officer

PAL HOLDINGS, INC.

7/F Allied Bank Center, 6754 Ayala Avenue, Makati City
Tel. # 8163421 local 3785

REPUBLIC OF THE PHILIPPINES)
CITY OF MANILA)

BEFORE ME, Personally appeared the following persons on ___________:

Name	CTC/Passport No.	Date/Place of Issue
Lucio C. Tan	13879209	17 Feb. 2007 / Marikina City
Jaime J. Bautista	10573817	22 Feb 2007 / Manila
Susan T. Lee	14747146	23 Feb.2007 / Manila

Known to me and to me known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this ____ day of 2007 at Manila, Philippines.

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Page No. 60
Book No. XXIV
Series of 2007

ATTY. SOCRATES G. MARANAN
NOTARY PUBLIC
UNTIL DECEMBER 31, 2007
PTR. 533...
ROA: 319...

COVER SHEET

P	W	-	9	4						

SEC Registration Number

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings
Corporation) AND SUBSIDIARIES

(Company's Full Name)

7th Floor, Allied Bank Center
6754 Ayala Avenue, Makati City

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

Susan Tcheng-Lee
(Contact Person)

736-8466
(Company Telephone Number)

0	3		3	1

Month *Day*
(Calendar Year)

A	A	C	F	S

(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable
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 ID

Cashier

STAMPS

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PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

Consolidated Financial Statements
March 31, 2007 and 2006
and Years Ended March 31, 2007, 2006 and 2005

and

Independent Auditors' Report

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PAL Holdings, Inc.
7th Floor, Allied Bank Center
6754 Ayala Avenue, Makati City

We have audited the accompanying financial statements of PAL Holdings, Inc. (formerly Baguio Gold Holdings Corporation) and subsidiaries, which comprise the consolidated balance sheets as at March 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity (capital deficiency) and consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PAL Holdings, Inc. and its subsidiaries as of March 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended March 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Cynthia A. Manlapig

Cynthia A. Manlapig
Partner
CPA Certificate No. 26164
SEC Accreditation No. 0084-AR-1
Tax Identification No. 123-305-048
PTR No. 0267365, January 2, 2007, Makati City

July 23, 2007

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	March 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 17 and 25)	**₱20,573,060**	₱18,876,518
Available-for-sale investments (Notes 3, 5, 6, 17 and 25)	**668,384**	2,009,077
Receivables - net (Notes 7, 17 and 25)	**5,608,216**	5,474,162
Expendable parts, fuel, materials and supplies (Note 8)	**1,285,851**	1,031,755
Other current assets (Notes 8, 9 and 25)	**2,960,408**	4,165,813
Total Current Assets	**31,095,919**	31,557,325
Noncurrent Assets		
Property and equipment (Notes 10, 12, 14 and 17):		
At cost - net	**53,013,145**	58,088,784
At appraised values - net	**2,089,821**	1,738,604
Advance payments to aircraft manufacturer (Note 15)	**–**	2,327,689
Deposits on aircraft leases (Notes 17, 23 and 25)	**2,787,859**	2,843,003
Available-for-sale investments (Notes 3, 6, 17 and 25)	**909,386**	763,243
Other noncurrent assets (Notes 5, 11, 15, 17, 23 and 25)	**2,941,719**	3,665,829
Total Noncurrent Assets	**61,741,930**	69,427,152
Total Assets	**₱92,837,849**	₱100,984,477
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		
Current Liabilities		
Notes payable (Notes 12, 17 and 25)	**₱1,243,999**	₱4,843,806
Current portion of Liabilities Covered by the Rehabilitation Plan (Notes 2, 3, 14 and 25)	**7,986,326**	6,129,547
Accounts payable (Notes 17 and 25)	**5,739,430**	5,287,408
Accrued liabilities (Notes 13, 15, 17 and 25)	**9,361,211**	10,700,412
Advances from related parties (Notes 17, 22, 25 and 27)	**14,266,459**	4,680,711
Loans payable (Notes 17 and 25)	**–**	9,337,765
Income tax payable	**218,761**	43,842
Unearned transportation revenue - net	**6,598,063**	6,271,357
Total Current Liabilities	**45,414,249**	47,294,848
Noncurrent Liabilities		
Liabilities Covered by the Rehabilitation Plan - net of current portion (Notes 2, 3, 14, 17 and 25)	**37,953,877**	50,385,170
Accrued employee benefits payable (Note 19)	**3,327,745**	3,183,307
Deferred tax liabilities - net (Note 21)	**960,434**	4,138,989
Reserves and other noncurrent liabilities (Note 15)	**3,786,626**	4,618,851
Total Noncurrent Liabilities	**46,028,682**	62,326,317
Total Liabilities	**91,442,931**	109,621,165

(Forward)

	March 31	
	2007	2006
Equity (Capital Deficiency)		
Attributable to the equity holders of the parent:		
Capital stock (Notes 2 and 16)	**₱5,421,568**	₱400,000
Additional paid-in capital (Note 2)	**4,029,287**	12,033
Deposits for future stock subscription (Note 17)	**–**	4,814,850
Cumulative translation adjustment - net of related deferred tax (Notes 3 and 25)	**(3,331,586)**	(1,860,443)
Net changes in fair values of available-for-sale investments - net of related deferred tax (Notes 3, 6 and 25)	**197,687**	27,511
Revaluation increment in property - net of related deferred tax (Note 10)	**1,270,393**	1,020,824
Deficit	**(8,559,400)**	(14,537,023)
Treasury stock - 55,589 shares, at cost (Note 16)	**(56)**	(56)
	(972,107)	(10,122,304)
Minority interests	**2,367,025**	1,485,616
Total Equity (Capital Deficiency)	**1,394,918**	(8,636,688)
Total Liabilities and Equity (Capital Deficiency)	**₱92,837,849**	₱100,984,477

See accompanying Notes to Consolidated Financial Statements.

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended March 31		
	2007	2006	2005
REVENUE			
Passenger	**₱54,593,744**	₱54,608,901	₱49,287,373
Cargo	**6,016,554**	6,329,995	5,863,172
Interest income (Note 17)	**1,264,069**	818,565	974,623
Others (Notes 15 and 17)	**7,842,320**	5,199,383	3,816,844
	69,716,687	66,956,844	59,942,012
EXPENSES (Note 18)			
Flying operations	**30,277,639**	29,820,714	25,418,031
Maintenance (Note 17)	**10,018,924**	9,606,569	7,850,864
Aircraft and traffic servicing	**8,219,496**	8,210,931	7,984,923
Financing charges (Notes 12, 14 and 17)	**4,519,446**	4,929,422	5,008,839
Passenger service	**4,389,934**	4,344,201	4,254,509
Reservation and sales	**3,913,230**	3,909,865	3,696,263
General and administrative (Note 17)	**3,046,797**	3,042,803	2,608,321
Others (Note 15)	**771,182**	2,366,923	2,451,835
	65,156,648	66,231,428	59,273,585
INCOME BEFORE INCOME TAX	**4,560,039**	725,416	668,427
BENEFIT FROM INCOME TAX (Note 21)			
Current	**301,817**	151,311	74,374
Deferred	**(2,768,215)**	(699,192)	(418,458)
	(2,466,398)	(547,881)	(344,084)
NET INCOME	**₱7,026,437**	₱1,273,297	₱1,012,511
Attributable to:			
Equity holders of parent	**₱5,939,284**	₱1,078,718	₱878,371
Minority interests	**1,087,153**	194,579	134,140
	₱7,026,437	₱1,273,297	₱1,012,511
Basic/Diluted Earnings Per Share*	**₱1.3574**	₱2.6972	₱2.1962

* Computed based on the weighted average number of issued and outstanding shares of stock of 4,375,351,766 in 2007, and 399,944,411 in 2006 and 2005.

See accompanying Notes to Consolidated Financial Statements.

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED MARCH 31, 2007, 2006 AND 2005
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent										
	Capital Stock (Notes 2 and 16)	Additional Paid-in Capital (Note 2)	Deposits for Future Stock Subscription (Note 17)	Cumulative Translation Adjustment (Notes 3 and 25)	Net Changes in Fair Values of Available-for-Sale Investments (Notes 3, 6 and 25)	Revaluation Increment in Property (Note 10)	Deficit	Treasury Stock (Note 16)	Total	Minority Interests	Total
BALANCES AT MARCH 31, 2004	**₱400,000**	**₱12,033**	**₱4,814,850**	**(₱2,700,770)**	**₱–**	**₱1,024,339**	**(₱17,376,708)**	**(₱56)**	**(₱13,826,312)**	**₱840,942**	**(₱12,985,370)**
Transfer of portion of revaluation increment in property realized through depreciation- net of related deferred tax	–	–	–	–	–	(20,225)	23,887	–	3,662	–	3,662
Effect of foreign exchange translation difference (Note 3)	–	–	–	(147,997)	–	–	–	–	(147,997)	(26,798)	(174,795)
Total income and expense for the year recognized directly in equity	–	–	–	(147,997)	–	(20,225)	23,887	–	(144,335)	(26,798)	(171,133)
Net income for the year	–	–	–	–	–	–	878,371	–	878,371	134,140	1,012,511
Total income and expense for the year	–	–	–	(147,997)	–	(20,225)	902,258	–	734,036	107,342	841,378
BALANCES AT MARCH 31, 2005	**400,000**	**12,033**	**4,814,850**	**(2,848,767)**	**–**	**1,004,114**	**(16,474,450)**	**(56)**	**(13,092,276)**	**948,284**	**(12,143,992)**
Effect of change in accounting for financial instruments (Note 3)	–	–	–	629,048	118,066	–	842,245	–	1,589,359	287,961	1,877,320
Effect of foreign exchange translation difference (Note 3)	–	–	–	19,039	–	–	–	–	19,039	3,448	22,487
BALANCES AT APRIL 1, 2005	**400,000**	**12,033**	**4,814,850**	**(2,200,680)**	**118,066**	**1,004,114**	**(15,632,205)**	**(56)**	**(11,483,878)**	**1,239,693**	**(10,244,185)**
Share in net changes in fair values of derivative financial instruments - net of related deferred tax	–	–	–	959,892	–	–	–	–	959,892	173,809	1,133,701
Net changes in fair values of available-for-sale investments - net of related deferred tax (Note 6)	–	–	–	–	(88,884)	–	–	–	(88,884)	(16,270)	(105,154)
Realization of changes in fair values of available-for-sale investments through disposal	–	–	–	–	(1,671)	–	–	–	(1,671)	–	(1,671)
Transfer of portion of revaluation increment in property realized through depreciation - net of related deferred tax and foreign exchange adjustment	–	–	–	–	–	16,710	16,464	–	33,174	6,007	39,181

(Forward)

	Attributable to Equity Holders of the Parent										
	Capital Stock (Notes 2 and 16)	Additional Paid-in Capital (Note 2)	Deposits for Future Stock Subscription (Note 17)	Cumulative Translation Adjustment (Notes 3 and 25)	Net Changes in Fair Values of Available-for-Sale Investments (Notes 3, 6, and 25)	Revaluation Increment in Property (Note 10)	Deficit	Treasury Stock (Note 16)	Total	Minority Interests	Total
Effect of foreign exchange translation difference (Note 3)	₱–	₱–	₱–	(₱619,655)	₱–	₱–	₱–	₱–	(₱619,655)	(₱112,202)	(₱731,857)
Total income and expense for the year recognized directly to equity	–	–	–	340,237	(90,555)	16,710	16,464	–	282,856	51,344	334,200
Net income for the year	–	–	–	–	–	–	1,078,718	–	1,078,718	194,579	1,273,297
Total income and expense for the year	–	–	–	340,237	(90,555)	16,710	1,095,182	–	1,361,574	245,923	1,607,497
BALANCES AT MARCH 31, 2006	**400,000**	**12,033**	**4,814,850**	**(1,860,443)**	**27,511**	**1,020,824**	**(14,537,023)**	**(56)**	**(10,122,304)**	**1,485,616**	**(8,636,688)**
Share in net changes in fair values of derivative financial instruments - net of related deferred tax	–	–	–	(831,273)	–	–	–	–	(831,273)	(150,520)	(981,793)
Effect of foreign exchange translation difference (Note 3)	–	–	–	(639,870)	–	–	–	–	(639,870)	(115,862)	(755,732)
Net changes in fair values of available-for-sale investments - net of related deferred tax (Note 6)	–	–	–	–	170,176	–	–	–	170,176	8,506	178,682
Transfer of portion of revaluation increment in property realized through depreciation- net of related deferred tax and foreign exchange adjustment	–	–	–	–	–	(38,339)	38,339	–	–	–	–
Increase in revaluation increment due to appraisal - net of related deferred tax (Note 3)	–	–	–	–	–	287,908	–	–	287,908	52,132	340,040
Total income and expense for the year recognized directly to equity	–	–	–	(1,471,143)	170,176	249,569	38,339	–	(1,013,059)	(205,744)	(1,218,803)
Net income for the year	–	–	–	–	–	–	5,939,284	–	5,939,284	1,087,153	7,026,437
Total income and expense for the year	–	–	–	(1,471,143)	170,176	249,569	5,977,623	–	4,926,225	881,409	5,807,634
Conversion of deposits for future stock subscription to advances from related parties (Note 17)	–	–	(4,814,850)	–	–	–	–	–	(4,814,850)	–	(4,814,850)
Conversion of advances from parent company to equity (Notes 2 and 22)	5,021,568	4,017,254	–	–	–	–	–	–	9,038,822	–	9,038,822
BALANCES AT MARCH 31, 2007	**₱5,421,568**	**₱4,029,287**	**₱–**	**(₱3,331,586)**	**₱197,687**	**₱1,270,393**	**(₱8,559,400)**	**(₱56)**	**(₱972,107)**	**₱2,367,025**	**₱1,394,918**

See accompanying Notes to Consolidated Financial Statements.

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended March 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,560,039**	₱725,416	₱668,427
Adjustments for:			
Depreciation (Notes 10 and 18)	**6,259,453**	7,829,122	7,200,684
Financing charges	**4,519,446**	4,929,422	5,008,839
Interest income	**(1,264,069)**	(818,565)	(974,623)
Dividend income	**(329,391)**	(154,024)	–
Foreign exchange loss - net	**378,567**	1,008,208	175,404
Realization of hedge and non-hedge derivatives	**(1,435,167)**	(239,620)	–
Recovery in value of marketable equity securities	–	–	(134,640)
Loss on disposal of available-for-sale investments	–	3,198	–
Realization of changes in fair value of available-for-sale investments through disposal	–	(2,504)	–
Loss (gain) on disposal of property and equipment, and others	**(527,627)**	(1,432,906)	1,839,794
Operating income before working capital changes	**12,161,251**	11,847,747	13,783,885
Decrease (increase) in:			
Receivables	**(2,108,453)**	867,447	(467,552)
Expendable parts, fuel, materials and supplies	**158,030**	(227,201)	(279,955)
Other current assets	**554,906**	(21,597)	(67,818)
Increase (decrease) in:			
Accounts payable	**454,178**	(1,071,789)	522,861
Accrued liabilities	**1,081,058**	1,844,807	607,470
Unearned transportation revenue	**729,155**	(502,742)	1,843,042
Net cash settlement on derivative transactions	**1,629,373**	1,551,422	–
Provision (reversal of allowance) for doubtful accounts	**919,708**	(633,728)	435,852
Net increase in accrued employee benefits payable	**144,438**	560,378	396,888
Increase in other noncurrent liabilities	**275,088**	2,361,513	131,847
Net cash generated from operations	**15,998,732**	16,576,257	16,906,520
Financing charges paid	**(3,349,721)**	(3,932,135)	(3,994,818)
Interest received	**1,028,149**	663,017	782,112
Income taxes paid (including final and withheld taxes)	**(135,106)**	(118,821)	(239,487)
Net cash from operating activities	**13,542,054**	13,188,318	13,454,327
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 10)	**(2,991,493)**	(2,486,272)	(1,127,945)
Investments in available-for-sale instruments	–	(339,390)	–
Proceeds from disposal of:			
Available-for-sale instruments	**953,295**	39,306	–
Property and equipment	**124,154**	163,369	105,681
Marketable securities	–	–	804,971
Dividends received	**329,391**	154,024	–

(Forward)

	Years Ended March 31		
	2007	2006	2005
Return of various deposits	**₱110,888**	₱280,397	₱12,984
Additional various deposits made	**(9,715)**	(167,627)	(24,838)
Net changes in other noncurrent assets	**(372,527)**	500,913	37,384
Net cash from (used in) investing activities	**(1,856,007)**	(1,855,280)	(191,763)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of Liabilities Covered by the Rehabilitation Plan (Note 14)	**(8,839,181)**	(7,061,735)	(7,875,728)
Availments of notes payable (Note 12)	**1,665,000**	2,375,000	200,000
Payments of notes payable (Note 12)	**(1,615,000)**	(2,015,000)	(250,000)
Advances from related parties	**52,125**	–	–
Net cash used in financing activities	**(8,737,056)**	(6,701,735)	(7,925,728)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,252,449)**	(1,320,318)	(417,259)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,696,542**	3,310,985	4,919,577
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**18,876,518**	15,565,533	10,645,956
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱20,573,060**	₱18,876,518	₱15,565,533

See accompanying Notes to Consolidated Financial Statements.

PAL HOLDINGS, INC.
(Formerly Baguio Gold Holdings Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Number of Shares and Par Value Per Share)

1. Corporate Information

PAL Holdings, Inc., formerly known as "Baguio Gold Holdings Corporation" (the Parent Company), was incorporated in the Philippines on May 10, 1930 under the name "Baguio Gold Mining Company" originally to engage in mining and other mineral exploration activities. On September 23, 1996, the Parent Company changed its primary purpose to that of engaging in the business of a holding company and changed its corporate name to Baguio Gold Holdings Corporation.

The Parent Company is a subsidiary of Trustmark Holdings Corporation (Trustmark) and is part of the Lucio Tan Group of Companies.

The Parent Company's Board of Directors (BOD) and its stockholders approved the change of the Parent Company's name to PAL Holdings, Inc. in separate meetings held on October 20 and December 13, 2000, respectively. The change of the Parent Company's name was approved by the Philippine Securities and Exchange Commission (SEC) on January 19, 2007.

The Parent Company's registered office address is 7th Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City.

The Parent Company and its subsidiaries (collectively referred to herein as "the Group"), through Philippine Airlines, Inc. (PAL), the Philippine national flag carrier and the major subsidiary of the Parent Company, is primarily engaged in air transport of passengers and cargo within the Philippines and between the Philippines and several international destinations. These business activities are further described in Note 26.

The consolidated financial statements were authorized for issue by the BOD on July 23, 2007.

2. Status of Operations and Reorganizations

a. *Increase in capital stock of the Parent Company*

On July 26 and September 19, 2006, at separate meetings, the Parent Company's BOD, by a vote of at least a majority of its entire membership, and the stockholders of at least two thirds (2/3) of the outstanding shares of stock, approved the increase in authorized capital stock of the Parent Company from ₱400,000 divided into 400 million shares with par value of ₱1.00 per share to ₱20,000,000 divided into 20 billion shares with par value of ₱1.00 per share. Out of the increase in the authorized capital stock, 5.02 billion shares with a total par value of ₱5,021,568 have been subscribed and in payment thereof, the Parent Company agreed to convert to equity a part of its debt to Trustmark, in the amount of ₱9,038,822, at a rate of ₱1.80 per share. Accordingly, as a result of the conversion, Trustmark's ownership over the Parent Company increased from 69.16% to 97.73%.

The increase in authorized capital stock was approved by the Philippine SEC on January 19, 2007.

b. *Group reorganizations*

The BOD and stockholders of the Parent Company approved the acquisition of 100% of the outstanding capital stock of Ascot Holdings, Incorporated, POL Holdings, Inc., Network Holdings & Equities Inc., Sierra Holdings & Equities, Inc. and Maxell Holdings Corporation (collectively, the Holding Companies) for ₱136,000 in separate meetings held on August 17, 2006 and September 19, 2006, respectively (see Note 22). The Holding Companies, collectively, own 84.67% of PAL and 82.33% of PR Holdings, Inc. (PR), 3.76% owner of PAL. Pursuant to the acquisition by the Parent Company on October 2, 2006 following said approvals, the Holding Companies, as well as PAL and PR, indirectly through the Holding Companies, became subsidiaries of the Parent Company.

The business combination involving the Parent Company and the Holding Companies, all belonging to the Lucio Tan Group and under common control, was accounted for similar to a pooling of interests. Accordingly, the Parent Company recognized the net assets of the acquired subsidiaries equivalent to their book values. Comparatives were restated to include balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented. The difference between the consideration paid (or liability incurred) and the combined equities of the Holding Companies, amounting to ₱18,725,147 is reflected within the Group's equity (capital deficiency), and presented as part of Deficit as if the companies had always been combined.

Note 27 discusses the financial restructuring approved by the BOD on June 27, 2007 and July 19, 2007.

c. *Status of PAL's rehabilitation*

On June 7, 1999, the Philippine SEC confirmed its approval of PAL's Amended and Restated Rehabilitation Plan (Rehabilitation Plan) dated March 15, 1999. The Philippine SEC also appointed a Permanent Rehabilitation Receiver (PRR) to, among other things, monitor and supervise the strict and faithful implementation of the Rehabilitation Plan. With the approval of the Rehabilitation Plan, the exercise of creditors' and third parties' rights under various agreements became subject to Philippine SEC jurisdiction. As part of the Rehabilitation Plan, various liabilities were restructured (reflected as Liabilities Covered by the Rehabilitation Plan in the consolidated balance sheets, see Note 14).

On May 28, 2007, the BOD of PAL authorized management to initiate action, obtain required approvals and file necessary applications and other documents for the proposed exit from rehabilitation and quasi-reorganization of PAL.

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared under 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 of the Group are presented in Philippine peso, the Parent Company's functional currency and presentation currency. Items in the consolidated financial statements are 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).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous years, except as follows:

The Group has adopted the following amendments to PFRS and Philippine Interpretations [based on interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)], which became effective to the Group beginning April 1, 2006:

- Amendments to Philippine Accounting Standard (PAS) 19, *Employee Benefits*, provided additional option to recognize all actuarial gains and losses immediately outside of profit or loss (i.e., in equity). If the new option is adopted, actuarial gains and losses are presented in a statement of changes in equity titled "Statement of Recognized Income and Expenses". This change has no recognition nor measurement impact as the Group chose not to apply the new option offered to recognize all actuarial gains and losses immediately outside of profit or loss.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Financial Guarantee Contracts*, amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the consolidated financial statements.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Hedges of Forecast Intragroup Transactions*, amended the scope of PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income. As the Group currently has no such transactions, the amendment did not have an effect on the consolidated financial statements.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Fair Value Option*, amended the scope of PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated statement of income. The Group had not previously used this option; hence the amendment did not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provided guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This Interpretation has no impact on the consolidated financial statements.

Adoption of the revised accounting standards and interpretation did not result to the restatement of prior years' consolidated financial statements. Additional disclosures required by the revised standards were included in the consolidated financial statements, where applicable.

Future Changes in Accounting Policies

The following are the new and revised accounting standards and Philippine Interpretations that will become effective to the Group subsequent to March 31, 2007. The revised disclosures provided by these standards and Interpretations will be included in the Group's consolidated financial statements when the Group adopts them subsequent to March 31, 2007.

- PFRS 7, *Financial Instruments: Disclosures*, and the complementary amendments to PAS 1, *Presentation of Financial Statements: Capital Disclosures* (effective for annual periods beginning on or after January 1, 2007), introduce new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. The amendments to PAS 1 introduce disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendments to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendments to PAS 1.

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

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2* (effective for annual periods beginning on or after May 1, 2006), requires PFRS 2, *Share-based Payments*, to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after June 1, 2006), establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006), prohibits the reversal of impairment losses on goodwill and available-for-sale equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent.

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

The Group is still evaluating the effect of these new accounting standards and Interpretations and expects that their adoption will have no significant impact on the consolidated financial statements when implemented.

The following are new IFRIC Interpretations that have been approved as of July 23, 2007 by the IFRIC:

- IFRIC Interpretation 13, *Customer Loyalty Programmes* (effective for annual reporting periods beginning on or after July 1, 2008) which prescribes that loyalty awards are accounted for as a separate component of the sales transaction in which they are granted, in accordance with IAS 18, *Revenue*. Under the Interpretation, a portion of fair value of the consideration received is allocated to the loyalty award credits and is deferred until the awards are redeemed. The Interpretation also requires that an entity must apply judgment in determining the appropriate method of measuring award credits and the other components of the sale.

- IFRIC Interpretation 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual reporting periods beginning on or after January 1, 2008) which provides that the asset ceiling test under IAS 19, *Employee Benefits*, limits the measurement of the net pension asset in respect of a defined benefit plan at the balance sheet date to the total of 1) any cumulative unrecognized net actuarial losses and past service costs and 2) the present value of any economic benefits that will be "available to the employer" in the form of refunds from the plan or reduction in future contributions to the plan. The Interpretation specifies that so long as refunds from the plan will be realizable at some point during the life of the plan or at a final settlement, they will be considered to be "available to the employer" at the balance sheet date, regardless of whether or not the entity intends to settle the plan. The Interpretation further clarifies that the entity controls the asset only if there is an unconditional right to the refund. The Interpretation also prescribes how the following are determined: 1) economic benefits available as a reduction in future contributions 2) how the availability of reductions in future contributions is affected by a minimum funding requirement and 3) when a minimum funding requirement may give rise to a liability.

Consolidation

The consolidated financial statements consist of the financial statements of the Parent Company and its subsidiaries which as mentioned in Note 2 were acquired in 2007. The financial statements of the subsidiaries are prepared as of March 31 of each year using consistent accounting policies as those of the Parent Company. The following are subsidiaries of the Parent Company as of March 31, 2007:

	Nature of Operations	Percentage of Ownership
Through direct holdings:		
Ascot Holdings, Incorporated	Holding company	100.00%
Cube Factor Holdings, Inc.	Holding company	100.00%
Maxell Holdings Corporation	Holding company	100.00%
Network Holdings & Equities, Inc.	Holding company	100.00%
POL Holdings, Inc.	Holding company	100.00%
Sierra Holdings & Equities, Inc.	Holding company	100.00%
Through indirect holdings:		
PR	Holding company	82.33%
PAL	Air transport	84.67%
Abacus Distribution Systems Philippines, Inc.	Lessor of computerized reservations systems	70.28%
Pacific Aircraft Ltd.	Aircraft financing-related company	84.67%
Pearl Aircraft Ltd.	Aircraft financing-related company	84.67%
Peerless Aircraft Ltd.	Aircraft financing-related company	84.67%
Synergy Services Corporation	Manpower supply	54.19%

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.

The equity and net income attributable to minority interests of the consolidated subsidiaries are recognized and, where material, are shown separately in the consolidated balance sheet and consolidated statement of 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 with all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered. Minority interest represents the interests in PAL and PR not held by the Group.

Business Combinations

Business combinations between the Group entities subject to the control of the same ultimate shareholders ("transactions under common control") are accounted for similar to a pooling of interests. The assets and liabilities of the acquired subsidiaries and the Parent Company are reflected at their carrying values. Comparatives were restated to include balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented as if the companies had always been combined. The difference between the consideration provided (and liabilities assumed) and the share in the net assets of the acquired entities is accounted for as contributions from or distributions to shareholders and is reflected in equity as part of Deficit.

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

Effective April 1, 2005, financial assets and financial liabilities carried in the consolidated balance sheet include cash and cash equivalents, receivables, investments, deposits on aircraft leases, short-term and long-term loans, and derivative instruments such as commodity and currency derivative instruments.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet 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 traded in active markets at the statement of condition 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 with similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. In the absence of a reliable basis of determining fair value, investments in unquoted equity securities are carried at cost net of impairment.

Financial instruments are classified as debt or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a debt, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

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 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.

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss
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 instruments classified in this category are 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 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 balance sheet, with any gains or losses being recognized in the consolidated statement of income.

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).

Upon adoption of PAS 39 for derivatives on April 1, 2005, a reduction in Deficit of ₱423,328 (net of tax and minority interests' share) and increase in Cumulative translation adjustment of ₱629,048 (net of tax and minority interests' share) were recognized.

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 balance sheet date. Otherwise, these are classified as noncurrent assets.

Held-to-Maturity Investments
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 balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Group has no held-to-maturity investments as of March 31, 2007 and 2006.

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 a separate component of equity 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 statement of income. The effective yield and (where applicable) results of foreign exchange restatement for available-for-sale investments are reported immediately in the consolidated statement of income. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

Available-for-sale investments represent the Group’s investments in United States (US) Treasury bonds and various equity instruments.

Upon adoption of PAS 39 for available-for-sale investments on April 1, 2005, an increase in Net changes in fair values of available-for-sale investments of ₱118,066 (net of tax and minority interests’ share) and increase in Deficit amounting to ₱1,663 were recognized.

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., notes payable, advances from related parties, Liabilities Covered by the Rehabilitation Plan and obligations arising from finance leases).

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.

Fair Value of Financial Instruments
The fair value of financial instruments (including derivatives) that are actively traded in organized financial markets is determined by reference to quoted market prices at balance sheet date. For instruments where there is no active market, fair value is determined using generally accepted valuation techniques.

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). 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 in the consolidated statement of 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.

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 net income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statement of 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 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 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 and when the economic risks of the embedded derivatives are not closely related to those of their respective host contracts.

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.

On April 1, 2005, the adoption of PAS 39 required assessing whether modifications to financial liabilities (e.g., restructuring) are considered substantial. If the changes were substantial, the fair values of the restructured financial liabilities were recognized, with the previous liabilities being derecognized and the differences reported in profit or loss during the period when the modifications were effected; otherwise, the carrying values of the financial liabilities prior to modification were retained. The impact of adopting these provisions relating to the derecognition of financial liabilities resulted in a reduction in Deficit of ₱420,580 (net of tax and minority interests' share) as of April 1, 2005.

Impairment of Financial Assets
Financial assets are reviewed for impairment at each balance sheet date.

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 the consolidated statement of 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 income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income.

Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of condition 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 balance sheet.

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. In 2007, the Group obtained updated appraisal reports and recorded an aggregate appraisal increase of ₱504,554 (net of minority interests' share).

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 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.

Actual costs of heavy maintenance visits for passenger aircraft are capitalized and depreciated based on the estimated number of years or flying hours, whichever is applicable, until the next major overhaul or inspection. Generally, heavy maintenance visits are required every five to six years for airframe and 10 years for landing gear. On the other hand, engine overhaul and component repair costs are expensed as incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements	8 to 21
Passenger aircraft (owned and under finance lease)	18 to 20
Other aircraft	10
Spare engines	18 to 20
Rotable and reparable parts	3 to 18
Other ground property and equipment	3 to 15

The estimated useful lives, depreciation method, and residual values are reviewed periodically to ensure that the period 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, and any gain or loss resulting from their disposal is included in the consolidated statement of 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 Deficit.

Construction in progress represents the cost of aircraft and engine modification 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 readily available for use.

Asset Retirement Obligation
The Group is required under various aircraft lease agreements to restore the leased aircraft to their original condition and to bear the cost of dismantling and restoration at the end of the lease term. The Group provides for these costs over the terms of the leases, based on aircraft flown hours until the 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. These 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 of building and building improvements is computed using the straight-line method over their estimated useful life of 8.4 years.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use or no future economic benefit is expected from their disposal.

Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property 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 property 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.

Impairment of Non-Financial Assets

The carrying values of non-financial assets 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 in the consolidated statement of income.

Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease, if any of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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 as Aircraft Secured Claims under Liabilities Covered by the Rehabilitation Plan in the consolidated balance sheet.

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 income on a straight-line basis over the terms of the lease agreements.

Provisions and Contingencies

Provisions are recognized when (i) the Group has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

<u>Revenue and Related Commissions</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Passenger ticket and cargo waybill sales are initially recorded as Unearned transportation revenue in the consolidated balance sheet until recognized as Revenue in the consolidated statement of income when the transportation service is rendered by PAL. 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 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 balance sheet.

<u>Interest and Dividend Income</u>
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.

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

<u>Retirement Benefits Cost</u>
Retirement benefits cost under the defined benefit plan is actuarially determined using the projected unit credit method. 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 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, a 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.

If the asset is measured at 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 plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

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.

<u>Borrowing Costs</u>
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.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates.

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

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

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

a. assets and liabilities for each balance sheet presented are translated at the closing rate at balance sheet date;

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

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

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

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

Earnings Per Share
Basic earnings per share is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year.

The Parent Company does not have any potential common share with dilutive effect.

Events After the Balance Sheet Date
Post-year-end events that provide additional information about the Group's position at the balance sheet 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.

4. Summary of Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with PFRS requires the Group's management to exercise judgments, make estimates and use assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative consolidated financial statements. Future events may occur which will cause the assumptions in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses, and other factors including the currency in which financing is primarily undertaken by the entity. Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of the Parent Company rather than being carried out with significant autonomy.

The Parent Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be Philippine peso. It is the currency of the primary economic environment in which it operates. The functional currency of PAL, its major subsidiary, has been determined to be the United States (US) dollar.

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 balance sheet.

Determination of fair value of financial instruments (including derivatives)
The Group records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Group or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Group uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect the consolidated statement of income and consolidated statement of changes in equity.

Fair values of financial assets and liabilities are presented in Note 25.

Application of hedge accounting
The Group applies hedge accounting treatment for certain qualifying derivatives after complying with hedge accounting requirements, specifically on hedge documentation designation and effectiveness testing. Judgment is involved in these areas, which include management determining the appropriate data points for evaluating hedge effectiveness, establishing that the hedged forecasted transaction in cash flow hedges are probable of occurring, and assessing the credit standing of hedging counterparties.

Estimation of allowance for doubtful accounts
The allowance for doubtful accounts relating to receivables is estimated as the difference between the carrying amount of the receivables (at amortized cost) and the present value of estimated future cash flows (using the original effective rate). The amount and timing of recorded expense

for any period could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for doubtful accounts would increase its recorded general and administrative expenses and decrease its current assets.

The carrying value of receivables, net of allowance for doubtful accounts, as of March 31, 2007 and 2006 amounted to ₱5,608,216 and ₱5,474,162, respectively. The related allowance for doubtful accounts as of March 31, 2007 and 2006 amounted to ₱3,356,723 and ₱2,686,460, respectively (see Note 7).

Application of effective interest method of amortization and impact of revisions in cash flow estimates
The Group carries certain financial assets and financial liabilities at amortized cost, which is determined at inception of the instrument, taking into account any fees, points paid or received, transaction costs and premiums or discounts, along with the cash flows and the expected life of the instrument. In cases where the Group revises its estimates of cash flow receipts or payments change on its financial assets or financial liabilities, the Group adjusts the carrying amounts to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by discounting the estimated future cash flows using the financial asset or financial liability's original effective interest rate, with the resulting adjustment being recognized in the consolidated statement of income.

Determination of net realizable value of expendable parts, fuel, materials and supplies
The Group's estimates of the net realizable values of expendable parts, fuel, materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the expendable parts, fuel, materials and supplies are expected to be realized. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused expendable parts, fuel, materials and supplies to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The expendable parts, fuel, materials and supplies as of March 31, 2007 and 2006 amounting to ₱1,285,851 and ₱1,031,755, respectively, are stated at the lower of cost and net realizable value (see Note 8).

Valuation of property and equipment under revaluation basis
The Group's land and buildings and improvements are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and any accumulated impairment losses. The valuations of property and equipment are performed by qualified professional appraisers using acceptable valuation techniques and methods. Revaluations are made regularly to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at balance sheet date.

The resulting revaluation increment, net of related deferred tax, in the valuation of these assets based on appraisal reports amounted to ₱1,270,393 (net of minority interests' share amounting to ₱230,031) and ₱1,020,824 (net of minority interests' share amounting to ₱184,842) as of March 31, 2007 and 2006, respectively. These are presented as "Revaluation increment in property", net of the related deferred tax, and the portion transferred to Deficit resulting from their realization, in the equity section of the consolidated balance sheet and in the consolidated statement of changes in equity.

Estimation of useful lives and residual values of property and equipment and investment properties
The Group estimates the useful lives of property and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying amount of property and equipment, net of accumulated depreciation, as of March 31, 2007 and 2006 amounted to ₱55,102,966 and ₱59,827,388, respectively (see Note 10). The carrying amount of investment properties, net of accumulated depreciation, as of March 31, 2007 and 2006 amounted to ₱72,518 and ₱82,109, respectively. The investment properties are included in "Others" under Other noncurrent assets in the consolidated balance sheets (see Note 11).

Based on current assessment of management, PAL revised the estimated useful lives of certain passenger aircraft and ground property (see Note 10). The change resulted in an increase in depreciation of ₱645,015 in 2007.

Impairment of non-financial assets
The Group determines whether its non-financial assets are impaired, 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 non-financial assets are written down to their recoverable amounts. The recoverable amount is the greater of net selling price and value-in-use. Computing for value-in-use requires an estimation of the value-in-use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In discounting, the Group uses an applicable discount rate specific to its non-financial assets. As of March 31, 2007 and 2006, the aggregate carrying value of the Group's non-financial assets amounted to ₱55,175,484 and ₱59,909,497, respectively. No impairment loss was recognized in 2007, 2006 and 2005.

Estimation of retirement and other benefits cost
The Group's retirement benefits cost relating to its defined benefit plan is actuarially computed. This entails using certain assumptions like salary increases, return on plan assets and discount rates. Accrued employee benefits payable as of March 31, 2007 and 2006 amounted to ₱3,327,745 and ₱3,183,307, respectively. Unrecognized net actuarial loss amounted to ₱1,378,369 and ₱1,574,025 as of March 31, 2007 and 2006, respectively, which resulted from changes in actuarial assumptions. See Note 19.

Estimation of liability for tickets sold but not yet processed
The Group assesses at each balance sheet date its liability for tickets sold but not yet serviced based on historical trends, the timing and amount of tickets used for travel on other airlines and the amount of tickets sold that will not be used. Unearned transportation revenue, net of the related prepaid commission, amounted to ₱6,598,063 and ₱6,271,357 as of March 31, 2007 and 2006, respectively.

Estimation of liability under the Frequent Flyer Program
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 considering the miles

which are not expected to be redeemed. The accrued cost is based on various estimates with respect to the incremental fuel, food and other costs incurred in providing such schemes. Additional assumptions are made, based on general customer behavior, regarding the likelihood of a customer redeeming the miles from the Group. Changes in cost estimates or accrual methods, among other factors, could have a significant effect on the Group's presentation of its financial results. Liability under the frequent flyer program amounted to ₱292,099 and ₱546,367 as of March 31, 2007 and 2006, respectively (see Note 15).

Provisions
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. Management exercises judgment in assessing the probability of the Group becoming liable. An estimate of the provision is based on known information at balance sheet date. The amount of provision is being reassessed at least on an annual basis to consider new and relevant information. Accrued provisions amounted to ₱1,562,231 and ₱3,472,400 as of March 31, 2007 and 2006, respectively (see Note 15).

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

PAL has lease agreements covering some of its aircraft where the lease terms approximate the estimated useful lives of the aircraft. These leases are classified by the Group as finance leases. The net carrying value of these aircraft amounts to ₱42,025,407 and ₱49,045,123 as of March 31, 2007 and 2006, respectively (see Note 10).

The Group also has lease agreements where it has determined that the risks and rewards related to the properties are retained with the lessors. The leases are, therefore, accounted for as operating leases (see Note 23).

Recognition of deferred tax assets
The Group assesses at each balance sheet date and recognizes deferred tax assets to the extent of probable taxable profit and reversing taxable temporary differences that will allow the deferred tax assets to be utilized (see Note 21). Management uses judgment and estimates in assessing the probability of future taxable profit, aided by forecasting and budgeting techniques. Deferred tax assets recognized amounted to ₱7,312,687 and ₱6,520,496 as of March 31, 2007 and 2006, respectively.

5. Cash and Cash Equivalents

	2007	2006
Cash	**₱2,154,889**	₱1,769,511
Cash equivalents	**18,418,171**	17,107,007
	₱20,573,060	₱18,876,518

As of March 31, 2007 and 2006, cash and cash equivalents include ₱8,450,126 and ₱8,647,339 (excluding cumulative interest earned), respectively, which were part of the ₱9,643,400 capital infusion made by PAL's majority stockholders and new investors in June 1999 (June 4 equity infusion). The Philippine SEC ordered that the June 4 equity infusion should be used and disbursed only for the operations of PAL and in accordance with the terms and provisions of the Rehabilitation Plan. Otherwise, the disbursement must be approved or authorized by the Philippine SEC. The other portion of the funds from the June 4 equity infusion amounting to ₱251,390 (excluding cumulative interest earned) as of March 31, 2006 is included under Available-for-sale investments in the 2006 consolidated balance sheet.

Short-term cash investments pertaining to the June 4 equity infusion amounting to ₱111,381 as of March 31, 2007 and 2006 were used to collateralize standby letters of credit. These are shown as part of Other noncurrent assets in the consolidated balance sheets (see Notes 11 and 23).

6. Available-for-Sale Investments

The Group's available-for-sale investments include investments in US Treasury bonds (amounting to ₱668,384 and ₱2,009,077 as of March 31, 2007 and 2006, respectively) and various equity investments (amounting to ₱909,386 and ₱763,243 as of March 31, 2007 and 2006, respectively).

The carrying value of these investments includes accumulated unrealized gain of ₱80,812 and ₱29,518 (net of related deferred tax) as of March 31, 2007 and 2006, respectively, that is deferred in Net changes in fair values of available-for-sale investments in the equity section of the consolidated balance sheets.

The movements in "Net changes in fair values of available-for-sale investments" are as follows:

	2007	2006
Balance at beginning of year	**₱32,493**	₱139,320
Transferred to consolidated statements of income	**15,044**	(78,107)
Mark-to-market gain (loss) during the year	**163,636**	(28,699)
Foreign exchange adjustments	**2**	(21)
	211,175	32,493
Less share of minority interests	**13,488**	4,982
Balance at end of year	**₱197,687**	₱27,511

The fair values of quoted available-for-sale investments were determined based on published prices in the active market. Unquoted available-for-sale investments with no available market prices are measured at cost, net of impairment losses, if any.

7. Receivables

	2007	2006
General traffic	**₱4,903,476**	₱4,514,182
Others (Note 17)	**4,061,463**	3,646,440
	8,964,939	8,160,622
Less allowance for doubtful accounts	**3,356,723**	2,686,460
	₱5,608,216	₱5,474,162

Other receivables include accounts under litigation, accounts of defaulted agents, and receivables from lessors.

8. Expendable Parts, Fuel, Materials and Supplies

	2007	2006
At cost:		
Fuel	**₱966,751**	₱748,954
Materials and supplies	**231,345**	248,167
Expendable parts	**55,112**	–
	1,253,208	997,121
At net realizable value - expendable parts	**32,643**	34,634
	₱1,285,851	₱1,031,755

The expendable parts have an aggregate cost of ₱150,485 and ₱101,190 as of March 31, 2007 and 2006, respectively.

In line with the various purchase agreements and fuel hedging transactions (see Note 25), the Group has short-term standby letters of credit amounting to ₱53,039 and ₱133,011 as of March 31, 2007 and 2006, respectively, which serve as security or margin deposits to the various fuel suppliers and hedging counterparties.

The cash used to collateralize the standby letters of credit are included under Other current assets in the consolidated balance sheets.

9. Other Current Assets

	2007	2006
Derivative assets (Note 25)	**₱1,721,443**	₱2,585,321
Deposits	**198,799**	324,290
Prepayments and others	**1,040,166**	1,256,202
	₱2,960,408	₱4,165,813

10. Property and Equipment

March 31, 2007

	April 1, 2006	Additions	Disposals/ Retirements	Re-classifications/ Transfers	Foreign Exchange Adjustments	**March 31, 2007**
At Cost:						
Cost						
Passenger aircraft owned (Note 14)	₱1,097,288	₱–	₱–	₱–	(₱63,082)	**₱1,034,206**
Passenger aircraft under finance lease (Notes 14 and 17)	77,751,412	–	–	–	(4,469,817)	**73,281,595**
Other aircraft	377,239	50	(18,477)	8,885	(21,258)	**346,439**
Capitalized overhaul cost	2,776,703	755,773	(76,309)	(1,111)	(181,652)	**3,273,404**
Spare engines	4,661,670	–	–	–	(267,992)	**4,393,678**
Rotable and reparable parts (Note 12)	7,543,298	994,662	(581,962)	–	(435,737)	**7,520,261**

(Forward)

	April 1, 2006	Additions	Disposals/ Retirements	Re- classifications/ Transfers	Foreign Exchange Adjustments	**March 31, 2007**
Other ground property and equipment (Note 12)	₱10,417,406	₱190,845	(₱135,783)	₱21,808	(₱602,366)	**₱9,891,910**
	104,625,016	1,941,330	(812,531)	29,582	(6,041,904)	**99,741,493**
Accumulated depreciation						
Passenger aircraft owned	(727,415)	(233,936)	–	–	52,315	**(909,036)**
Passenger aircraft under finance lease	(28,706,289)	(4,397,531)	–	–	1,847,632	**(31,256,188)**
Other aircraft	(297,586)	(38,972)	18,477	–	18,027	**(300,054)**
Capitalized overhaul cost	(1,384,796)	(450,253)	70,120	–	96,669	**(1,668,260)**
Spare engines	(1,988,921)	(320,311)	–	–	128,715	**(2,180,517)**
Rotable and reparable parts	(5,078,966)	(530,117)	509,974	–	292,887	**(4,806,222)**
Other ground property and equipment	(9,906,593)	(219,296)	133,223	(555)	573,403	**(9,419,818)**
	(48,090,566)	(6,190,416)	731,794	(555)	3,009,648	**(50,540,095)**
Net book value	56,534,450	(4,249,086)	(80,737)	29,027	(3,032,256)	**49,201,398**
Construction in progress	28,137	311,023	–	(27,362)	(14,347)	**297,451**
Predelivery payments (Note 23)	1,526,197	2,173,373	–	–	(185,274)	**3,514,296**
Total	₱58,088,784	(₱1,764,690)	(₱80,737)	₱1,665	(₱3,231,877)	**₱53,013,145**
At Appraised Values:						
Appraised values						
Land (Note 12)	₱1,479,694	₱353,277	(₱33,318)	₱–	(₱99,425)	**₱1,700,228**
Buildings and improvements (Note 12)	391,716	171,338	–	(2,221)	(30,109)	**530,724**
	1,871,410	524,615	(33,318)	(2,221)	(129,534)	**2,230,952**
Accumulated depreciation						
Buildings and improvements	(132,806)	(69,037)	–	555	60,157	**(141,131)**
Net book value	₱1,738,604	₱455,578	(₱33,318)	(₱1,666)	(₱69,377)	**₱2,089,821**

March 31, 2006

	April 1, 2005	Additions	Disposals/ Retirements	Re- classifications/ Transfers	Foreign Exchange Adjustments	March 31, 2006
At Cost:						
Cost						
Passenger aircraft owned (Note 14)	₱1,174,268	₱–	₱–	₱–	(₱76,980)	₱1,097,288
Passenger aircraft under finance lease (Notes 14 and 17)	83,144,816	8,738	–	51,994	(5,454,136)	77,751,412
Other aircraft	419,909	18,996	(35,061)	–	(26,605)	377,239
Capitalized overhaul cost	2,899,620	231,131	(169,687)	–	(184,361)	2,776,703
Spare engines	4,988,712	–	–	–	(327,042)	4,661,670
Rotable and reparable parts (Note 12)	8,241,832	834,581	(1,012,481)	–	(520,634)	7,543,298
Other ground property and equipment (Note 12)	11,042,525	256,675	(156,781)	7,598	(732,611)	10,417,406
	111,911,682	1,350,121	(1,374,010)	59,592	(7,322,369)	104,625,016
Accumulated depreciation						
Passenger aircraft owned	(732,022)	(46,024)	–	–	50,631	(727,415)

(Forward)

	April 1, 2005	Additions	Disposals/ Retirements	Re-classifications/ Transfers	Foreign Exchange Adjustments	March 31, 2006
Passenger aircraft under finance lease	(₱26,589,468)	(₱4,080,165)	₱–	₱–	₱1,963,344	(₱28,706,289)
Other aircraft	(299,849)	(53,514)	35,061	–	20,716	(297,586)
Capitalized overhaul cost	(1,176,185)	(457,638)	154,518	–	94,509	(1,384,796)
Spare engines	(1,877,548)	(248,738)	–	–	137,365	(1,988,921)
Rotable and reparable parts	(4,606,686)	(1,420,730)	599,293	–	349,157	(5,078,966)
Other ground property and equipment	(9,244,908)	(1,479,184)	134,220	–	683,279	(9,906,593)
	(44,526,666)	(7,785,993)	923,092	–	3,299,001	(48,090,566)
Net book value	67,385,016	(6,435,872)	(450,918)	59,592	(4,023,368)	56,534,450
Construction in progress	59,510	34,627	–	(63,772)	(2,228)	28,137
Pre-delivery payments (Note 23)	–	1,619,156	–	–	(92,959)	1,526,197
Total	₱67,444,526	(₱4,782,089)	(₱450,918)	(₱4,180)	(₱4,118,555)	₱58,088,784
At Appraised Values:						
Appraised values						
Land (Note 12)	₱1,583,502	₱–	₱–	₱–	(₱103,808)	₱1,479,694
Buildings and improvements (Note 12)	425,933	923	–	(7,598)	(27,542)	391,716
	2,009,435	923	–	(7,598)	(131,350)	1,871,410
Accumulated depreciation						
Buildings and improvements	(105,005)	(43,129)	–	–	15,328	(132,806)
Net book value	₱1,904,430	(₱42,206)	₱–	(₱7,598)	(₱116,022)	₱1,738,604

If land and buildings and improvements were carried at cost less accumulated depreciation, the amounts as of March 31, 2007 and 2006 would be as follows:

	2007	2006
Cost:		
Land	**₱12,440**	₱46,963
Buildings and improvements	**105,547**	113,827
	117,987	160,790
Accumulated depreciation on buildings and improvements	**(72,422)**	(21,998)
	₱45,565	₱138,792

Property and equipment used to secure Notes Payable and Liabilities Covered by the Rehabilitation Plan are described in Notes 12 and 14.

Operating Fleet

PAL's operating fleet consists of:

	2007	2006
Owned - Boeing 737-300	**1**	1
Under finance leases:		
Boeing 747-400	**4**	4
Airbus 340-300	**4**	4
Airbus 330-300	**8**	8
Airbus 320-200	**3**	3

(Forward)

	2007	2006
Under operating leases (Note 23):		
Boeing 747-400	**1**	1
Boeing 737-300	**1**	3
Boeing 737-400	**1**	2
Airbus 320-200	**6**	6
Airbus 319-100	**3**	–
	32	32

Land and Building and Improvements

PAL will be transferring its principal offices to a new location and is exploring optimal arrangement for the property that will be vacated.

11. Other Noncurrent Assets

	2007	2006
Derivative assets (Note 25)	**₱27,435**	₱1,332,819
Long-term security deposits (Notes 5 and 23)	**1,931,959**	1,163,998
Unapplied manufacturers' credits (Note 15)	**619,492**	735,550
Others - net	**362,833**	433,462
	₱2,941,719	₱3,665,829

As of March 31, 2007 and 2006, Long-term security deposits include certain cash and cash equivalents and short-term investments amounting to ₱139,588 and ₱142,577, respectively, used to collateralize various surety bonds issued (as required under the legal proceedings) in connection with certain litigations.

12. Notes Payable

The Group enjoys an omnibus credit facility with Allied Banking Corporation (ABC), an affiliated company (see Note 17), which is covered by a real estate mortgage on certain real properties and chattel mortgage on certain ground equipment and rotable and reparable parts, having an aggregate net carrying value of ₱1,520,137 and ₱1,302,636 as of March 31, 2007 and 2006, respectively.

In 2007 and 2006, additional short-term loans were availed of from ABC amounting to ₱1,665,000 and ₱2,375,000, respectively. Of these loans, ₱609,993 and ₱559,975 remained outstanding as of March 31, 2007 and 2006, respectively. The outstanding short-term loans from ABC as of March 31, 2007 and 2006 carry fixed interest rates ranging from 6.500% to 10.500% and 8.478% to 10.173%, respectively. Related interest expense amounted to ₱19,889, ₱18,018 and ₱33,251 in 2007, 2006 and 2005, respectively.

Notes payable as of March 31, 2007 include portion of pre-delivery payments amounting to ₱634,006 (see Note 10) due in 2008, in relation to PAL's Purchase Agreement for nine Airbus 320-200 aircraft (see Note 23). These notes payable carry fixed rates ranging from 4.64% to 5.58% per annum. Interest relating to these notes payable amounting to ₱33,571 in 2007 was capitalized as part of property and equipment (see Note 10).

13. Accrued Liabilities

	2007	2006
Landing and take-off fees (Note 15)	**₱4,729,123**	₱6,083,249
Maintenance (Note 17)	**2,379,461**	2,125,666
Others (Note 25)	**2,252,627**	2,491,497
	₱9,361,211	₱10,700,412

14. Liabilities Covered by the Rehabilitation Plan

The liabilities that were restructured (see Note 2) consist of:

	2007	2006
Aircraft Secured Claims (Note 17)	**₱35,960,239**	₱46,234,912
Other Secured Claims (Note 17)	**2,422,132**	2,939,641
Terminated Operating Lease Claims[1]	**679,136**	667,100
Unsecured Claims (Note 17)	**6,878,696**	6,673,064
	45,940,203	56,514,717
Less current portion	**7,986,326**	6,129,547
	₱37,953,877	₱50,385,170

[1] Treated as Unsecured Claims under the Rehabilitation Plan.

The movements in Liabilities Covered by the Rehabilitation Plan are as follows:

	2007	2006
Beginning of year	**₱56,514,717**	₱68,291,604
Payments	**(8,839,181)**	(7,061,735)
Accretion	**1,219,686**	960,911
Foreign exchange adjustments and others	**(2,955,019)**	(5,676,063)
End of year	**₱45,940,203**	₱56,514,717

<u>Aircraft Secured Claims</u>
Aircraft Secured Claims pertain to purchases of the following aircraft:

	2007	2006
Four Boeing 747-400 aircraft (substantially guaranteed by the Export-Import Bank of the United States)	**₱4,780,571**	₱7,712,682
Four Airbus 340-300 and eight Airbus 330-300 aircraft [substantially guaranteed/ insured by Three European Export Credit Agencies (ECAs)] (Note 17)	**28,099,084**	34,867,809
Three Airbus 320-200 aircraft	**3,080,584**	3,654,421
	₱35,960,239	₱46,234,912

PAL has finance lease agreements with leasing companies covering the above aircraft. Under these agreements, PAL has the option to purchase the aircraft within the lease periods at specified prices.

The Aircraft Secured Claims under the Rehabilitation Plan provide for quarterly or semi-annual installments, generally ranging from seven to 15 years until 2014, including balloon payments for certain finance leases at the end of the lease term, at fixed rates ranging from 6.03% to 7.96% and/or floating interest rates based on certain margins over six-month London Interbank Offered Rates (LIBOR), as applicable.

Details of the treatment of Aircraft Secured Claims under the Rehabilitation Plan are as follows:

a. Grace period of one year from March 15, 1999 on principal payments for both Fully Secured Aircraft Claims and Partially Secured Aircraft Claims such that principal repayments will resume on the first scheduled repayment date after March 15, 2000;

b. An extension of final maturity by three years for Fully Secured Aircraft Claims (subject to a maximum maturity of 15 years from the original initial funding date) and four years for Partially Secured Aircraft Claims;

c. Conversion of the unpaid and accrued interest (excluding all interest accruing at the default interest margin) amounting to ₱3,419,329 as of March 15, 1999 for Fully Secured Aircraft Claims and as of June 23, 1998 for Partially Secured Aircraft Claims (including unpaid swap costs relative to the interest rate swap agreements, discussed under Interest Rate Swaps in Note 25) into long-term liabilities and the inclusion of this amount as part of the outstanding principal balances;

d. Waiver of all post-petition interest (including all interest accruing at the default interest margin) owed to Partially Secured Aircraft Creditors (including unpaid swap costs relative to the interest rate swap agreements, discussed under Interest Rate Swaps in Note 25) accruing from June 23, 1998 until the date of their acceptance of the Rehabilitation Plan; and,

e. Repayments of current interest to Aircraft Secured Creditors monthly in arrears (commenced on April 15, 1999), provided that following the first principal payment date as restructured in respect of a Fully Secured Aircraft Claim, interest payments will revert to the original interest payment dates set forth in the original lease agreements.

As a result of the restructuring, the differences between the actual amount of principal and interest under the original agreements and the principal, including capitalized interest payable amounting to an aggregate of ₱6,014,058, will be treated as a separate tranche. Interests on these amounts are to be paid based on three-month and six-month LIBOR plus margin. Contractual interest rates under the original agreements remain unchanged.

PAL assigned to the lessor its rights and interest over the Japanese yen (JP¥)-denominated deposits with the initial deposit amount aggregating to JP¥8,848,386 (or ₱3,536,669 and ₱3,858,081 as of March 31, 2007 and 2006, respectively) and all interest accruing thereon maintained by PAL to secure the payment of the obligations for Japanese Leveraged Leases (JLLs) on one Boeing 747-400, two Airbus 340-300, and one Airbus 330-300 aircraft. Under the Rehabilitation Plan, the integrity of the JLLs is not to be affected by the financial restructuring of the underlying loans and the JLLs are therefore treated as Unimpaired Claims.

The original lease agreements contain, among other things, provisions regarding merger and consolidation, disposal of all or substantially all of PAL’s assets and ownership and control by the present managing stockholder company. The restructuring terms relative to the Airbus 340-300, Airbus 330-300 and Airbus 320-200 financing include, among other things, provisions regarding permitted indebtedness and investments, related party transactions, asset disposals, capital expenditures and declaration of dividends. Certain covenants under the restructuring terms shall cease to apply upon the later to occur of: (a) June 7, 2004 (five years after the implementation date of the Rehabilitation Plan) and (b) the Philippine SEC confirming that PAL is no longer subject to rehabilitation procedures under Philippine laws.

As of March 31, 2007, the Group's minimum lease commitments for Aircraft Secured Claims under the restructuring terms are as follows:

Year ending March 31	
2008	₱8,625,828
2009	8,081,121
2010	7,664,237
2011	6,581,413
2012	5,745,150
2013	2,249,072
2014 and thereafter	6,564,144
Total minimum lease payments	45,510,965
Less executory costs	155,355
Net minimum lease payments	45,355,610
Interest	(8,988,854)
Effect of adoption of PAS 39 (Note 3)	(425,618)
Foreign exchange differences	19,101
Present value of net minimum lease payments	₱35,960,239

Other Secured Claims

Other Secured Claims consist of:

	Outstanding Loan Balances		Securities	Carrying Values	
	2007	2006	Description	**2007**	2006
US$60,000 syndicated loan facility (Note 17)	**₱2,362,295**	₱2,762,225	- Collateral Trust Indenture over certain rotables and reparables.	**₱710,622**	₱816,072
Others	**59,837**	177,416	- Mortgage on a Bell Helicopter; or - Guarantee by the Republic of the Philippines.	**31,196**	63,027
	₱2,422,132	₱2,939,641		**₱741,818**	₱879,099

The Other Secured Claims under the Rehabilitation Plan provide for monthly, quarterly or semi-annual installments, generally ranging over five to eight years until fiscal year 2009 at fixed interest rates ranging from 8.3% to 9.5% per annum or floating interest rates based on one-month and three-month LIBOR plus margin, as applicable.

Details of the treatment of Other Secured Claims under the Rehabilitation Plan are as follows:

a. Grace period of three years from March 15, 1999 on principal payments such that principal repayments will resume on the next scheduled payment date after March 15, 2002 and an extension of final maturity by five years. A revised repayment schedule will be calculated and the amortization in each of years three and four shall be limited to 5% of the outstanding principal in each year;

b. Conversion of the pre-petition interest (excluding interest accruing at the default interest margin) amounting to ₱46,250 as of June 23, 1998 into long-term liabilities and inclusion of this amount as part of the outstanding principal loan balance;

c. Waiver of interest accruing at the default interest margin and post-petition interest accruing from June 23, 1998 until the date of acceptance of the Rehabilitation Plan by Other Secured Creditors; and,

d. Repayments of current interest to Other Secured Creditors monthly in arrears (commenced on May 17, 1999), provided that following the first principal payment date as restructured in respect of a Fully Secured Aircraft Claim, interest payments will revert to the original interest payment dates set forth in the original loan agreements.

The original loan agreements contain, among other things, provisions regarding merger and consolidation, disposal or encumbrance of all or substantially all of PAL's assets and declaration or payment of any dividend. Certain terms and conditions (including the foregoing covenants, events of default and the applicable repayment terms) of the loan agreements are being negotiated and to be amended, where appropriate, to reflect the terms of the Rehabilitation Plan and PAL's financial status.

As of March 31, 2007, the annual maturities of Other Secured Claims under the restructuring terms are as follows:

Year ending March 31	
2008	₱2,003,561
2009	408,784
Total	2,412,345
Add effect of adoption of PAS 39 (Note 3)	9,787
	₱2,422,132

Terminated Operating Lease Claims
In accordance with the Rehabilitation Plan, PAL terminated 26 operating leases relating to Boeing 747-200, Airbus 340-200, Airbus 300-B4, Fokker 50, and Shorts 360 aircraft. Any claims, net of security deposits and maintenance reserves held by the lessors, resulting from the termination of operating leases (Terminated Operating Lease Claims) are treated as Unsecured Claims.

On June 3, 2005, PAL finalized a Settlement Agreement with Airbus S.A.S (Airbus), Airbus Leasing II, Inc. (AIL) and A340 Leasing Limited (A340LL) in respect of the terminated leases of four Airbus 300-B4 aircraft and Airbus 340-200 aircraft wherein Airbus, AIL and A340LL agreed to waive all of their claims against PAL for their losses as regards the early termination of the subleases including the unpaid rentals, maintenance reserves and remarketing costs.

Unsecured Claims
The restructured Unsecured Claims are noninterest-bearing and constitute 100% of the principal and 100% of accrued but unpaid interest as of June 23, 1998.

Details of the treatment of Unsecured Claims under the Rehabilitation Plan are as follows:

a. Waiver of all interest (including interest accruing at the default interest margin) accruing after June 23, 1998;

b. Conversion of the accrued but unpaid interest (excluding interest accruing at the default interest margin) amounting to ₱331,781 as of June 23, 1998 as part of the restructured Unsecured Claims; and,

c. Repayment as follows: 5% of the restructured Unsecured Claims payable on June 7, 2000, 31% on June 7, 2009, 32% on June 7, 2010 and the remaining 32% on June 7, 2011.

For purposes of valuation of the Unsecured Claims (including Terminated Operating Lease Claims) for balance sheet carrying value, PAL used a discount rate of 12% per annum (PAL's estimated borrowing cost for instruments of similar type and tenor at the time of deemed issuances of the restructured Unsecured Claims) to restate the Unsecured Claims (including Terminated Operating Lease Claims) to present value. Adjustments in present value resulting from the passage of time and the interest portion of prepayments made amounted to ₱1,030,499 in 2007, ₱964,449 in 2006 and ₱1,091,531 in 2005 and were recognized as part of Financing charges in the consolidated statements of income.

As of March 31, 2007, the amounts payable on the Unsecured Claims (including Terminated Operating Lease Claims) under the restructuring terms are as follows:

Maturity Dates	Percentages of Face Value	
June 7, 2010	31	₱3,770,708
June 7, 2011	32	3,878,104
June 7, 2012	32	3,109,448
Face value		10,758,260
Less imputed interest		3,200,428
Present value		₱7,557,832

Excess Cash Flow Recapture

Under the Excess Cash Flow Recapture mechanism of the Rehabilitation Plan, at the end of any six-month period starting September 30, 1999, any Excess Cash Flow (the remaining cash balance, excluding certain funds, in excess of the greater of ₱2,042,900 and the average of the preceding six months' revenue of PAL) will be used to prepay Eligible Creditors on a pro rata basis. Such prepayments in respect of indebtedness will be applied in inverse order of maturity of claims.

PAL made the first two prepayments under the Excess Cash Flow Recapture mechanism totaling ₱767,188 in 2001 and 2003. On February 17, 2006, PAL made its third prepayment amounting to ₱975,204 under the Excess Cash Flow Recapture mechanism for the six-month period ended September 30, 2005. On August 18, 2006, PAL made its fourth prepayment amounting to ₱263,539 under the Excess Cash Flow Recapture mechanism for the six-month period ended March 31, 2006. On February 20, 2007, PAL made its fifth prepayment of ₱2,403,100 (including the ₱2,209,554 computed under the Excess Cash Flow Recapture mechanism for the six-month period ended September 30, 2006).

PAL's obligations under the Excess Cash Flow Recapture mechanism shall terminate on the last to occur of: (a) June 7, 2004 (five years after the implementation date of the Rehabilitation Plan); (b) PAL's public offering (as defined in the Rehabilitation Plan) of its shares; and, (c) the end of the fiscal year in which PAL has achieved profits calculated on a cumulative basis over the preceding three fiscal years. With respect to each participating creditor class, rights to receive prepayments under the Excess Cash Flow Recapture mechanism would also terminate on the date on which creditors of that creditor class have been returned to their original pre-restructuring repayment profiles.

15. Reserves and Other Noncurrent Liabilities

	2007	2006
Provisions	**₱1,562,231**	₱3,472,400
Liability under the Frequent Flyer Program	**292,099**	546,367
Other noncurrent liabilities (Note 25)	**1,932,296**	600,084
	₱3,786,626	₱4,618,851

Provisions consist substantially of probable claims under labor-related disputes and other litigations. The decrease in accrued provisions in 2007 is primarily due to the reversal of claims of aircraft and engine manufacturer amounting to ₱2,327,689 which have been waived in 2007. The timing of the cash outflows of these provisions is uncertain as it depends upon the outcome of the Group's negotiations and/or legal proceedings, which are currently ongoing with the parties involved.

Disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiating strategy. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only general descriptions were provided.

Advance Payments to and/or Claims by Aircraft Manufacturers
As discussed in detail below, the aircraft purchase agreements with Airbus S.A.S. (Airbus) and The Boeing Company (Boeing) covering eight Airbus 320-200 and seven Boeing 747-400 aircraft were terminated.

Under the Rehabilitation Plan, in circumstances which result in a settlement and a return of the advance payments, PAL will apply the proceeds, firstly, to settle debt obligations secured on the advance payments, and secondly, to prepay certain creditors. If the amount of claims exceeds the advance payments, the shortfall will be treated either as Unsecured Claims or Trade Creditor Claims, as applicable.

a. Airbus
On June 3, 2005, PAL finalized a Settlement Agreement with Airbus in respect of the 1996 Airbus 320-200 Purchase Agreement wherein Airbus and PAL waived their claims against each other arising out of the termination of the Airbus 320-200 Purchase Agreement.

b. Boeing
In June 1998, PAL received notices of termination of the purchase agreement from Boeing in relation to the three undelivered Boeing 747-400 aircraft. On April 7, 1999, Boeing filed Notices of Claims with the Philippine SEC for claims on the seven Boeing 747-400 aircraft amounting to ₱6,195,885. These claims cover actual or compensatory damages which include

but are not limited to remarketing costs, interest accruals, costs of storage, maintenance and insurance, and other related costs.

On October 30, 2006, PAL entered into a Settlement Agreement and Release with Boeing in respect of the Boeing 747-400 Purchase Agreement. Under the Settlement Agreement, Boeing and PAL released and discharged each other of all claims arising out of the termination of the Boeing 747-400 Purchase Agreement. Boeing provided PAL a credit memorandum amounting to ₱3,139,605, which the latter received net of ₱277,980 which was applied as advance payment for the Purchase Agreement covering two Boeing 777-300ER (see Note 23). The ₱3,139,605 is included in Other revenue in the 2007 consolidated statement of income.

Claims by Manila International Airport Authority (MIAA)

PAL and MIAA entered into a Compromise Agreement on November 14, 2006, which was approved by the Court of Appeals on March 26, 2007. Under the Compromise Agreement, PAL agreed to pay MIAA the total amount of ₱2,932,799, including related VAT, through equal monthly installments over a period of seven years. These payments will serve as full and final settlement of MIAA's claim against PAL for landing and take-off fees, parking fees, lighting charges and tacking fees for the period December 1, 1995 to March 31, 2006. The liability was recognized at fair value at inception and the resulting difference between the face amount and the fair value amounting to ₱855,567 was recognized as Other revenue in the 2007 consolidated statement of income.

As of March 31, 2007, accrued liability to MIAA amounting to ₱2,108,915, excluding related VAT, consists of ₱584,631 that is included as part of Accrued landing and take-off fees (see Note 13) classified under current liabilities, and ₱1,524,284 that is included as part of Other noncurrent liabilities in the consolidated balance sheet. As of March 31, 2006, accrued liability to MIAA amounted to ₱3,035,000 and is included as part of Accrued landing and take-off fees (see Note 13).

Other Contingencies

The Group is involved in various other labor disputes, litigations, claims, and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of these cases, the Group believes that it does not have a present obligation arising from a past event and/or the likely outcome and estimated potential cash outflow cannot be reasonably determined as of this time. As such, no provision was made for these other contingencies.

16. Capital Stock

The following summarizes the changes in the capital stock account for the fiscal years ended March 31:

	2007		2006	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized - ₱1 par value per share (Note 2)	**20,000,000,000**	**₱20,000,000**	400,000,000	₱400,000

	2007		2006	
	Number of Shares	**Amount**	Number of Shares	Amount
Issued:				
Beginning of year	**400,000,000**	**₱400,000**	400,000,000	₱400,000
Issuance of shares (Note 2)	**5,021,567,685**	**5,021,568**	–	–
End of year	**5,421,567,685**	**5,421,568**	400,000,000	400,000
Treasury stock - 55,589 shares, at cost	**(55,589)**	**(56)**	(55,589)	(56)
Issued and outstanding	**5,421,512,096**	**₱5,421,512**	399,944,411	₱399,944

a. The issued and outstanding shares are held by 6,844 and 7,113 equity holders as of March 31, 2007 and 2006, respectively.

b. The Company has 55,589 treasury shares amounting to ₱56. Future earnings are restricted from dividend declaration to the extent of the cost of these treasury shares.

17. Related Party Transactions

The Group, in the normal course of business, has transactions with its related parties relating to leases of aircraft and ground property, availment of loans, temporary investments of funds, and purchases of goods and services, among others. The significant related party transactions are as follows:

a. As of March 31, 2006, the Group has loans (₱9,337,765) and notes payable (₱4,283,831) to and advances (₱4,680,711) from related parties. These liabilities were primarily availed of from related parties in the prior years in connection with the funding of the Group's investment in PAL.

   In 2006, these liabilities aggregating to ₱18,302,307 and the deposits for future stock subscription amounting to ₱4,814,850 were assigned by the various creditors of the Group to Trustmark. As a result of the assignment, the deposits for future stock subscription were reverted to liabilities.

b. A portion of the liabilities to Trustmark amounting to ₱9,038,822 was converted to equity on January 19, 2007 upon approval by the Philippine SEC of the increase in capital stock (see Note 2). The balance of the remaining advances from Trustmark as of March 31, 2007 amounted to ₱14,078,335. Also, the Parent Company has advances amounting to ₱50,000 used to pay filing fees, taxes and other expenses relating to the acquisition of the shares of stock of the Holding Companies, the change in corporate name and the increase in the authorized capital stock (see Notes 1 and 2). Such advances are payable upon demand.

c. The Parent Company has outstanding liability to related parties who are former stockholders of the Holding Companies amounting to ₱136,000 arising from its acquisition of the Holding Companies (see Note 2). This liability is payable upon demand.

d. In December 2000, through regular buy-trade transaction, the Parent Company bought 88 million common shares (7.04% equity interest) of MacroAsia Corporation (MAC). Controlling owners of the Parent Company are also close family members of certain members of the key management of MAC. Likewise, certain members of the Parent Company's BOD are also officers of MAC.

Dividends received from this investment amounted to ₱2,640 and ₱1,760 in 2007 and 2006, respectively.

e. PAL has finance lease agreements with certain affiliated companies pertaining to three Airbus 330-300 aircraft (see Note 14). Deposits on leases of said aircraft amounted to ₱2,756,759 and ₱2,737,158 as of March 31, 2007 and 2006, respectively. Financing charges related to the finance lease obligations amounted to ₱621,490 in 2007, ₱699,755 in 2006 and ₱706,357 in 2005. Related accrued interest amounted to ₱90,118 and ₱103,186 as of March 31, 2007 and 2006, respectively.

f. PAL has a Technical Services Agreement (TSA) with Lufthansa Technik Philippines (LTP), a related party, which took effect on September 1, 2000. The TSA provides that during the entire duration of the agreement, LTP will serve as the sole and exclusive provider to PAL of aircraft-related technical services and management of all required routine and nonroutine maintenance work necessary to achieve the sound operation and optimal utilization of PAL's fleet.

   The TSA will remain effective for a period of 10 years until September 1, 2010. Within the framework of the TSA, the Group entered into a Heavy Maintenance Service Agreement for D1-Checks (4C/5Y) of Airbus 340-300, Airbus 330-300 and Airbus 320-200 for the period June 1, 2002 to March 17, 2004. On April 20, 2005, the Group and LTP signed an amendment to the Heavy Maintenance Service Agreement effective from January 1, 2004 until the duration of the TSA unless otherwise amended.

   Total related maintenance and repair costs charged to operations amounted to ₱8,965,490, ₱8,424,844 and ₱7,011,855 in 2007, 2006 and 2005, respectively. In addition, related expendable parts sold to LTP amounted to ₱19,789 in 2007, ₱17,748 in 2006 and ₱22,707 in 2005.

   In connection with the sale of Maintenance and Engineering facilities to LTP, PAL and LTP entered into several transition services agreements whereby PAL will render to LTP various services such as information technology support, training and medical services, among others.

   Revenue earned from the said transition services agreements (included under "Others" in the revenue section of the consolidated statements of income) amounted to ₱80,368 in 2007, ₱98,290 in 2006 and ₱84,187 in 2005.

   As of March 31, 2007 and 2006, the Group has outstanding amounts payable to and estimated unbilled charges of LTP totaling ₱2,295,418 and ₱1,739,525, respectively, net of unapplied credits from and advance payments to LTP amounting to ₱346,343 and ₱455,511 as of March 31, 2007 and 2006, respectively. Receivable from LTP amounted to ₱72,036 and ₱212,971 as of March 31, 2007 and 2006, respectively.

g. The transactions with Air Philippines Corporation (APC), a related party, pertain to the joint services and code share agreements, and endorsements of passengers during flight interruption.

   As of March 31, 2007, the Group has a net receivable from APC (shown as part of Other receivables) amounting to ₱215,819. As of March 31, 2006, the Group has a net payable to APC (shown as part of Accounts payable) amounting to ₱175,779.

h. As discussed in Note 14, as of March 31, 2007 and 2006, Other Secured Claims include loans obtained from related parties totaling ₱1,181,172 and ₱1,381,113, respectively. The related financing charges on these loans represent 4% of total financing charges for 2007 and 2% of total financing charges for 2006 and 2005. Related accrued interest on these loans amounted to ₱7,618 and ₱5,474 as of March 31, 2007 and 2006, respectively.

i. As discussed in Note 12, the Group has outstanding short-term notes payable to ABC amounting to ₱609,993 and ₱559,975 as of March 31, 2007 and 2006, respectively. Also, the trust fund of PAL is being managed by ABC.

j. As of March 31, 2007 and 2006, cash and short-term cash investments (included under Cash and cash equivalents, Available-for-sale investments and Other noncurrent assets in the consolidated balance sheets) with ABC amounted to ₱10,581,833 and ₱9,602,136, respectively. The related interest income on these investments amounted to ₱261,992 in 2007, ₱204,209 in 2006 and ₱750,538 in 2005.

k. As of March 31, 2007 and 2006, the Group has cash and outstanding money placements for standby letters of credit with Oceanic Bank, a related party, amounting to ₱280,285 and ₱241,619, respectively.

l. A portion of the outstanding currency forward contracts (see Note 25) of the Group is entered into with a related party.

m. Management, accounting, statutory reporting and compliance, and administrative services are provided by a related party at no cost to the Parent Company.

n. The compensation of key management personnel of the Group amounted to ₱42,736 in 2007, ₱39,811 in 2006 and ₱37,452 in 2005.

18. **Expenses**

The significant components of expenses by nature are as follows:

	2007	2006	2005
Fuel and oil	**₱20,304,486**	₱19,880,256	₱15,088,818
Maintenance (Note 17)	**10,018,924**	9,606,569	7,850,864
Crew and staff costs (Note 19)	**6,268,964**	5,668,159	4,955,404
Depreciation (Note 10)	**6,259,453**	7,829,122	7,200,684
Financing charges (Notes 12, 14 and 17)	**4,519,446**	4,929,422	5,008,839
Groundhandling charges	**3,021,806**	3,200,812	3,167,227
Landing and take-off fees	**2,479,063**	2,685,020	2,699,301
Aircraft lease rentals	**1,730,925**	1,581,837	1,669,888
Passenger food	**1,134,349**	1,300,766	1,268,772

19. **Employee Benefits**

	2007	2006
Regular retirement benefits	**₱2,518,297**	₱2,533,704
Other benefits	**809,448**	649,603
	₱3,327,745	₱3,183,307

The Group has a noncontributory defined benefit retirement plan covering all permanent and regular employees with benefits based on years of service and latest compensation.

The following tables summarize the components of the retirement benefits cost recognized in the consolidated statements of income and the amounts recognized in the consolidated balance sheets.

The details of net retirement benefits cost under the defined benefit plan are as follows:

	2007	2006	2005
Current service cost	**₱417,767**	₱270,379	₱144,329
Interest cost on benefit obligation	**273,667**	203,435	179,544
Expected return on plan assets	**(2,108)**	(1,924)	(2,833)
Net actuarial loss recognized during the year	**-**	20,589	53,186
	₱689,326	₱492,479	₱374,226
Actual return on plan assets	**₱17,130**	₱2,029	₱1,760

The details of retirement benefits liability are as follows:

	2007	2006
Defined benefit obligation	**₱4,480,529**	₱4,131,138
Fair value of plan assets	**(583,863)**	(23,409)
	3,896,666	4,107,729
Unrecognized net actuarial loss	**(1,378,369)**	(1,574,025)
Benefit liability	**₱2,518,297**	₱2,533,704

Changes in present value of defined benefit obligation are as follows:

	2007	2006
Defined benefit obligation, April 1	**₱4,131,138**	₱2,115,361
Interest cost	**273,667**	203,435
Current service cost	**417,767**	270,380
Benefits paid	**(194,676)**	(92,277)
Actuarial loss (gain) on obligation	**(147,367)**	1,634,239
Defined benefit obligation, March 31	**₱4,480,529**	₱4,131,138

Changes in fair value of plan assets are as follows:

	2007	2006
Fair value of plan assets, April 1	**₱23,409**	₱21,380
Expected return on plan assets	**2,108**	1,924
Actual contributions to the plan	**737,992**	92,277
Benefits paid	**(194,676)**	(92,277)
Actuarial gain on plan assets	**15,030**	105
Fair value of plan assets, March 31	**₱583,863**	₱23,409

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Cash	**62%**	5%
Investments in government securities	**37%**	93%
Receivables	**1%**	2%
	100%	100%

The overall expected return on the plan assets is determined based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled. There has been no significant change in the expected rate of return on plan assets.

The principal assumptions used in determining retirement benefits cost for the Group's plans are as follows as of April 1 of each year:

	2006	2005	2004
Number of employees	**7,214**	7,406	7,279
Discount rate per annum	**8.58% - 12.37%**	12	12
Expected annual rate of return on plan assets	**9%**	9	9
Future annual increase in salary	**7 - 12%**	7	7

As of March 31, 2007, the following are the assumptions: discount rate per annum of 7% - 9%, expected annual rate of return on plan assets of 9% and future annual increase in salary of 7% - 12%.

Relevant amounts for 2007 are as follows:

Defined benefit obligations	₱4,480,529
Fair value of plan assets	(583,863)
Deficit	3,896,666
Experience adjustment on plan liabilities	147,367
Experience adjustment on plan assets	15,030

Retirement benefits cost under the defined contribution plan amounted to ₱313,143 in 2007, ₱135,359 in 2006 and ₱159,056 in 2005.

The Group expects to contribute about ₱723,255 to the retirement fund in fiscal year ending March 31, 2008.

20. PAL's Franchise

PAL operates under a franchise, which extends up to the year 2034, granted by the Philippine Government under Presidential Decree No. 1590. As provided for under the franchise, PAL is subject to:

a. corporate income tax based on net taxable income, or

b. franchise tax of two percent of the gross revenue derived from nontransport, domestic transport and outgoing international transport operations, whichever is lower, in lieu of all other taxes, duties, fees, and licenses of any kind, nature, or description, imposed by any municipal, city, provincial or national authority or government agency, except real property tax.

As further provided for under its franchise, PAL can carry forward as a deduction from taxable income net loss incurred in any year up to five years following the year of such loss (see Note 21). In addition, the payment of the principal, interest, fees, and other charges on foreign loans obtained by PAL, and all rentals, interest, fees and other charges paid by PAL to lessors for the lease of aircraft, engines, spares, other flight or ground equipment, and other personal property are exempt from all taxes, including withholding tax, provided that the liability for the payment of said taxes is assumed by PAL.

On May 24, 2005, the Expanded-Value Added Tax (E-VAT) law was signed as Republic Act (RA) No. 9337 or the E-VAT Act of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulation (RR) No. 16-2005 which provides for the implementation of the rules of the E-VAT law. Among the relevant provisions of RA No. 9337 are the following:

a. The franchise tax of PAL is abolished;

b. PAL shall be subject to the corporate income tax;

c. PAL shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges, as may be provided by PAL's franchise;

d. Change in corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter;

e. 70% cap on the input VAT that can be claimed against output VAT; and,

f. Increase in the VAT rate imposed on goods and services from 10% to 12% effective on February 1, 2006.

On November 21, 2006, the President signed into law RA No. 9361 which amends Section 110(B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters (the 70% cap on the input VAT that can be claimed against output VAT was deleted). The Department of Finance through the Bureau of Internal Revenue issued RR No. 2-2007 to implement the provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361, except VAT returns covering taxable quarters ending earlier than December 2006.

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21. Income Taxes

a. In accordance with PAS 12, *Income Taxes*, a deferred tax asset or liability is recognized related to temporary differences arising from changes in exchange rate due to measurement of the PAL's nonmonetary assets and liabilities in its functional currency, which is different from the currency used in determining the PAL's taxable income or loss. As a result, PAL recognized net deferred tax liability amounting to ₱4,336,782 and ₱6,139,267 as of March 31, 2007 and 2006, respectively, in relation to changes in exchange rates affecting PAL's nonmonetary assets and liabilities.

b. As of March 31, 2007 and 2006, the Parent Company did not recognize deferred tax asset on the carryforward benefits of NOLCO amounting to ₱75,558 and ₱7,587 as of March 31, 2007 and 2006, respectively, as management believes that the Parent Company may not have sufficient future taxable profit to allow all or part of the deferred tax assets to be utilized in the future.

As of March 31, 2007, the Parent Company's NOLCO for income tax purposes that are available for deduction from future taxable income are as follows:

Incurred during fiscal year ended	Amount	Expired	Applied	Balance as of March 31, 2007	Tax effect	Available until fiscal year ending March 31
March 31, 2004	₱1,858	(₱1,858)	₱–	₱–	₱–	2007
March 31, 2005	2,666	–	–	2,666	933	2008
March 31, 2006	3,063	–	–	3,063	1,072	2009
March 31, 2007	69,829	–	–	69,829	24,440	2010
	₱77,416	(₱1,858)	₱–	₱75,558	₱26,445	

c. PAL's deferred tax assets (liabilities) recognized as of March 31 are as follows:

	2007	2006
Deferred tax assets on:		
Unrealized foreign exchange adjustments - net	**₱4,696,866**	₱6,205,261
Accrued retirement benefits cost and unamortized past service cost contribution	**1,097,901**	–
Allowance for doubtful accounts	**1,039,366**	–
Reserves and others	**478,554**	315,235
	7,312,687	6,520,496
Deferred tax liabilities on:		
Changes in exchange rates related to nonmonetary assets and liabilities - net	**(4,336,782)**	(6,139,267)
Net present value adjustments on financial liabilities	**(1,466,279)**	(1,700,338)
Revaluation increment in property	**(634,680)**	(503,241)
Cumulative translation and fair value adjustments - net	**(481,495)**	(1,071,914)
Prepaid commission and others	**(1,353,885)**	(1,244,725)
	(8,273,121)	(10,659,485)
Net deferred tax liabilities	**(₱960,434)**	(₱4,138,989)

In 2006, deferred tax assets on PAL's deductible temporary differences pertaining to reserve for losses (₱3,472,400), allowance for doubtful accounts (₱2,488,632), unrealized foreign exchange losses (₱2,484,284) and accrued retirement benefits cost and unamortized past service cost contribution (₱2,907,309) were not recognized. Considering the improvement in the current and forecasted results of operations of PAL, deferred tax assets on all of PAL's deductible temporary differences have been recognized in 2007.

d. PAL's NOLCO amounting to ₱1,657,135 incurred in 2004, ₱917,389 incurred in 2003 and ₱1,077,740 incurred in 2002 were applied against taxable income in 2005.

e. The Holding Companies and PR have not recognized deferred tax assets on the carryforward benefits on the unused NOLCO amounting to ₱4,725 and ₱291 as of March 31, 2007 and 2006, respectively, and deductible temporary differences amounting to ₱181 as of March 31, 2007. Management believes that the Holding Companies and PR may not have sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized in the future.

f. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory tax rates to the benefit from income tax shown in the consolidated statements of income is as follows:

	2007	2006	2005
Provision for income tax at statutory tax rates	**₱1,596,014**	₱241,174	₱213,009
Adjustments resulting from:			
Deductible temporary differences used/recognized in current year but for which no deferred tax assets were recognized in prior years	**(3,894,846)**	(1,711,277)	(692,131)
Nondeductible portion of interest expense	**138,024**	74,399	21,981
Nondeductible expenses	**68,303**	–	–
Movement in deductible temporary differences for which no deferred tax assets were recognized	**(924)**	1,036,645	149,222
Change in income tax rate	**–**	(94,274)	–
Interest income subjected to final tax and exempted from tax, and others - net	**(372,969)**	(94,548)	(36,165)
Benefit from income tax	**(₱2,466,398)**	(₱547,881)	(₱344,084)

g. RR No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes, i.e., 1% of net revenue for sales of services and 0.50% of net sales for sales of goods. EAR expenses amounted to ₱14,842 in 2007, ₱25,509 in 2006 and ₱19,638 in 2005.

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

22. Note to Consolidated Statements of Cash Flows

Noncash activities consist of:

	Years Ended March 31		
	2007	2006	2005
Investing activities			
Liabilities for purchases of property and equipment	**₱1,393,809**	₱543,400	₱605,173
Sale of property and equipment on account	**–**	8,543	16,534
Financing activity			
Conversion of advances from parent company to equity (Note 2)	**9,038,822**	–	–

23. Commitments

Leases

As of March 31, 2007, PAL has operating lease agreements with respect to one Boeing 747-400, one Boeing 737-300, one Boeing 737-400, six Airbus 320-200 and three Airbus 319-100 aircraft (see Note 10).

In connection with PAL's outstanding operating lease agreements as of March 31, 2007, PAL provided deposits or irrevocable standby letters of credit to the lessors, as security. These deposits and irrevocable standby letters of credit (included as part of Other noncurrent assets in the consolidated balance sheets) amount to ₱436,075 and ₱282,290 as of March 31, 2007 and 2006, respectively.

In December 2005 and February 2006, PAL signed operating lease agreements for the lease of four brand-new Airbus 319-100 and two brand-new Airbus 320-200 aircraft, respectively, as part of its refleeting program. Three of the aircraft have been delivered as of March 31, 2007. In addition, one Airbus 320-200 aircraft was delivered in April 2007 and one Airbus 319-100 aircraft was delivered in May 2007.

In December 2006, PAL signed operating lease agreements for the lease of two brand-new Boeing 777-300ER aircraft also as part of its refleeting program. The two aircraft are scheduled to be delivered in 2010.

The Group's estimated future minimum lease commitments for the foregoing firm commitments as of March 31, 2007 are as follows:

Within one year	₱2,119,909
After one year but not more than five years	12,782,327
After more than five years	15,725,782
	₱30,628,018

Aircraft Purchases

On December 6, 2005, PAL finalized a Purchase Agreement with Airbus wherein the Group placed a firm order for nine Airbus 320-200 aircraft for delivery in 2008 to 2009 and options for five aircraft for delivery in 2010 to 2013. PAL took delivery of one Airbus 320-200 aircraft in April 2007.

On April 13, 2007, PAL entered into a 12-year finance lease agreement in support of the acquisition of one Airbus A320-200 aircraft which was delivered on April 19, 2007. The agreement provides for fixed semi-annual principal and interest payments with a balloon payment at maturity.

On October 30, 2006, PAL finalized a Purchase Agreement with Boeing wherein the Group placed a firm order for two Boeing 777-300ER aircraft for delivery in 2010 to 2011 and purchase rights for two aircraft for delivery in 2012 and 2013.

On May 22, 2007, PAL finalized a supplemental agreement with Boeing relating to its exercise of purchase rights for two Boeing 777-300ER aircraft for delivery in 2012.

24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of loans, cash and cash equivalents, investments 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 liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the use of financial instruments are foreign exchange risk, interest rate risk, fuel price risk, liquidity risk and credit/counterparty risk.

PAL also uses derivative financial instruments to manage its exposures to currency, interest and commodity price risks arising from the PAL'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 and in Note 25.

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from various foreign ticket sales and receivables in currencies other than the functional currency of PAL. PAL manages this exposure by entering into foreign currency forwards and swaps.

Cash flow interest rate risk
PAL's policy on interest rate risk is designed to limit PAL's exposure to fluctuating interest rates. Before taking into account the effects of interest hedging, the ratio of fixed rate to floating rate borrowings is 0.8:1 as of March 31, 2007 and 2006.

PAL has interest rate swap agreements (either as freestanding instruments or embedded in certain long-term liabilities) to manage its interest rate exposure relative to the financing of three Airbus 330-300, two Airbus 340-300 and one Boeing 747-400 aircraft.

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 US$67,699 and US$82,009 as of March 31, 2007 and 2006, respectively) 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, two Airbus 340-300 and one Boeing 747-700 aircraft, 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 US$8,392 and US$9,382 as of March 31, 2007 and 2006, respectively) effectively convert PAL's fixed interest rate exposure relative to these junior loan financing agreements ranging from 7.20% to 7.95% into floating rate exposure based on six-month LIBOR plus margin.

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, compound structures with sold options or option combinations with extendible or cancellable features. PAL implements such strategies to manage the risks within acceptable risk parameters and minimize the cost of hedging.

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).

Liquidity risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments 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 current liabilities totaling ₱24,546,696 is due in fiscal year 2008. The maturity profile of noncurrent Liabilities Covered by the Rehabilitation Plan amounting to ₱37,953,877 is discussed in Note 14 while the payment terms of the noncurrent MIAA liability amounting to ₱1,524,284 is discussed in Note 15.

Credit/counterparty risks
Credit risk arises from the possibility that agents and other debtors may not be able to settle obligations to PAL within the normal terms of trade. To manage this risk, PAL periodically assesses the financial viability of agents and other debtors.

The utilization of derivatives exposes PAL to credit risks that could arise from the default of the counterparty (counterparty risk). To manage this risk, PAL applies counterparty selection based on credit ratings and regularly reviews such credit ratings. PAL also enters into master netting arrangements and implements counterparty and transaction limits to avoid a concentration of credit risk. The maximum credit exposure for derivatives (before taking into account the effects of netting and collateral, if any) is equal to the positive carrying values. These collaterals reduce, but do not eliminate, the potential maximum credit exposure arising from derivatives transactions.

The Group does not expect any significant deterioration in the credit standing of its counterparties. It has no significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The Group's maximum credit exposure is the fair value of its financial assets (see Note 25).

25. **Financial Instruments**

Fair Values

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments as of March 31, 2007 and 2006:

	2007		2006	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets				
Cash and cash equivalents	**₱20,573,060**	**₱20,573,060**	₱18,876,518	₱18,876,518
Receivables	**5,608,216**	**5,608,216**	5,474,162	5,474,162
Available-for-sale investments	**1,577,770**	**1,577,770**	2,772,320	2,772,320
Miscellaneous deposits (included under Other current assets)	**198,799**	**198,799**	324,291	324,291
Deposits on aircraft leases	**2,787,859**	**2,788,052**	2,843,003	2,839,218
Derivative assets (included under Other current assets and Other noncurrent assets)	**1,748,878**	**1,748,878**	3,918,140	3,918,140
Security deposits (included under Other noncurrent assets)	**1,931,959**	**1,931,959**	1,163,998	1,203,441
	₱34,426,541	**₱34,426,734**	₱35,372,432	₱35,408,090
Financial Liabilities				
Notes payable	**₱1,243,999**	**₱1,243,999**	₱4,843,806	₱4,843,806
Accounts payable	**5,739,430**	**5,739,430**	5,287,408	5,287,408
Accrued liabilities (excluding Derivative liabilities)	**9,090,617**	**9,090,617**	10,224,848	10,224,848
Advances from related parties	**14,266,459**	**14,266,459**	4,680,711	4,680,711
Loans payable	**–**	**–**	9,337,765	9,337,765
Liabilities Covered by the Rehabilitation Plan	**45,940,203**	**48,852,028**	56,514,717	60,133,890
Derivative liabilities (included under Accrued liabilities and Reserves and other noncurrent liabilities)	**387,520**	**387,520**	737,084	737,084
Other noncurrent liabilities	**1,524,284**	**1,422,546**	–	–
	₱78,192,512	**₱81,002,599**	₱91,626,339	₱95,245,512

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

Cash and cash equivalents 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, notes payable, accounts payable and accrued liabilities 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, or by computing the present value of expected cash flows using appropriate risk-adjusted discount rates.

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 reliably determined 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 range from 5.70% to 6.05% in 2007 and 6.25% to 6.37% in 2006.

Liabilities Covered by the Rehabilitation Plan
The fair value of long-term liabilities (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 7.53% to 5.18% and 7.50% to 4.92% for US dollar-denominated loans in 2007 and 2006, respectively. The discount rates used range from 3.20% to 2.10% and 3.70% to 2.10% for JP¥ denominated loans in 2007 and 2006, respectively.

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, as discussed in Note 24. 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 table below provides information about PAL's derivative financial instruments outstanding as of March 31, 2007 and 2006 and the related fair values.

	2007		2006	
	Asset	**Liability**	Asset	Liability
Fuel derivatives	**₱1,738,608**	**₱291,520**	₱3,877,981	₱612,872
Interest rate swaps	**–**	**91,805**	–	124,212
Currency forwards	**10,270**	**4,195**	40,159	–

As of March 31, 2007 and 2006, the positive and negative fair values of derivative positions that will settle in 12 months or less are classified under Other current assets (₱1,721,443 in 2007 and ₱2,585,321 in 2006) and Accrued liabilities (₱270,594 in 2007 and ₱475,564 in 2006), respectively. The positive and negative fair values of derivative positions that will settle in more than 12 months are classified under Other noncurrent assets (₱27,435 in 2007 and ₱1,332,819 in 2006) and Other noncurrent liabilities (₱116,926 in 2007 and ₱261,520 in 2006), respectively. The derivative balances include amounts arising from derivative settlements that are currently due to PAL and to hedging counterparties. The amounts totaled ₱92,625 in 2007 and ₱176,495 in 2006 (included in Derivative assets) and ₱25,886 in 2006 (included in Derivative liabilities), respectively.

Fuel Derivatives

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 2008.

As of March 31, 2007 and 2006, the aggregate notional amounts of the collar structures accounted for as cash flow hedges totaled 1,590,000 and 3,040,000 barrels, with a net positive fair value of ₱1,458,902 and ₱3,361,336, respectively. The unrealized positive fair value after tax included under "Cumulative translation adjustment" in the equity section of the consolidated balance sheets amounted to ₱936,526 and ₱1,956,664 for the year ended March 31, 2007 and 2006, respectively.

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 balance sheet, with fair value changes being reported immediately in the consolidated statement of income.

As of March 31, 2007 and 2006, the aggregate outstanding notional volume of these derivatives totaled 3,070,000 and 1,589,000 barrels, with a net negative fair value of ₱104,438 and ₱246,889, respectively.

Interest Rate Swaps
The interest rate swap agreements relative to the financing of two Airbus 330-300 aircraft have aggregate notional amounts of US$67,699 and US$82,009 as of March 31, 2007 and 2006, respectively, and 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%. As discussed under Aircraft Secured Claims, the unpaid swap costs amounting to ₱51,940 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.

As of March 31, 2007 and 2006, the estimated negative fair values for these interest rate swap agreements amounted to ₱91,805 and ₱124,212, respectively. Financing charges in the consolidated statements of income include swap costs on the interest rate swap agreements of ₱48,918 in 2007, ₱143,446 in 2006 and ₱290,052 in 2005.

The unrealized negative fair value after tax included under "Cumulative translation adjustment" in the equity section of the consolidated balance sheets amounted to ₱60,360 and ₱82,587 for the year ended March 31, 2007 and 2006, respectively.

Currency Forwards
PAL's currency forwards are carried at fair value in the consolidated balance sheets, with the fair value changes being reported immediately in the consolidated statements of income.

As of March 31, 2007, the outstanding currency forwards (with their respective notional amounts in equivalent US$ amounts and average forward rates) include JP¥ sell forwards (US$13,133 at JP¥114.21/US$), Philippine peso (₱) sell forwards (US$2,400 at ₱49.07/US$), Australian dollar (AUD) sell forwards (US$2,000 at AUD1.26/US$) and Canadian dollar (CAD) sell forwards (US$855 at CAD1.17/US$). The net mark-to-market gain of these forwards amounted to ₱6,075.

As of March 31, 2006, the outstanding currency forwards pertain to JP¥ sell forwards with a notional amount of US$14,124 at a forward rate of JP¥109.74/US$. The net mark-to-market gain amounted to ₱42,605. The currency forwards have various maturities not exceeding 362 and 279 days in 2007 and 2006, respectively.

Hedge Effectiveness of Cash Flow Hedges
Below is a rollforward of the Group's cumulative translation adjustments on cash flow hedges for the years ended March 31, 2007 and 2006:

	2007	2006
Beginning of year	**₱1,762,854**	₱742,972
Changes in fair value of cash flow hedges	**132,214**	2,514,243
Transferred to consolidated statements of income	**(1,664,477)**	(725,562)
Tax effects of items taken directly to or transferred from equity	**528,501**	(661,274)
Foreign exchange adjustments	**(35,307)**	(107,525)
End of year	**₱723,785**	₱1,762,854

For the years ended March 31, 2007 and 2006, the effective positive fair value changes on PAL's cash flows hedges that were deferred in equity amounted to ₱876,166 (net of tax) and ₱1,874,077 (net of tax), respectively. Total ineffectiveness for the years ended March 31, 2007 and 2006, which were recognized immediately in the consolidated statements of income amounted to ₱207,332 and ₱479,674, respectively.

Fair Value Changes on Derivatives
The net changes in the fair values of all derivative instruments for the years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Beginning of year	**₱3,030,447**	₱1,890,031
Net changes in fair values of derivatives:		
Designated as accounting hedges	**132,214**	2,993,917
Not designated as accounting hedges	**(164,926)**	(101,167)
	(32,712)	2,892,750
Fair value of settled instruments	**(1,629,373)**	(1,551,422)
Foreign exchange adjustments	**(99,628)**	(200,912)
End of year	**₱1,268,734**	₱3,030,447

26. **Segment Information**

PAL's domestic and international flight destinations constitute its reportable geographical segments, consistent with how PAL's management internally disaggregates financial information for the purpose of evaluating performance and making operating decisions.

Segment information for each reportable geographical segment is shown in the following table. Reclassifications were made on the 2006 and 2005 segment results to conform to the 2007 classifications.

	2007	2006	2005
International:			
Revenue	**₱50,540,770**	₱50,788,678	₱44,873,608
Income	**4,079,029**	1,329,299	2,787,876
Domestic:			
Revenue	**12,242,249**	13,289,041	12,632,592
Income (loss)	**(269,470)**	(45,014)	827,996
Total:			
Revenue	**62,783,019**	64,077,719	57,506,200
Income	**3,809,559**	1,284,285	3,615,872

The reconciliation of total income reported by reportable geographical segment to net income in the consolidated statements of income is presented in the following table. Reclassifications were made on the 2006 and 2005 results to conform to the 2007 classifications.

	2007	2006	2005
Total segment income of reportable segments	**₱3,809,559**	₱1,284,285	₱3,615,872
Add (deduct) unallocated items:			
Non-transport revenue and other income	**4,225,586**	1,915,294	1,371,220
Non-transport expenses and other charges	**(3,475,106)**	(2,474,163)	(4,318,665)
Benefit from income tax	**2,466,398**	547,881	344,084
Net income	**₱7,026,437**	₱1,273,297	₱1,012,511

The details of revenue earned from each business segment (passenger, cargo, and others) are shown in the consolidated statement of income.

The Group's major revenue-producing asset is its fleet of aircraft, which is employed across PAL's route network (see Note 10). Management considers that there is no reasonable basis for allocating such assets and related liabilities and cash flows to geographical and business segments. Accordingly, geographical and business segment assets, liabilities, and other information on cash flows and capital expenditures are not disclosed.

27. Events After the Balance Sheet Date

In line with the continuing financial restructuring of the Group, on June 27, 2007, the BOD of the Parent Company approved the assumption by the Parent Company of the outstanding liability of the Holding Companies to Trustmark, amounting to ₱14,078,335 as of June 27, 2007. In a simultaneous meeting, the BOD of Trustmark agreed to convert such receivable from the Parent Company (after the assumption) into additional paid-in capital of the Parent Company.

On July 19, 2007, the BOD of the Parent Company approved the Parent Company's acquisition of the 81.57% aggregate ownership of the Holding Companies in PAL, and their 82.33% ownership in PR, 3.76% owner of PAL. The acquisition will be made by way of a dacion en pago to pay-off ₱12,118,390 out of the ₱23,117,157 liability of the Holding Companies to the Parent Company. The remaining receivable of the Parent Company from the Holding Companies after the dacion en pago, amounting to ₱10,998,767, will be converted into additional paid-in capital in the Holding Companies.

The additional paid-in capital resulting from the conversion into equity of the Parent Company's obligation to Trustmark (see Note 2) will be used to wipe out the Parent Company's deficit.

On July 19, 2007, the BOD also approved the Parent Company's acquisition of the 0.8% aggregate ownership of certain individuals in PAL, equivalent to ₱86,059.

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SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PAL Holdings, Inc.
7th Floor, Allied Bank Center
6754 Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of PAL Holdings, Inc. (formerly Baguio Gold Holdings Corporation) and subsidiaries as of and for the year ended March 31, 2007 included in this Form 17-A and have issued our report thereon dated July 23, 2007. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Cynthia A. Manlapig

Cynthia A. Manlapig
Partner
CPA Certificate No. 26164
SEC Accreditation No. 0084-AR-1
Tax Identification No. 123-305-048
PTR No. 0267365, January 2, 2007, Makati City

July 23, 2007

PAL HOLDINGS, INC. AND SUBSIDIARIES

Schedule F **Liabilities Covered by the Rehabilitation Plan**

March 31, 2007

(Amounts in Thousand PHP)

Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-term	Total	Remarks
Aircraft Secured Claims	₱ -	₱ 5,982,765	₱ 29,977,474	₱ 35,960,239	See Annex A
Other Secured Claims	-	2,003,561	418,571	2,422,132	See Annex B
Trade Creditor Claims	-	-	-	-	
Estimated Terminated Operating Lease Claims*	-		679,136	679,136	See Annex C
Unsecured Claims*	-	-	6,914,125	6,914,125	See Annex D
	₱ -	₱ 7,986,326	₱ 37,989,306	₱ 45,975,632	

* Net of imputed interest

PAL HOLDINGS, INC. AND SUBSIDIARIES

Schedule F **Liabilities Covered by the Rehabilitation Plan - ANNEX A**

March 31, 2007

(Amounts in Thousand PHP)

Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-term	Original Lease Term Beginning	Original Lease Term End	Restructured Lease Term End	Payment Terms
Aircraft Secured Claims	₱ -	₱ 1,898,352	₱ 2,882,219	1994; 1996	2007-2008	2009-2011	quarterly or semi-annual
Four Boeing 747-400 aircraft (substantially guaranteed by the Export - Import Bank of the United States)							
Four Airbus 340-300 and eight Airbus 330-300 aircraft (substantially guaranteed/insured by Three European Export Credit Agencies)		3,721,726	24,377,358	1998	2010	2012-2014	semi-annual
Three Airbus 320-200 aircraft		362,687	2,717,897	1998	2013	2013	semi-annual
	₱ -	₱ 5,982,765	₱ 29,977,474				

PAL HOLDINGS,INC. AND SUBSIDIARIES
SCHEDULE F - LIABILITIES COVERED BY THE REHABILITATION PLAN - ANNEX B
MARCH 31, 2007
(Amounts in Thousand PHP)

Type of Obligation	Restructured Amount Shown as Short-term	Restructured Amount Shown as Long-term	Fixed Interest Rate	Floating Interest Rate	Payment Term	Issue Date	Original Maturity Date	Restructured Maturity Date
Other Secured Claims								
US$60 syndicated loan facility	₱ 2,000,186	₱ 362,109		3 month LIBOR plus margin of 2.10%	quarterly	1998	2004	2009
Others	3,375	56,462	8.3%	3 month LIBOR plus margin of 2.5%	semi-annual, quarterly	1990; 1997	2002; 2004	2007- 2009
	₱ 2,003,561	₱ 418,571						

PAL HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F - LIABILITIES COVERED BY THE REHABILITATION PLAN - ANNEX C
MARCH 31, 2007
(Amounts in Thousand PHP)

Aircraft Type		Terminated Operating Lease Claim Net Present Value	Lease Expiry Date	Early Lease Termination Date
Estimated Terminated Operating Lease Claims				
SD-360	₱	11,379	1999	1998
B747-200		344,077	1999 - 2000	1998
F50		323,680	1998	1998-1999
	₱	679,136		

Restructured Payment terms:
June 7, 2000 - 5%
June 7, 2009 - 31%
June 7, 2010 - 32%
June 7, 2011 - 32%

PAL HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F- LIABILITIES COVERED BY THE REHABILITATION PLAN - ANNEX D
MARCH 31, 2007
(Amounts in Thousand PHP)

Type of Obligation		Claims of Unsecured Creditors Net Present Value	Original Fixed Interest Rate	Original Floating Interest Rate	Original Issue Date	Original Maturity Date
Unsecured Claims						
Foreign-currency denominated loan:						
US$178.5 floating rate note -	₱	5,542,496	-	2% per annum over 6 month LIBOR	11/22/96	01/16/00
Others Loans		1,174,614	10.75%	1.5-4.5% per annum over 1 month LIBOR	various	various
		6,717,110				
Peso denominated loan		197,015	19.50%	weighted average yield rate for 364-day treasury bill	various	various
	₱	6,914,125				

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule I Capital Stock
March 31, 2007

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Stock	20,000,000,000	5,421,567,185	-	5,297,280,230	9,001	124,277,954