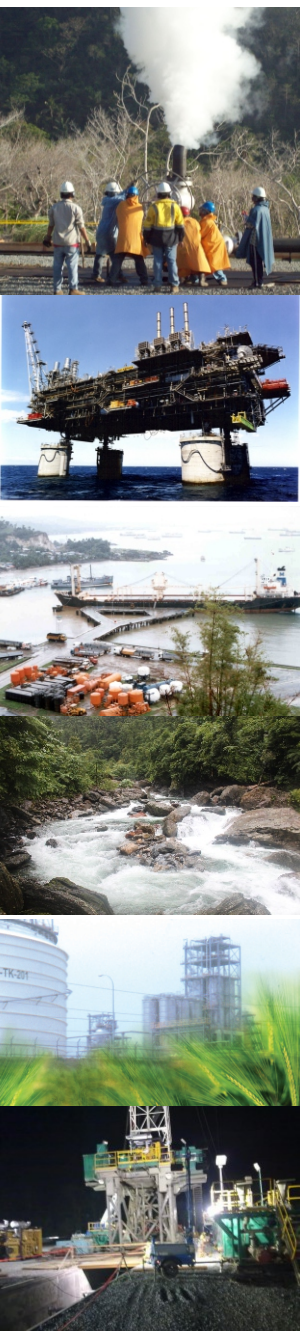
PNOC
The Energy Company

PHILIPPINE NATIONAL OIL COMPANY



2013
Annual Report

TABLE OF CONTENTS

VISION

PNOC by 2025: A world class organization that executes the country's energy strategy toward self-sufficiency, sustainability, stability of prices, and security of supply(4S)

MISSION

Through the efforts and initiative of world class professionals, PNOC is committed to:

Develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing the country's self-sufficiency level in oil, gas and other energy sources;

Ensure security of supply; contributing to energy price stability and affordability;

Foster sustainable and environmentally-friendly sources of energy; and

Promote and maintain the highest standards of service and corporate governance.

CORE VALUES

Integrity (Mapagkakatiwalaan):
Honest and transparent in dealing with stakeholders

Professional Excellence (Maaasahan):
Always seeking continuous improvement; aspiring for high work standards and achievements

Accounts and Results Oriented (Walang Iwanan)

Service (Makatao):
Puts the interest of Filipino people above itself

COMPANY PROFILE

The Philippine National Oil Company (PNOC) celebrates forty years of continuously providing for the energy needs of the country through its exploration, research, and development support to PNOC subsidiaries.

It was the onset of the 1973 energy crisis which gave birth to PNOC, a government-owned and controlled corporation, through Presidential Decree (PD) No. 334, with the primary purpose of providing and maintaining an adequate and stable supply of oil and petroleum products for domestic requirements.

How Our Core Businesses Started

The passing of the years has shown PNOC's areas of responsibilities evolving to meet the country's complex and growing needs. This is shown through the numerous subsidiaries created over time to address specific areas for development. In 1974, after purchasing Esso Phils., Inc., (now Petron Corporation), the largest oil firm in the country, three tanker corporations were created. A stevedoring corporation, the pre-cursor to the PNOC Shipping and Transport Corporation (PSTC), was acquired soon after to facilitate the movement of oil products throughout the country.

After the discovery of oil in Palawan in 1976 and seeing the potential of energy sources other than oil, PD 927 was enacted to promote the exploration and development of oil and other indigenous energy sources, effectively expanding PNOC's scope of operations. The Coal Development Act of 1976 set to establish a coal development program, which later on led to the creation of the PNOC Coal Corporation (PCC).

This year also saw the creation of two of PNOC's more lucrative subsidiaries – the PNOC Energy Development Corporation (PNOC EDC) and PNOC Exploration Corporation (PNOC EC). PNOC EDC has put the company on the map by making the country the second largest producer of geothermal energy in the world, next to the United States of America. This geothermal energy has contributed considerably to reducing the country's dependence on imported oil to 50 percent. The $5 billion Malampaya Deepwater Gas-to-Power Project, heralds PNOC EC's participation in the largest and most important investment of its kind in the history of the Philippines.

PNOC's ventures into business deal with petrochemicals and real estate development. The PNOC Petrochemical Development Corporation's (PPDC) Petrochem Park was declared a flagship project under the Ramos Administration. The PNOC Development and Management Corporation (PDMC), on the other hand, has been able to balance and maximize the use of PNOC land, both by earning from it through rentals and providing housing for displaced informal dwellers.

Where We Are Now

PNOC's response to the country's increasing demand for energy is to create the PNOC Alternative Fuels Corporation (PAFC) in 2006 and the PNOC Renewables Corporation (PRC) in 2008. Together with the PNOC Development and Management Corporation (PDMC), PNOC and its four subsidiaries, have tapped into newer areas of energy development, bearing in mind the world's concern for environment-friendly sources of energy.

After serving the transport requirements of Petron for 30 years, the PNOC Board of Directors approved the dissolution of the PNOC Shipping and Transport Corporation (PSTC) on March 15, 2013. The winding down activities were closely monitored by PNOC.

Today, PNOC and its four remaining subsidiaries, have tapped into newer areas of energy development, bearing in mind the world's concern for environment-friendly sources of energy.

OIL AND GAS

PNOC EC, as the upstream oil and gas subsidiary of PNOC, is still at the forefront of exploring oil and gas, as the company's exploration arm. The country's search for indigenous sources of energy actively continues as PNOC EC pursues its mandate while performing with dedication and perseverance.

Petroleum Exploration and Development

PNOC EC has been implementing an aggressive petroleum exploration program for the past years, as shown in its interests in six exploration Service Contracts – Offshore Mindoro, Calamian, West Calamian, West Balabac, East Sabina, and Cagayan Basin. Seismic data acquisition, processing and interpretation, geological and geophysical studies, were conducted in preparation for well drilling activities.

Natural Gas Production

The Malampaya Deepwater Gas-to-Power Project's total natural gas sales for the year reached 115.74 billion standard cubic feet (bcf). This was slightly lower than last year's 130.28 bcf production, but still provided the gas fuel requirements of three (3) power plant customers in Batangas, namely: Santa Rita (1,000 MW), San Lorenzo (500 MW), and Ilijan (1,200 MW).

The total condensate sale of the Malampaya project decreased from 4.58 million barrels of last year to 3.79 million barrels for the year, the decrease of which can be attributed to a thirty-day maintenance shutdown nearing the end of the year.

COAL

PNOC EC continued with the coal business, having assumed the operations of coal trading and integrated services from the PNOC Coal Corporation (PCC) after the company was dissolved, serving the requirements of the cement manufacturing and power production industries.

The Malangas Coal Reservation in Zamboanga Sibugay falls under Coal Operating Contract (COC) 41, where PNOC EC operates a large-scale coal mine known as the Integrated Little Baguio (ILB). Although it is currently the largest semi-mechanized underground coal mine in the country, unfavourable coal prices in the market has caused all development and productions activities to be stopped since March 1, 2013.

The Isabela Coal Mine and Power Plant Project under COC 122, located in the Province of Isabela, consist of a coal mine production area and a mine-mouth power generating facility. The project aims to promote the use of indigenous coal sources and augment the energy demand requirements of the province. The project is expected to bring widespread economic benefits to the province, but steps are being done to ensure that concerns on the environment and stakeholders remain paramount. For the year, PNOC EC continued communication and consultation with the barangay officials of the impact areas of Benito Soliven regarding the release of the project endorsement. House to house visits were conducted to all barangay officials of Villaluz, Dagupan, and New Magsaysay to follow up their conformity to the resolution endorsement.

Coal Production and Sales

For CY 2013, total aggregate coal production from Malangas coal operations (COC 41) was registered at 59.24 thousand metric tons (MTs) coming mostly from the production of small-scale coal miners. This was 21 percent lower than the targeted 280.00 thousand MTs, owing to the stoppage of activities in March.

PNOC EC however, continued to serve and supply the coal requirements of its industrial and power plant customers through its coal marketing and trading business.

Direct sales volume was registered at 188.86 thousand MT for the year, lower than the 253.86 thousand MT registered in 2012. Continued drop in prices of imported coals, direct mine contract deals of large industries with major mine-suppliers and the presence of new traders in the market, were among the major reasons of the sales revenue. For the year, no sale was made to the export market.

Other Projects

PNOC EC is set to undertake the Compressed Natural Gas (CNG) for vehicle project, in line with the Department of Energy's (DOE) existing Natural Gas Vehicle Program for Public Transport (NGVPPT). The project aims to provide fuel for 1,000 buses by constructing a CNG distribution infrastructure – one (1) mother station and two (2) daughter stations – to increase the use of CNG in public utility vehicles.

For 2013, procurement activities were undertaken for the CNG infrastructure, CNG equipment package and tractor heads.

RENEWABLE ENERGY

The PNOC Renewables Corporation (PNOC RC) has worked towards promoting, developing and implementing renewable energy programs and projects in the country since 2008. PNOC-RC has projects on solar, wind, hydropower, ocean, and geothermal.

Solar and Wind

The planned 100 MW solar PV and 50 MW wind farm in Subic Bay Freeport Zone (SBFZ) and its updated application for the solar and wind energy service contract, is under review by the DOE. PNOC RC and Jobim Sqm, Inc. (JSI) entered into a new Memorandum of Understanding (MOU), as well as a Service Agreement (SA), last June 2013, after the old MOU expired. PNOC RC is set to assist JSI in securing necessary permits for the development and construction of the solar PV and wind farms for a fixed yearly consultancy fee, based on the electricity that shall be produced and sold by the developer.

In July 2013, JSI and PNOC RC entered into a service agreement where the former will give PNOC RC at least 5 centavos for every kilowatt of energy they can produce after commercialization. In return, PNOC RC will assist JSI in obtaining the service contracts.

Hydropower

PNOC RC was awarded eleven hydropower service contracts on October 28, 2009, by the DOE. All commitment fees/funds for DOE i.e. Signing Bonus, Performance Bonds, Training Funds, and development assistance were complied with at the end of 2010. The target was to complete the feasibility studies for all the Hydropower service contracts by mid-2011, namely Siaton Hydro Power Project, Okoy Hydro Power Project, Pacuan-Guinobaan Hydro Power Project, Dulangan Hydro Power Project, Nalatang Hydro Power Project, Pasil B Hydro Power Project, Pasil C Hydro Power Project, and Saltan B Hydro Power Project.

PNOC RC secured the extension of service contracts for six projects and received DOE's letters of endorsement to regulatory government agencies in September 2013. Application permits are being processed from the National Commission on Indigenous Peoples (NCIP), Local Government Units (LGUs), and the National Water Resources Board (NWRB). The ECC permit from the Department of Environment and Natural Resources (DENR) is also being secured. These permitting activities are handled by PNOC RC in preparation for the consultant who will be conducting the feasibility studies for the various projects.

When all permits are secured, PNOC RC will proceed with the next steps in the pre-development stage of the project. As a directional policy, these service contracts will be developed under a PPP (public-private partnership) model, through Joint Ventures (JVs).

In 2012, the MOA between PNOC RC and the National Irrigation Administration (NIA) was signed for the NIA irrigation systems. The MOA authorized PNOC RC to initially establish and operate hydropower plants six pilot sites in Nueva Ecija. This year, the Certificate of Non-Coverage (CNC), equivalent to the Environmental Clearance Certificate (ECC), was secured for the various sites. While awaiting DOE's endorsements, other permits are being processed, with the Terms of Reference (TOR) drafted and reviewed by the Bids and Awards Committee (BAC). The Power Supply Agreement (PSA) with the electric cooperatives was signed on October 24, 2013.

Geothermal

The steamfield development and construction of the Maibarara Geothermal Power Project (MGPP) was completed in July 2013 and started its line commissioning in August 2013. Power plant lots were acquired and are now already in the name of Maibarara Geothermal Inc. (MBI), with a 25-year lease entered into with PSALM for the steam field lot. Easement of right-of-way has been negotiated with lot owners for the transmission line, and an EPC Contract for the power plant was entered into with EEI Corporation.

The power plant and switchyard/transmission line construction was tested in December 2013 but because the master control valve in the power plant was detected for repair, a new schedule of commissioning was moved on February 2014.

ALTERNATIVE FUELS

In 2006, the PNOC Alternative Fuels Corporation (PAFC), formerly the PNOC Petrochemical Development Corporation (PPDC), was created with a primary mandate to explore, develop, and accelerate the utilization and commercialization of alternative fuels in the country, as there a strong need to source alternative fuels instead of relying on basic oil and gas.

Biofuels

PAFC has formulated its Strategy Roadmap for the Biofuel Requirements of the country. In line with this, the company is in continuous collaboration with the Philippine Agricultural Development and Commercial Corporation (PADCC) and University of the Philippines, Los Baños (UPLB) on the preparation of a feasibility study on ethanol production using sweet sorghum. PAFC reviewed the simulations for a 30-hectare sweet sorghum plantation located in Negros Occidental and a processing plant (from juice to syrup) with an annual capacity of 3,492 tons of syrup. UPLB is expected to present updated figures for the plantation before the year ends, while continuously coordinating with the Bureau of Agricultural Research (BAR) for funding support for the establishment of a 175-ha. sweet sorghum plantation in Isabela where a distillery is located.

PAFC has signed a disclosure agreement with a private entity with initiatives on algae biofuel technology, and its potentials were evaluated. PAFC requested the proponent to submit a project proposal on a pilot-scale production of biofuel using algae as the feedstock.

Industrial Park Operations

PAFC is leading into the possibility of hosting a liquefied natural gas (LNG) terminal and related facilities in PAFC's Industrial Park. As of September 2013, PAFC completed the evaluation of locatorship application documents submitted by a prospective locator, which include pre-feasibility study, feasibility study, and the Environmental Impact Assessment (EIA).

A draft Lease Agreement with the prospective locator was also done including consultative meetings with DENR-EMB to determine the best approach in updating the Programmatic Environmental Compliance Certificate (PECC) relative to the expanded usage of the Park and Energy City Project. The PAFC Board approved the revised Master Plan for the Industrial Park and also issued the Certificate of Conformance (COC) to prospective locators relative to PAFC's PECC.

On April 17, 2013, Republic Act No. 10516 was signed into law by President Benigno Aquino III, amending P.D. No. 949 which designated the Industrial Park solely for petrochemical and petrochemical-related industries. The enactment of R. A. 10516 maximizes the best economic use of the park by expanding its use for businesses engaged in energy-related infrastructure projects and other gainful economic activities.

The company continuously provided basic services such as raw and fire water, power supply, and jetty services to the locators within the Industrial Park and commercial areas. These activities mostly cater to the needs of the locators and provides the bulk of revenues for the Park.

The Health, Safety, Security and Environmental (HSSE) Program facilitates the efficient operation throughout the Park and its compliance with various requirements of the government. It includes management of activities on health, safety, security, and environmental monitoring.

POPs Project

For 2013, a total of 44,033 kgs. of polychlorinated biphenyl (PCB)-contaminated materials was treated in the facility, which was conducted in March, May, July-August, and November. Since the start of the commissioning in December 2011 up to 2013, the total volume of PCBs treated reached 57,780 kgs.

Operational issues and concerns of the project were addressed in regular meetings of the Technical Working Group (TWG). High-level meetings were likewise conducted to formulate plans of action regarding the resumption/finalization of the commissioning and to resolve technical problems, as well as policy and financial issues. Further, the Project Steering Committee composed of all heads of the project components convened twice to discuss plans of action regarding the continuity of the commissioning, despite technical problems encountered in the facility.

In December 2013, PAFC informed DENR-Environmental Management Bureau (EMB) about the privatization of the POPs project as approved by the PAFC Board starting in the first semester of 2014.

ESTATE MANAGEMENT

The PNOC Development and Management Corporation (PDMC), is PNOC's real estate arm engaged in industrial estate development and management. It has been managing 118 hectares of landholdings in Rosario, Cavite since 2001, with about 12 hectares remaining in its books as capital and investment assets.

Since the extension of PDMC's corporate life in March 2008, PDMC's activities were mainly on the sale of assets principally based on its Privatization Plan, as approved by the PDMC and PNOC Boards as well as by the Privatization Council of the Department of Finance in September 2006.

Sale of Costa Verde Inventories and El Pueblo Condomitel Units

For 2013, PDMC sold 18 Costa Verde lots with a Total Contract Price of ₱22.2 million, and has collected ₱27.08 million of installment receivables.

Four (4) El Pueblo Condomitel units were sold with a Total Contract Price of ₱7.5 million cash sale representing ₱5.6 million cash collections from sales and ₱1.9 million from downpayment and amortization.

Socialized Housing

PDMC sales and collection for Socialized Housing were turned over to the Local Government Unit of Rosario, Cavite in June 2010. A total of ₱10.3 million remittance from the LGU was received for the year 2013.

Lease of Capital Assets

For 2013, PDMC collected ₱13.8 million worth of rentals from the long term lease of its 4.9 hectare property inside the Cavite Economic Zone (CEZ) in Rosario, Cavite. PDMC has accomplished 100% of its projected revenue from the lease of its capital assets, due to updated rental payment.

OTHER BUSINESSES

PNOC remitted ₱500.00 Million in dividends to the Bureau of Treasury for the year 2013.

As part of PNOC’s corporate social responsibility, PNOC continued its scholarship program sponsoring five (5) students enrolled in courses on engineering and natural sciences at the University of the Philippines (UP) Diliman.

A Memorandum of Agreement signed with Petroleum Brunei was implemented in February 2013, to determine possible sites for an LNG Terminal and Power Plant Project in Mindanao, certified by the DOE.

In support of the DOE’s Master Plan for the development of the Natural Gas Industry in the Philippines, PNOC engaged the services of the PPP Center to undertake the pre-investment activities of the Batangas-Manila (BATMAN) Gas Pipeline Project. In September 19, 2013, the PNOC Board approved the Terms of Reference for the engagement of the Transaction Advisor for the BATMAN.

Financial Statements

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL OIL COMPANY

(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)

For the Year Ended December 31, 2013

EXECUTIVE SUMMARY

A. Introduction

Philippine National Oil Company (PNOC)

1. PNOC was created through Presidential Decree No. 334 on November 9, 1973 to provide and maintain an adequate and stable supply of oil. Focusing its efforts and resources in learning the ropes of the petroleum industry, PNOC rose to occupy market leadership in an industry thought to be the domain of multinationals. Its charter was amended to include energy exploration and development.

   It initiated the exploration of the country's indigenous oil and non-oil energy resources. Its purpose was to build an energy sector that will bring energy independence to the country. Eventually, PNOC expanded its operations to include total energy development, including indigenous energy sources like oil and gas, coal, and geothermal.

2. PNOC's vision is to be a world class organization that executes the country's energy strategy toward self-sufficiency, sustainability, stability of prices, and security of supply by 2025. Through the efforts and initiative of world class professionals, PNOC is committed to develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing self-sufficiency level in oil, gas and other energy sources; ensure security of supply; contributing to energy price stability and affordability; foster sustainable and environmentally-friendly sources of energy; and promote and maintain the highest standard of service and corporate governance.

3. PNOC has five subsidiaries working together to realize PNOC's vision: PNOC Exploration Corporation, PNOC Shipping and Transport Corporation, PNOC Development and Management Corporation, PNOC Alternative Fuels Corporation, and PNOC Renewables Corporation.

Scope and Objectives of Audit

4. The audit was conducted to determine the (a) level of assurance that may be placed on the management's assertions on the financial statements; (b) the propriety of transactions as well as compliance with existing rules and regulations and management's policies; and (c) the extent of the implementation of prior years' audit recommendations.

5. The audit covered the examination on a test basis of the accounts and financial transactions and operations of PNOC for the period January 1 to December 31, 2013 in accordance with International Standards on Auditing. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Company to prescribed laws, rules and regulations.

B. Financial Highlights (In Million Pesos)

The operating budget of PNOC for CY 2013 was P654 million. Forty-one percent of the budget, equivalent to P265 million, was utilized during the year.

The financial position and results of operations of PNOC are summarized as follows:

Financial Position

	2013	2012	Increase (Decrease)
Assets	40,609	40,707	(98)
Liabilities	5,383	5,428	(45)
Equity	35,226	35,279	(53)

Results of Operation

	2013	2012	Increase (Decrease)
Revenues	1,018	2,036	(1,018)
Operating Expenses	(256)	(265)	(9)
Income From Operations	762	1,771	(1,009)
Foreign Exchange Loss	(0)	(1)	1
Other Charges	24	(68)	92
Net Profit Before Tax	786	1,702	(916)
Income Tax	(47)	(48)	1
Comprehensive Income For the Period	739	1,654	(915)

PNOC remitted a total of P500 million in dividends to the Bureau of Treasury in April 2013 (P12.3 million) and June 2013 (P487.7 million).

C. Auditor's Opinion

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the PNOC as at December 31, 2013 as stated in the Independent Auditor's Report in Part I.

D. Significant Audit Observations and Recommendations

Although the Auditor rendered an unqualified opinion, there are significant audit observations that need immediate action. These, together with the audit recommendations, are presented below. Details are in Part II.

1. The existence of PNOC Alternative Fuels Corporation (PAFC) and PNOC Development and Management Corporation (PDMC) has lost its essence as the primary mandate for their creation has become inconsistent to their real estate business activities, to which the PNOC is also engaged in. PNOC Renewables Corporation (PNOC RC), on the other hand, has been in existence for six years but to this date, its projects are still in the pre-development stage and no substantial benefit therefrom has been derived. The benefit gained, if there be any, from their operation is not commensurate to the costs incurred by the government to maintain their operations.

   Recommendations:

   a. *Conduct cost-benefit analysis to evaluate if shortening the corporate life of its subsidiaries will be more economically feasible or yield better return for PNOC's investments; and*

   b. *Review its EMD's corporate structure to accommodate the real estate operations of PDMC, PAFC and other investment properties of other subsidiaries.*

2. The existence, completeness and accuracy of the P304.030 million Property and Equipment of PNOC could not be ascertained due to non-reconciliation of Physical Inventory Report with the accounting records.

   Recommendations:

   a. *Require the Property and Supply Management Division to use the prescribed format for inventory report and the Accounting Department to reconcile the accounting records with the physical count to establish the integrity of property custodianship and reliability of account balances;*

   b. *Maintain updated lapsing schedule with complete information to support account balances appearing in the books of account and for easier reconciliation for each item line by line;*

   c. *Use the Inventory and Inspection Report of Unserviceable Property prepared by PSMD as a basis in the reclassification of unserviceable property to Other Assets account; Retain under the Property and Equipment accounts the fully depreciated but still serviceable assets; and*

d. *Prepare the necessary adjusting entries including the unused office supplies as prepayments.*

E. Status of Implementation of Prior Year's Recommendations

Out of the three audit recommendations issued in CY 2012, one was implemented and two were not implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

PART I - AUDITED FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine National Oil Company
Energy Center, Fort Bonifacio
Taguig City, Metro Manila

We have audited the accompanying financial statements of **Philippine National Oil Company** (a Corporation wholly-owned by the Government of the Republic of the Philippines), which comprise the statement of financial position as of December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial statements present fairly, in all material respects, the financial position of the **Philippine National Oil Company** as of December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

COMMISSION ON AUDIT

HILCONEDA P. ABRIL
State Auditor V
Supervising Auditor

May 20, 2014

PHILIPPINE NATIONAL OIL COMPANY

PNOC
The Energy Company

PNOC Building VI, Energy Center, Merritt Road, Fort Bonifacio, Taguig, Philippines Tel. No. (632) 789 - 7662

January 30, 2014

ATTY. HILCONEDA P. ABRIL
Supervising Auditor
Commission on Audit
Philippine National Oil Company
3/F Building 6, Energy Center, Rizal Drive,
Bonifacio Global City, Taguig City

In connection with your audit of the financial statements of **PHILIPPINE NATIONAL OIL COMPANY** as at December 31, 2013 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in stockholders' equity and cash flows of **PHILIPPINE NATIONAL OIL COMPANY** in conformity with Philippine Financial Reporting Standards, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. We are responsible for the fair presentation in the statements of financial position, results of operations, changes in stockholders' equity and cash flows in conformity with Philippine Financial Reporting Standards applied on a consistent basis.

2. We acknowledge our responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error.

3. We have considered application system, operating system and hardware central of the Company's on-going activity and preparation of financial statements. These are all in place to enhance systems as necessary to avoid significant material misstatements in the Company's accounting records or adversely affect business operations.

4. We have provided you with:

   a. Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   b. Additional information that you have requested from us for the purpose of the audit; and
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

5. We have made available to you –

   a. All financial records and related data.
   b. List of the resolutions passed and approved by the PNOC Board of Directors for the year

6. We are not aware of –

   a. Any irregularities involving management or employees who have significant roles in the internal control structure.
   b. Any irregularities involving other employees that could have a material effect on the financial statements.
   c. Any communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

7. We have no plans or intentions that may materially alter the carrying value or classifications of assets and liabilities.

8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Philippine Financial Reporting Standards.

9. There are no –

   a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
   b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in the financial statements.
   c. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions or other requirements.
   d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on the cash balances and line of credit or similar arrangements.

10. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

11. All cash and bank accounts and all other properties and assets of the Company of which we are aware of are included in the financial statements. The Company has satisfactory title to all recorded assets. There are no liens or encumbrances on any asset of the Company.

12. All liabilities of the Company of which we are aware of are included in the financial statements. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by PAS No. 37 - Provisions, Contingent Liabilities, and Contingent Assets and our legal counsel has not advised us of any unasserted claims

or assessments that are probable of assertion and that must be disclosed in accordance with the aforementioned standard.

13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

14. No matters or occurrences have come to our attention up to the date of this letter that would materially affect the financial statements and related disclosures for the year then ended or although not affecting such financial statements or disclosures, have caused or are likely to cause any material change, adverse or otherwise, in the financial position, result of operations or cash flows of the Company.

Very truly yours,

PHILIPPINE NATIONAL OIL COMPANY

ANTONIO M. CAILAO
President and CEO

GLENDA G. MARTINEZ
Senior Vice President for Management Services

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(In Philippine Peso)

	Note	2013	2012
ASSETS			
Cash and cash equivalents	4	**909,476,103**	2,910,851,780
Held-to-maturity investments	5	**4,885,904,354**	3,121,433,119
Receivables	6	**37,331,110**	37,688,234
Investments in subsidiaries and affiliates	7	**5,273,274,356**	5,273,274,356
Investment property	8	**11,584,082,342**	11,600,291,996
Property and equipment	9	**219,765,473**	225,642,998
Deferred tax assets	19	**300,665,618**	344,235,388
Other assets	10	**17,398,675,739**	17,193,320,778
TOTAL ASSETS		**40,609,175,095**	40,706,738,649
LIABILITIES AND EQUITY			
Accounts payable and accrued expenses	11	**265,767,406**	341,954,688
Dividends payable	13	**101,962,486**	77,881,632
Deferred tax liabilities	19	**2,789,156,407**	2,790,604,920
Other credits	12	**2,226,431,164**	2,217,625,579
TOTAL LIABILITIES		**5,383,317,463**	5,428,066,819
EQUITY	13	**35,225,857,632**	35,278,671,830
TOTAL LIABILITIES AND EQUITY		**40,609,175,095**	40,706,738,649

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
REVENUES			
Dividend Income	14	**539,862,095**	1,500,153,820
Rent Income		**280,534,101**	192,113,949
Interest Income		**197,638,880**	344,138,338
GROSS REVENUES		**1,018,035,076**	2,036,406,107
OPERATING EXPENSES	15	**(256,161,812)**	(265,629,386)
INCOME FROM OPERATIONS		**761,873,264**	1,770,776,721
FOREIGN EXCHANGE LOSS	16	**(8,006)**	(681,763)
OTHER INCOME (CHARGES)	17	**23,919,806**	(67,731,316)
NET PROFIT BEFORE TAX		**785,785,064**	1,702,363,642
INCOME TAX	18		
Current		**(5,055,468)**	(3,435,807)
Deferred		**(42,121,257)**	(44,825,461)
COMPREHENSIVE INCOME FOR THE PERIOD		**738,608,339**	1,654,102,374

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2013
(In Philippine Peso)

	CAPITAL STOCK (Note 13a)	RETAINED EARNINGS (Note 13b)	TOTAL EQUITY
Balance, January 1, 2012	3,114,595,519	34,740,239,888	37,854,835,407
Comprehensive income for 2012		1,654,102,374	1,654,102,374
Cash dividend based on Retained earnings as of December 31, 2010		(3,500,000,000)	(3,500,000,000)
Adjustment on dividends payable		96,785,236	96,785,236
Cash dividends for 2012 net earnings		(77,881,632)	(77,881,632)
Cash dividend directly remitted by PNOC Exploration Corporation to the National Government		(749,169,555)	(749,169,555)
Balance, December 31, 2012	**3,114,595,519**	**32,164,076,311**	**35,278,671,830**
Balance, January 1, 2013	3,114,595,519	32,164,076,311	35,278,671,830
Comprehensive income for 2013		738,608,339	738,608,339
Cash dividend for 2011 and additional for 2012 net earnings		(422,118,368)	(422,118,368)
Cash dividend for 2013 net earnings		(101,962,486)	(101,962,486)
Cash dividend directly remitted by PNOC Exploration Corporation and PNOC Development and Management Corp. to the National Government		(267,341,683)	(267,341,683)
Balance, December 31, 2013	**3,114,595,519**	**32,111,262,113**	**35,225,857,632**

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(In Philippine Peso)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers, subsidiaries and employees	**476,126,847**	593,752,929
Cash paid to suppliers, subsidiaries and employees	**(448,155,206)**	(297,934,212)
Net cash from operating activities	**27,971,641**	295,818,717
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash dividends from subsidiaries/associates	**272,520,412**	750,984,265
Net proceeds from disposal of assets	**7,859,482**	40,000
Maturities of short-term investments	**0**	6,064,046
Capital expenditures	**(19,727,212)**	(50,798,136)
Loan drawdowns to subsidiaries	**(33,000,000)**	(152,000,000)
Investment in treasury bonds - net	**(1,757,000,000)**	1,190,000,000
Net cash provided by (used in) investing activities	**(1,529,347,318)**	1,744,290,175
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term loans	**0**	(77,533,500)
Payment of cash dividend to National Government	**(500,000,000)**	(3,500,000,000)
Net cash used in financing activities	**(500,000,000)**	(3,577,533,500)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,001,375,677)**	(1,537,424,608)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,910,851,780**	4,448,276,388
CASH AND CASH EQUIVALENTS AT END OF YEAR	**909,476,103**	2,910,851,780

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(In Philippine Peso)

1. BACKGROUND

The Philippine National Oil Company (PNOC) was created through Presidential Decree No. 334 on November 9, 1973, to provide and maintain an adequate supply of oil. Its charter was amended to include energy exploration and development. Forty years after its creation, the Company serves as the key institution in the exploration, development and utilization of indigenous energy sources. Development in the country, as well as the global front, makes it imperative for the Company to get more involved in new and renewable energy activities and projects.

The registered office address is PNOC Building 6, Energy Center, Rizal Drive, Bonifacio Global City, Fort Bonifacio, Taguig City.

2. BASIS OF FINANCIAL STATEMENTS PREPARATION

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of Compliance with International Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the International Financial Reporting Standards (IFRS). IFRS include statements named IFRS and International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).

2.2 Basis of Preparation

The financial statements of the Company have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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.

b. Held-to-Maturity Investments

Held-to-Maturity investments are quoted non derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

c. Investments in Subsidiaries and Affiliates

Investments in wholly-owned and controlled subsidiaries and affiliates are accounted for under the cost method of accounting. They are carried in the Company balance sheet at cost less any impairment in value. The Company recognizes income from the investments only to the extent that it received distributions from accumulated profits of the subsidiaries and associates. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

An impairment is provided for any substantial and presumably permanent decline in the carrying values of the investments.

d. Investment Property

Investment property, consisting of land held to earn rentals and for capital appreciation, is stated at cost.

e. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price and costs directly attributable to bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period 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. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Depreciation is computed on a straight-line method based on the estimated useful lives of the assets as follows:

Building and Improvements	25 years
Machinery and equipment	5 years
Communication equipment	5 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years
Information technology equipment	3 years

The useful lives and method of depreciation are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

f. Bank Borrowings

Interest-bearing bank loans are recorded at face value. Outstanding balances of bank borrowings denominated in foreign currencies are restated using the prevailing rate of exchange at balance sheet date.

Borrowing costs are generally recognized in profit or loss in the period they are incurred.

g. Foreign Currency Transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the Philippine Dealing and Exchange System (PDEX) rate as of balance sheet date. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

h. Impairment of Accounts

The Company recognizes impairment based on aging of accounts at 60 percent for accounts over two, three and four years and 100 percent for those over five years.

i. Revenue Recognition

Revenue is recognized when increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be reliably measured.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate.

j. Operating Leases

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments received by the Company are recognized as rental income.

k. Income Taxes

The provision for income tax represents the sum of the tax currently payable and deferred.

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements using the balance sheet liability method. It is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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.

l. Events After Reporting Date

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

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2013	2012
Cash in banks	**22,563,314**	4,043,210
Money market placements	**886,912,789**	2,906,808,570
	909,476,103	2,910,851,780

Cash in banks earn interest at the respective bank deposit rates. *Money market placements* are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective money market placement rates.

5. HELD-TO-MATURITY INVESTMENTS

This account consists of investments in Treasury Notes of **P4,885,904,354** in **2013** and P3,121,433,119 in 2012 that will mature from two to five years. These investments bear fixed interest rates ranging from 2.625 percent to 6.25 percent annually.

6. RECEIVABLES

This account consists of:

	2013	2012
Loan receivable	**37,252,936**	37,252,936
Non-trade receivable	**78,174**	435,298
	37,331,110	37,688,234

7. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

This account consists of the following:

	Percentage of Ownership	2013	2012
PNOC Alternative Fuels Corporation	100	**2,400,000,000**	2,400,000,000
PNOC Exploration Corporation	99.79	**2,019,188,332**	2,019,188,332
PNOC Renewables Corporation	100	**374,972,000**	374,972,000
PNOC Development and Management Corp.	98.08	**65,614,724**	65,614,724
Gulf Oil Philippines, Inc.	34	**54,978,000**	54,978,000
		4,914,753,056	4,914,753,056
Investment in non-operating subsidiaries:			
PNOC Coal Corporation	100	**427,067,950**	427,067,950
PNOC Shipping and Transport Corporation	100	**190,000,000**	190,000,000
PNOC Oil Carriers, Inc.	100	**101,615,343**	101,615,343
PNOC Tankers Corporation	100	**50,000,000**	50,000,000
		768,683,293	768,683,293
Allowance for impairment		**(551,615,343)**	(551,615,343)
		217,067,950	217,067,950
Other investments		**141,453,350**	141,453,350
		5,273,274,356	5,273,274,356

The Company's investment of P2.4 billion in the PNOC Alternative Fuels Corporation (PAFC) consists of 8,000,000 shares at P300 per share. On January 13, 2011, the Company's Board of Directors issued Resolution No. 1981 s.2011 directing PAFC to wind down its jatropha operations totalling approximately P600 million after it was determined that the project would require intensive capital and resources. An evaluation of its other business segments (Industrial Park and Persistent Organic Pollutants [POPs] project) will be conducted to assess their viability. Cognizant of the requirements of International Accounting Standard (IAS) 36 – Impairment of Assets, the Company will be making the necessary adjustments on its PAFC investment account after complete financial data and operational information have been obtained.

PAFC has an equity of P3,199,520,497 as at December 31, 2013.

On February 7, 2013, in the special PSTC stockholders' meeting joined by all the PNOC Board of Directors, the PNOC Board passed Resolution No. 2111, Series of 2013, approving the recommendation to shorten the corporate life of the PNOC Shipping and Transport Corporation effective March 15, 2013. This is to protect the interest of PNOC, as the sole stockholder, from the continued deterioration of the financial condition of PSTC.

In 2003, the Securities and Exchange Commission issued a certificate for the revocation of the PNOC Oil Carriers, Inc. and PNOC Tankers Corporation, but the accounts of these corporations are retained pending receipt of the clearances from the Bureau of Internal Revenue (BIR).

8. INVESTMENT PROPERTY

This account consists of land being leased to third parties. Each of the leases contains a lease period of either 25 or 30 years. Upon expiration of the contract, the lease may be renewed for another years upon the mutual agreement of the parties under such terms and conditions as may be agreed upon by them.

It also includes the land and building in the Energy Center and eight properties conveyed by the National Development Company to PNOC as redemption of the preferred shares through a two-tranche *dacion en pago.*

Bulks of properties were initially assessed by a third party appraiser in 2007 and 2008 and adjustments in values were deemed cost. In 2012, certain parcels of land were appraised by Royal Asia Appraisal and CalFil Appraisal amounting to P6.354 billion.

Rental income earned from the investment properties amounted to P**269,860,640** in **2013** and P186,772,023 in 2012.

9. PROPERTY AND EQUIPMENT

The roll forward analysis of this account follows:

	Land, Building and Improvements	Machinery and Equipment	Communication Equipment	Transportation Equipment	Furniture Fixtures and Equipment	Total
COST						
January 1, 2013	369,094,128	263,894	3,458,782	10,998,336	20,146,666	403,961,806
Additions	14,987,233	16,339	0	0	3,241,042	18,244,614
Reclassifications/Adjustments	(3,876,142)	0	0	(3,730,357)	(5,360,993)	(12,967,492)
December 31, 2013	380,205,219	280,233	3,458,782	7,267,979	18,026,715	409,238,928
ACCUMULATED DEPRECIATION						
January 1, 2013	(163,047,236)	(139,422)	(2,293,291)	(3,403,919)	(9,434,940)	(178,318,808)
Depreciation	(15,454,635)	(30,732)	(688,415)	(1,733,460)	(4,539,463)	(22,446,705)
Reclassifications/adjustments	2,221,008	0	0	4,062,776	5,008,274	11,292,058
December 31, 2013	(176,280,863)	(170,154)	(2,981,706)	(1,074,603)	(8,966,129)	(189,473,455)
NET CARRYING AMOUNT						
December 31, 2013	**203,924,356**	**110,079**	**477,076**	**6,193,376**	**9,060,586**	**219,765,473**
December 31, 2012	206,046,892	124,472	1,165,491	7,594,417	10,711,726	225,642,998

10. OTHER ASSETS

This account consists of:

	2013	2012
Banked gas	**14,544,000,000**	14,544,000,000
Due from subsidiaries and affiliates	**1,262,179,139**	1,216,692,924
Purchase price adjustment fund	**809,757,306**	809,757,306
Special deposits	**204,531,167**	220,245,855
Deferred charges	**396,351,203**	204,661,676
Input VAT	**157,862,631**	173,078,803
Non-trade receivable	**10,835,852**	11,251,606
Prepaid expenses	**5,704,088**	7,628,425
Investment in available for sale securities	**3,804,100**	3,804,100
Deposits for utilities and others	**2,775,209**	1,639,639
Petty cash fund	**422,119**	122,119
Long-overdue receivables, net	**188,182**	188,185
Others	**264,743**	250,140
	17,398,675,739	17,193,320,778

PNOC bought the *banked gas* from the Department of Energy amounting to P14.4 billion which is equivalent to 108.6 Petajoules. The banked gas is an accumulation of the volume of natural gas that has been paid for but not yet taken by the Ilijan power plant of the National Power Corporation (NPC). The NPC and Power Sector Assets and Liabilities Management Corporation entered into a Gas Sale and Purchase Agreement (GSPA) with SC 38 Consortium, whereby NPC is committed to take a minimum volume of gas every year or take-or-pay commitment. Any unconsumed gas, but has been paid for, goes to the banked gas.

Due from subsidiaries and affiliates consists of the following:

	2013	2012
Due from subsidiaries and affiliates		
PNOC Shipping and Transport Corporation	**1,272,653,126**	1,236,095,641
PNOC Oil Carriers, Inc.	**158,571,769**	158,571,769
PNOC Renewables Corporation	**7,399,070**	0
PNOC Exploration Corporation	**2,552,312**	2,780,554
PNOC Coal Corporation	**1,659,522**	1,659,523
PNOC Alternative Fuels Corporation	**299,455**	115,858
PNOC Development and Management Corp.	**283,153**	277,332
	1,443,418,407	1,399,500,677
Allowance for impairment	**(158,448,907)**	(158,448,907)
	1,284,969,500	1,241,051,770

	2013	2012
Due to affiliated companies		
PNOC Tankers Corporation	**(22,790,361)**	(22,790,361)
PNOC Renewables Corporation	**0**	(1,568,485)
	(22,790,361)	(24,358,846)
	1,262,179,139	1,216,692,924

Special deposits account consists mainly of cash of dissolved subsidiaries reserved against future claims.

Deferred charges pertain mainly to the prepaid interest on Retail Treasury coupon bonds and deferred withholding taxes on rental.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2013	2012
Accrued expenses	**64,859,462**	107,242,500
Accounts payable	**14,533,164**	30,602,693
Other accounts payable	**186,374,780**	204,109,495
	265,767,406	341,954,688

Accrued expenses account is comprised mainly of expenses/services already incurred but not invoiced as of year end. In 2012, the account includes liability to the BIR amounting to P64,746,444 for the interest and surcharges of PNOC deficiency VAT for 2003 under CTA Case No. 7930.

Other accounts payable consists mainly of funds for the Decentralized Energy Systems (DES) Project. The fund was transferred by Energy Development Corporation (EDC) to PNOC, in accordance with the provision in the Deed of Assignment dated May 28, 1993. The Deed of Assignment states that in the event of PNOC EDC's partial or full privatization, the project shall be transferred to another institution such as Foundation under PNOC. On July 29, 2010, PNOC and EDC jointly executed a Turnover Certificate where the authorized representatives of each party certified the delivery and receipt of all the assets and instruments evidencing the same as well as the contracts and documents in connection with the DES Project.

Other accounts payable also includes salaries payable, taxes withheld and other liabilities to the Philippine Government.

12. OTHER CREDITS

This account includes non-current items of other deferred income and other deferred credits amounting to **P2,226,431,164** and P2,217,625,579 for **2013** and 2012, respectively.

13. EQUITY

a. Capital Stock

The Company's authorized capital stock is divided into ten million no par value shares, of which two million shares were initially subscribed and paid for by the Philippine Government at P50 per share. The remaining shares may be subscribed and paid for by the Republic of the Philippines or by government financial institutions at no less than P50 a share. From 1975 to 1988 additional shares of 6,029,191 were subscribed by the Philippine Government at P500 per share.

b. Retained Earnings

Pursuant to Republic Act (RA) 7656, PNOC declared a total cash dividend of P369,304,169 for its 2013 net earnings, which include the amount of P249,723,185 and P17,618,498 that were remitted directly to the Bureau of Treasury by PNOC Exploration Corporation and PNOC Development and Management Corporation, respectively.

On April 30, 2013 and June 11, 2013, PNOC remitted a total of P500 million cash dividend to the National Government out of the Company's net income for 2011 and 2012 as required by the Department of Finance in its letter dated January 31, 2013.

14. DIVIDEND INCOME

This account consists of dividends from the following:

	2013	2012
PNOC Exploration Corporation	**499,446,370**	1,498,339,110
PNOC Development and Management Corp.	**35,236,996**	0
Gulf Oil Philippines, Inc	**5,085,465**	1,786,779
Others	**93,264**	27,931
	539,862,095	1,500,153,820

15. OPERATING EXPENSES

This account consists of:

	2013	2012
Employee Costs	**83,053,556**	76,814,960
Purchased Services and Utilities	**61,650,786**	62,906,457
Business Expenses	**42,036,512**	33,299,366
Depreciation	**35,149,006**	30,135,824
Rentals/ Insurance/ Taxes	**20,361,028**	20,070,636
Materials and Supplies	**9,004,400**	8,033,686
Maintenance and Repairs	**2,918,107**	4,447,446
Awards and Indemnities	**191,519**	28,315,213
Miscellaneous Charges	**1,796,898**	1,605,798
	256,161,812	265,629,386

16. FOREIGN EXCHANGE LOSS

This account pertains to realized foreign exchange losses (P13,590) in dollar denominations of money market placements matured in January and February 2013 and foreign exchange gain (P5,584) on the Company's dollar account.

17. OTHER INCOME (CHARGES)

This account consists of the following:

	2013	2012
Gain on disposal of assets	**9,947,210**	32,759
Other income (charges)	**13,972,596**	(67,764,075)
	23,919,806	(67,731,316)

18. INCOME TAX

Components of income tax expense are as follows:

	2013	2012
Current income tax	**5,055,468**	3,435,807
Deferred income tax	**42,121,257**	44,825,461
	47,176,725	48,261,268

The computation of taxable income follows:

Net income per books	**785,785,064**	1,702,363,642
Permanent differences		
Interest income	**(197,530,822)**	(316,683,556)
Dividend income	**(539,862,095)**	(1,500,153,820)
Gain on sale of land	**(8,995,628)**	0
Non-deductible expenses	**9,855,032**	9,869,224
Temporary differences		
Accrued rental income	**0**	(3,611,882)
Unearned rent income	**(346,420)**	3,835,103
Deficiency income tax	**0**	64,746,444
Net taxable income (loss) before NOLCO	**48,905,131**	(39,634,845)
Less: NOLCO – 2010	**(48,905,131)**	0
Taxable income	**0**	0

Current income tax was computed based on the Minimum Corporate Income Tax (MCIT) rate of two percent. Under RA No. 8424 entitled "An Act amending the National Internal Revenue Code, as Amended and For Other Purposes," the MCIT shall be imposed whenever a domestic corporation has zero taxable income or whenever the amount of MCIT is greater than the normal income tax due from such corporation.

Effective January 1, 2009, in accordance with RA 9337, Regular Corporate Income Tax rate was reduced from 35 percent to 30 percent.

19. DEFERRED TAX

The components of deferred tax assets are as follows:

	2013	2012
Deferred tax assets:		
Tax effect of temporary differences	**256,630,515**	256,700,449
Carryforward of unused tax losses	**31,742,611**	76,806,644
Minimum Corporate Income Tax (MCIT)	**12,292,492**	10,728,295
	300,665,618	344,235,388

	2013	2012
Deferred tax liabilities:		
Revaluation increment on investment property	**(2,789,156,407)**	(2,790,604,920)

Deferred tax asset is recognized for the tax benefit from deductible temporary differences between the financial reporting bases of assets and liabilities and their related tax bases in compliance with IAS No. 12. The tax effect of temporary differences consist mainly of the unrealized foreign exchange losses on foreign loans, allowance for doubtful accounts and allowance for decline in value of investment.

Deferred tax asset is also recognized for the carryforward of unused tax losses and MCIT in accordance with IAS 12. As of December 2013, the Company has accumulated P12,292,492 as MCIT available for deductions against the regular income tax due and Net Operating Loss Carry Over (NOLCO) of P105,808,705 for offsetting against future taxable income for three consecutive years immediately following the year of such loss. Breakdown of the P105.8 million NOLCO is as follows:

Year Incurred	Amount	Applied	Expired	Unapplied
2010	150,213,442	48,905,131	101,308,311	0
2011	66,173,860	0	0	66,173,860
			0	
2012	39,634,845	0		39,634,845
2013	0	0	0	0
	256,022,147	48,905,131	101,308,311	105,808,705

Deferred tax liability was recognized for the tax liabilities arising from the Company's revaluation increment of its investment properties (see note 8) as of December 31, 2013.

20. RATIONALIZATION PROGRAM

The PNOC Organization Structure remains at "status quo" pending the results of the evaluation of the Rationalization Plan (RatPlan) submitted to the Department of Budget and Management (DBM) last June 2010 and eventually forwarded to the Governance Commission on Government Owned and Controlled Corporations (GCG) in 2013.

In December of 2012, the DBM requested a briefing on the RatPlan and further evaluation of the plan by DBM was to be conducted. As of date, the DBM has advised the PNOC that the RatPlan of the company has been forwarded to the GCG. The PNOC, being a GOCC is now under the oversight of the GCG as provided for in RA 10149. The GCG is currently evaluating the RatPlan and has yet to forward its comments to the company.

21. INFORMATION REQUIRED UNDER RR 15-2010 OF THE BUREAU OF INTERNAL REVENUE

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulation (RR) 15-2010, Amending Certain Provisions of Revenue Regulations No. 21-2002, as amended, Implementing Section 6 (H) of the Tax Code of 1997, authorizing the commissioner on internal revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns. Under the said regulation, companies are required to provide, in addition to the disclosures mandated under IFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year.

In compliance with the requirements set forth by RR 15-2010, herewith are the information on taxes, duties and license fees paid or accrued during the taxable year.

A. Value Added Tax (VAT)

The Company is a VAT-registered entity with a VAT output tax declaration of P33,717,206 and VAT input taxes of P15,024,063 for 2013.

B. Documentary Stamp Tax (DST) **689**

C. Withholding Taxes

Withholding taxes paid/accrued for the year amounted to:	
Tax on compensation and benefits	**11,526,549**
Creditable withholding taxes	**3,290,460**
VAT and other percentage taxes	**6,525,524**
	21,342,533

D. All other Taxes (National and Local)

Other taxes paid during the year recognized under “Taxes and licenses” account under operating expenses	
Real estate taxes	**10,105,606**
Transfer tax and registration fees	**45,598**
Business taxes	**10,500**
Other taxes, fees and licenses	**951,921**
	11,113,625

E. Deficiency Tax Assessments and Tax Cases

As of December 31, 2013, PNOC has a pending Application for Abatement of interest and surcharges imposed on deficiency value-added tax on the Company’s interest income on advances to subsidiaries for the years 2003 and 2009.

It also has one pending tax case with the BIR under OSJ Case No. 2004-13, DOJ Manila which pertains to PNOC’s tax liability for the alleged deficiency income tax and deficiency value-added tax liabilities for the year 2000 amounting to P28,651,796 (basic) plus 20 percent interest from April 16, 2010 until fully paid. PNOC protested the assessment but was denied by the BIR on June 14, 2004. On July 19, 2004, PNOC filed a Petition for Review in the Department of Justice. However, the DOJ dismissed the petition on April 16, 2010.

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The existence of PNOC Alternative Fuels Corporation (PAFC) and PNOC Development and Management Corporation (PDMC) has lost its essence as the primary mandate for their creation has become inconsistent to their real estate business activities, to which the PNOC is also engaged in. PNOC Renewables Corporation (PNOC RC), on the other hand, has been in existence for six years but to this date, its projects are still in the pre-development stage and no substantial benefit therefrom has been derived. The benefit gained, if there be any, from their operation is not commensurate to the costs incurred by the government to maintain their operations.**

1.1 Philippine National Oil Company (PNOC) was created, thru Presidential Decree No. 334 dated November 9, 1973, to undertake and transact the corporate business relative primarily to oil or petroleum operations such as actual exploration, production, refining, tankerage and/or shipping, storage, transport, marketing, and related activities concerning oil and petroleum products.

1.2 The PNOC vision by 2025 is to be a world class organization that executes the country's energy strategy toward self-sufficiency, sustainability, stability of prices, and security of supply. Through the efforts and initiative of world class professionals, PNOC is committed to:

a. Develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing the country's self-sufficiency level in oil, gas and other energy sources;

b. Ensure security of supply; contributing to energy price stability and affordability;

c. Foster sustainable and environmentally-friendly sources of energy; and

d. Promote and maintain the highest standards of service and corporate governance.

1.3 To smoothly operationalize its vision, PNOC currently has the following subsidiaries:

1.3.1 ***PNOC Exploration Corporation (PNOC EC)***

a. PNOC EC is the upstream oil and gas subsidiary of PNOC. It has entered into service contracts with the Department of Energy on oil, gas, and coal exploration projects where the Company has either 100 percent ownership or is in joint venture with other partners.

1.3.2 *PNOC Management and Development Corporation (PDMC)*

a. PDMC is mandated to develop, manage and add value to the real estate properties which PNOC and other subsidiaries hold. Its current projects are El Pueblo Housing Project in Manila, Costa Verde Subdivision in Rosario, Cavite, and Socialized Housing in Noveleta, Cavite.

b. PDMC has existing Joint Development Agreement with Sta. Lucia Realty and Development Corporation for the Costa Verde Subdivision; and Contract to Sell with Phoenix Sun International Corporation for El Pueblo Housing Project.

c. The secondary purpose of PDMC is to engage in the business of developing vital energy infrastructure such as refineries, pipelines, pumping station and the like. To date, it has no future plans or projects that are related to PNOC's oil or petroleum operations.

d. PDMC's personnel complement is composed of 18 people doing its business while the Estate Management Department (EMD) of PNOC has eight personnel, tasked to manage its real estate properties in various parts of the country.

e. Considering the participation of private companies in selling the remaining projects of PDMC and the similarity of PDMC's mandate with the function of PNOC EMD, the said projects may be transferred to PNOC to reduce costs and expenses.

1.3.3 *PNOC Alternative Fuels Corporation (PAFC)*

a. PAFC's primary mandate is to explore, develop and accelerate the utilization and commercialization of existing and emerging alternative sources of energy and technologies and carry on the business of alternative fuels and other related activities thereto to enhance the energy security and promote sustainable energy development.

b. On August 8, 2006, then President of the Philippines Gloria Macapagal Arroyo, in a Joint National Economic and Development Authority Board and National Anti-Poverty Commission Cabinet Group Meeting held at the Malacañang Palace, issued her directives for PAFC to have primary responsibility over the BioFuel Project and be the one to coordinate with the concerned agencies. In 2007, PAFC and DOST started and funded its research and development program on Jatropha curcas for Biodiesel.

c. From years 2008-2011, PAFC incurred operating losses totaling P474.61 million, thus PAFC formulated the winding down plan of the Jatropha Project with the intention to ensure that the investments and interests of PAFC and Partner growers in the plantations are mutually protected and insulated from unwarranted risks. Total releases to the Partner growers amounted to P414.486 million, which PAFC impaired by P240.06 million down to P174.426 million. Since the Jatropha plantation's winding down, PAFC has no current projects to implement its primary mandate of developing any alternative sources of energy.

d. At present, PAFC entered into Interim Locator Agreement with Atlantic, Gulf and Pacific Co., an industrial process outsourcing company. AG&P plans to put a 2,400-megawatt (MW) integrated liquefied natural gas facility within PAFC property in Mariveles, Bataan.

As of December 31, 2013, leasing and providing basic services to locators are the main source of PAFC's revenue. This is also similar to the functions of PNOC EMD, hence, PAFC business could be part of PNOC operations.

1.3.4 ***Philippine Renewables Corporation (PNOC RC)***

a. The mandate of PNOC RC is to promote and undertake research, development, utilization, manufacture, sale, marketing, distribution and commercial application of new, renewable, non-conventional and environment-friendly energy sources and systems including but not limited to solar, wind, water heat, steam, ocean, tidal, biomass, biogas, chemical, mechanical, electrical, synthetic, agricultural, and other natural, fossil, or non-fossil fuel based, artificial, organic or otherwise, and of energy systems that use new, renewable and any energy sources applying new and efficient energy conversion and/or utilization technologies for commercial application and promote their efficient utilization.

b. Since its creation in March 2008, PNOC RC accomplished the solar street light conversion at the PNOC Compound in 2009 and the Boni Tunnel in Mandaluyong City in 2012; and the 20-megawatt Maibarara geothermal power plant in Batangas began commercial operations in Sto. Tomas, Batangas on Febuary 8, 2014. This plant is run by Maibarara Geothermal, Inc., a joint venture company, wherein PNOC RC has 10 percent ownership.

c. Aside from the above-mentioned accomplishments, all other hydropower and geothermal projects are still in pre-development stage and the reasonable time to complete is not yet specified.

The 2013 financial statements of PNOC RC shows that the Company incurred a net loss of P16.88 million which is mainly attributed to the operating expenses of P41.541 million or 32 percent increase over the 2012 figures. Although, the profit increased during the year due to the sale of solar panels to DOE in relation to the latter's Barangay Electrification Program. The remaining solar panels were already donated to the University of the Philippines. Therefore, the Company's viability to cover its operating expenses in the coming year is questionable.

1.4 ***We recommended that Management:***

a. ***Conduct cost-benefit analysis to evaluate if shortening the corporate life of its subsidiaries will be more economically feasible or yield better return for PNOC's investments; and***

b. ***Review its EMD's corporate structure to accommodate the real estate operations of PDMC, PAFC and other investment property of other subsidiaries.***

1.5 Management submitted the following information:

a. There are ongoing discussions with Governance Commission for GOCCs (GCG), which directionally are consistent with the audit team's recommendation for PNOC, among others, to absorb PDMC, PAFC and PNOC RC. Discussions with GCG also involve other protocols by which the three subsidiaries may be reorganized e.g. merger, streamlining, abolishment and privatization.

b. Management is in the process of outsourcing an external consultant to help PNOC develop the most appropriate protocol.

c. PNOC Board will meet on May 26, 2014 and the reorganization of PNOC and its subsidiaries is top in the board agenda.

2. **The existence, completeness and accuracy of the P304.030 million Property and Equipment of PNOC could not be ascertained due to non-reconciliation of Physical Inventory Report with the accounting records.**

2.1 COA Circular No. 80-124 dated January 18, 1980 prescribes the rules and regulations for the inventory of fixed assets of government-owned and/or controlled corporations and subsidiaries. It requires that a physical inventory of fixed assets shall be made at least once a year and an inventory report thereon shall be prepared and reconciled with accounting and inventory records.

2.2 Review of the Inventory Report and the Property and Equipment accounts disclosed the following:

a. The Inventory Report was not prepared in accordance with the prescribed form, lacking information on the balance per stock card, on hand per count and the shortage or overage, if any.

b. The articles / items were not presented in the Inventory Report by class of property and equipment as grouped in the PNOC's chart of accounts, such as office equipment, furniture and fixtures, transportation equipment, etc. Instead, the articles / items were shown in the Inventory Report by location per office and per building floor, as follows:

Location of Fixed Assets	Amount
Basement of PNOC Bldg. 6	P20,859,359
Ground Floor	17,036,140
Second Floor	21,596,356
Third Floor	7,387,088
Fourth Floor	15,335
Fifth Floor	9,741,058
Sixth Floor	3,870,738
Seventh Floor	1,737,583
Other Building	3,358,269
Total per Inventory Report	**85,601,926***

**Includes the costs of Transportation Equipment*

c. Discrepancy of P218,428,247 was noted between the total amount of P85,601,926 per Inventory Report with the P304,030,173 year-end balance of PE (excluding the cost of land and MCC Building & Improvements).

d. Further comparison of the Building & Improvements and Equipment per FS with the lapsing schedules prepared by the Accounting Department showed a variance of P140,404, with details as follows:

GL Account	Per FS	Per Schedule	Variance
Building & Improvements	274,996,464	268,511,548	6,484,916
Machinery Equipment	280,233	160,982	119,251
Communication Equipment	3,458,783	3,458,783	0
Office and Household Equipment	18,026,714	21,072,728	(3,046,014)
Transportation Equipment	7,267,979	10,966,536	(3,698,557)
Total Acquisition Cost	**304,030,173**	**304,170,577**	**(140,404)**

e. As of December 31, 2013, the balance of fully depreciated assets under the Other Assets account is P141,777 while the total amount per Lists of Assets for Disposal was P41,942. Another List of Items for Donation was submitted to our Office but the costs are not indicated.

f. A Journal voucher dated December 2013 showed that the P5,256,417 acquisition costs of fully depreciated assets were credited and the related P5,270,317 accumulated depreciation was debited, leaving P13,900 salvage value or P100 for each asset.

g. The practice of reclassifying the fully depreciated items from Property and Equipment accounts to Other Assets account, even if there is no report yet if these assets are still being used in business or considered unserviceable, is contrary to International Accounting Standards (IAS) No. 16 which defines that Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period.

2.3 Further, the Property & Supply Management Division (PSMD) also prepared the Inventory Report of Office Forms and Supplies as of December 31, 2013 showing a total amount of P2,002,103. These unused office supplies had already been charged as operating expenses, hence, overstating the Supplies Expense account.

2.4 The inability of Accounting Department and the PSMD to reconcile the accounting records with the Inventory Report indicates weakness of internal control and unreliable Property and Equipment account balance.

2.5 ***We recommended that Management:***

a. Require the PSMD to use the prescribed format for inventory report and the Accounting Department to reconcile the accounting records with the physical count to establish the integrity of property custodianship and reliability of account balances;

b. Maintain updated lapsing schedule with complete information to support account balances appearing in the books of account and for easier reconciliation for each item line by line;

c. Use the Inventory and Inspection Report of Unserviceable Property prepared by PSMD as a basis in the reclassification of unserviceable property to Other Assets account; Retain under the Property and Equipment accounts the fully depreciated but still serviceable assets; and

d. Prepare the necessary adjusting entries including the unused office supplies as prepayments.

2.6 Management submitted the following comments:

a. The Accounting Department is coordinating with PSMD on the presentation of the items in the inventory report in such a way that items will be shown by class of property and not by location. The reconciliation of accounting records with the Inventory Report is also ongoing.

b. One of the reasons of the disparity is due to the bugging down of the PPE system. However, they are still in the process of reconciling the above variance.

c. The list of Assets for disposal of amounting to P41,942 has already been deducted from the Other Assets Account of P141,777, meaning the balance in the Other Assets account is either for donation or disposal through bidding.

d. Management will review the International Accounting Standards (IAS) for fully depreciated assets and the budget implication of unused office supplies.

3. **The P13.027 million Accounts Payable and Accrued Expenses remained dormant for two to more than ten years contrary to Section 3.2 of COA Circular No. 99-004.**

3.1 COA Circular No. 99-004 dated August 17, 1999 provides, among others, that all obligations shall be supported by valid claims and Payable – Unliquidated Obligations which has been outstanding for two years or more and against which no actual claims, administrative or judicial, has been filed or which is not covered by perfected contracts on record should be reverted to the Cumulative Results of Operations Unappropriated, now to Government Equity account under COA Circular No. 2004-008 dated September 20, 2004.

3.2 Accounting records showed that the following accounts remained dormant for two to more than ten more years:

Account Name / Nature of Transactions	Amount
Accrued Expenses	
Accrued Insurance – Integrated Factors	1,058,276
Extra Risk Insurance Premium – RS 90	1,025,500
Accounts Payable	
Liabilities of Malangas Coal Corporation absorbed by PNOC	9,142,646
Liabilities established in 2000 to 2011	946,711
Unclaimed Checks	158,289
Other Accounts Payable	
Adjustment of interest on LBP IMA Placement for the period February 2006 to March 2008	21,198
Bid bond and performance bond of various entities no longer doing business with PNOC	674,509
	13,027,129

3.3 The existence of these long-outstanding accounts casts doubt on the validity and existence of payables and accrued expenses.

3.4 ***We recommended that the Accounting Department go over the old files, review pertinent documents, analyze the transactions, and prepare the necessary adjusting entries and comply with Sec. 3.2 of COA Circular 99-004.***

3.5 Management submitted the following comments:

a. Accrued expenses have already been adjusted/reversed in March 2014.

b. Management will review all the documents on the related liabilities account and will prepare the necessary adjusting entries.

c. According to Management, one of the reasons why some bidders have not applied for the refund was because they could not comply with the requirements such as, presentation of the original copy of the Official Receipt. Nevertheless, as recommended, they will review all the above mentioned accounts and will likewise prepare the necessary adjusting entries to be reflected in 2014 Financial Statements.

4. **The validity and existence of P2.414 million Special Deposit and Funds could not be substantiated due to the absence of proof of payments and supporting documents.**

4.1 Section 111 of Presidential Decree 1445 otherwise known as the "Government Auditing Code of the Philippines" provides, "the accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."

4.2 The Special Deposit and Funds account of PNOC had a total outstanding balance of P2,414,360 as of December 31, 2013, as follows:

Particulars		Amount
Motorist's Holiday - for fuel withdrawals		P 30,303
PLDT - Ten (10) telephone lines for ITD	P 4,200	
PLDT - Five (5) telephone lines for EVP, GSD, Energy Research, Project Mgt. and Board of Directors	2,000	
Deposit to PLDT	24,300	
Deposit - Paging Subscriptions-Pocketbell	76,664	
Deposit - 6 units Pagers - Easy Call	12,730	
Deposit - Meralco re: estimated 1 month billing	812,810	
Deposit - PLDT	1,200	
Deposit - Smart Communications Inc.	1,560	
Deposit - Union Bank (MCB University Press, Ltd.)	93,827	
Deposit - Alviar Marketing (Oxygen/Acetelyn Tank)	7,000	
NEXTEL - Deposit for 7 units handset	13,629	
DOE - Performance for Solar Project	25,000	

ExpressFill Petron Station	50,000	
UCPB - Safety Deposit Box	8,067	1,132,987
		P1,163,290

4.3 The original copies of receipts or any supporting documents from the concerned entities could not be presented for examination because there was no proper turnover of files from the previous management.

4.4 The inability of Management to pursue immediate collection rendered the accounts doubtful of collection. Deposits with Motorist's Holiday, Pocketbell, Easy Call, and NEXTEL totaling P133,326 were already impaired since these entities are no longer existing/doing business with PNOC.

4.5 The P1,251,070 account from Energy Development Corporation, which comprises 52 percent of Special Deposits and Funds, was also doubtful due to lack of records to support the claim of PNOC over this asset.

4.6 ***We recommended that Management explore other alternative methods of obtaining information to substantiate the account balance.***

4.7 Management commented that deposits with Motorist's Holiday, Pocketbell, Easy Call, and Nextel already impaired. Since these entities are no longer existing/doing business with PNOC, Management shall prepare the necessary adjusting entries to be reflected in the May 2014 Financial Report.

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S RECOMMENDATIONS

Out of the three audit recommendations issued in CY 2012, two were not implemented and one was fully implemented. Their status and/or actions taken by Management on the observations are as follows:

Reference	Observations	Recommendations	Status of Implementation
2012 AAR, Observation No. 1, p. 20	1. The engagement of services of private lawyers lacked compliance with the provisions of COA Circular No. 86-255 dated April 2, 1986, as amended by COA Circular No. 95-011 dated December 4, 1995.	Comply with the pertinent provisions of COA Circular 86-255, as amended by COA Circular No. 95-011. Require the responsible PNOC officials to refund the P63,000 payment made to private lawyers.	Not implemented. Management explained that the said private lawyers were hired based on the written statement of the then Corporate Auditor assigned in PNOC. The private lawyer who handled the PNOC case was already passed away in CY 2012.
2012 AAR, Observation No. 2, p. 22	2. Special allowances of P1.842 million in CY 2010 and P1.917 million in CY 2011 were granted to the Solicitor General, Assistant Solicitor General, Senior State Solicitors and Associate Solicitor engaged by PNOC were not duly approved by the Solicitor General and Secretary of Budget and Management as required by Section 10 of RA No. 9417 dated July 24, 2006.	Obtain written approval for the rates they are paying the lawyers from the OSG in accordance with RA 9417.	Fully implemented. Management is now remitting the professional fees to the Office of the Solicitor General.

2013 BOARD OF DIRECTORS

Chairman	:	**Carlos Jericho L. Petilla**
President/CEO	:	**Antonio M. Cailao**
Directors	:	**Dante B. Canlas**
		Bob D. Gothong
		Ma. Gladys C. Sta. Rita *(Transferred to NPC effective 31 July 2013)*
		Potenciano V. Larrazabal, Jr.
		Pedro A. Aquino, Jr.
		John J. Arenas

BUSINESS ADDRESSES

Philippine National Oil Company (PNOC)
Building 6, Energy Center, Rizal Drive, Bonifacio Global City
Taguig City 1634 PHILIPPINES
Telephone No.: +63 2 789-7662
Web Site: www.pnoc.com.ph

PNOC Exploration Corporation
Building 1, Energy Center, Rizal Drive, Bonifacio Global City
Taguig City 1634 PHILIPPINES
Telephone No.: +63 2 479 9400
Website: www.pnoc-ec.com.ph

PNOC Alternative Fuels Corporation
Building 5, Energy Center, Rizal Drive, Bonifacio Global City
Taguig City 1634 PHILIPPINES
Telephone Nos.: +63 2 817 9694
Website: www.pnoc-afc.com.ph

PNOC Renewables Corporation
Building 5, Energy Center, Rizal Drive, Bonifacio Global City
Taguig City 1634 PHILIPPINES
Telephone No.: +63 2 840 3079 to 82
Website: www.pnoc-rc.com.ph

PNOC Development and Management Corporation
Building 5, Energy Center, Rizal Drive, Bonifacio Global City
Taguig City 1634 PHILIPPINES
Telephone Nos.: +63 2 840 2652
Website: www.pnoc-dmc.com.ph