


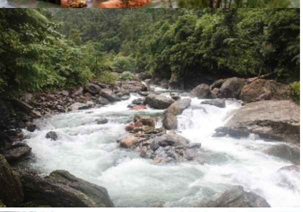

2014 ANNUAL REPORT






PNOC
The Energy Company

PHILIPPINE NATIONAL OIL COMPANY

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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 (WalangIwanan)

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. This geothermal energy has contributed considerably to reducing the country's dependence on imported oil to 50 percent. The $5.0 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 or sale.

Where We Are Now

Last year (2013), the PNOC Board of Directors approved the dissolution of the PNOC Shipping and Transport Corporation (PSTC), after having already served the purpose for which it was established. PSTC has served the transport requirements of Petron for thirty years.

In response to the country's increasing demand for energy, PNOC created 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.

PNOC, in a series of meetings, consultations, and evaluations with the Governance Commission for Government-Owned or Controlled Corporations (GCG), was mandated to be an operating company. In line with this move, GCG recommended the abolition of PAFC and PDMC, which was duly approved the Office of the President on September 8, 2014. As such, PNOC will absorb the functions and operations of these subsidiaries.

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. PNOC EC owns a 10% stake in the upstream component of the Malampaya Deepwater Gas-to-Power Project, together with Shell and Chevron. 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 126.30 billion standard cubic feet (bcf), higher than last year's 119.67 bcf production. This output 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 was estimated at 4.41 million barrels compared to last year's3.82 million barrels for the year. The Consortium has undertaken the execution activities of Malampaya Phase 3 – Depletion Compression, targeted to be on-stream by 2015.

COAL

After the dissolution of the PNOC Coal Corporation (PCC), PNOC EC continued with the coal business, having assumed its operations of coal trading and integrated services, 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). Unfavorable coal prices in the market has caused all development and production activities to be stopped since March 1, 2013, with a pending proposal for the implementation of a Rationalization Plan to the Governance Commission for GOCCs (GCG), for approval.

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. PNOC EC's JV proposal for this project was presented to the NEDA-ICC, but the project approval is pending until GCG approval, and PNOC EC can provide proof of its financial capability to undertake the project. The DOF Corporate Affairs Group will review the proposal. PNOC EC continued to conduct Corporate Social Responsibility (CSR) and Information, Education, Communication (IEC) activities for the project.

Coal Production and Sales

For CY 2014, total aggregate coal production from Malangas coal operations (COC 41) was registered at 63.16 thousand metric tons (MTs) coming mostly from the production of small-scale coal miners. This was 79 percent of the targeted 80.00 thousand MTs, for the year.

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 199.16 thousand MT for the year, slightly higher than the 190.30 thousand MT registered in 2013. The low coal sales was attributed to the majority of large industries directly dealing with Semirara Mining Corporation and other mining companies, the continued price drop of imported coals, and new traders in the 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 2014, PNOC EC met with the DOE on possible issues should the CNG offtake or number of buses go below the minimum requirement. The DOTC affirmed to grant 168 new franchises for CNG buses, and committed to announce the available routes in October 2014. The distribution of the 168 new franchises among participating bus operations is being finalizedby the DOE.

RENEWABLE ENERGY

The PNOC Renewables Corporation (PNOCRC) 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

PNOC RC continued to assist JobimSqm, Inc. (JSI) in its service content applications to the planned 100 MW solar PV and 50 MW wind farm in Subic Bay Freeport Zone (SBFZ) after the DOE settled an overlap issue with another developer applicant in the area. The updated application is currently under review.

PNOC RC and JobimSqm, 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.

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, namelySiaton 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 RCsecured the extension of service contracts for six projects and received DOE's letters of endorsement to regulatory government agencies. 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.

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

PNOC RC maintains a ten percent share in the Maibarara Geothermal, Inc. (MBI) consortium. The power plant was commissioned on February 2014, and has now generated a total of 88,658 MWh year-to-date (YTD).

The Maibarara Geothermal Power Project (MGPP) was already commissioned on February 8, 2014, and commercially operated with a maximum output of 20 MWe. PNOC RC is a joint venture partner for the development of the project with ten percent equity. As of November 2014, plant generation was recorded at 115,792 Mwh.

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 to 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 was a strong need to source alternative fuels instead of relying on basic oil and gas.

Biofuels

In July 2014, the National Economic and Development Authority (NEDA) approved the feasibility study titled "Establishment of a Commercial Sweet Sorghum Plantation and a Sweet Sorghum Syrup Processing Plant in Batangas", under the Feasibility Study Fund. NEDA awarded the conduct of the feasibility study to the University of the Philippines, Los Baños.

Industrial Park Operations

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 expandingits 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.

For the year 2014, a total of 1,282,555.55 cubic meters of raw and fire water was provided to locators. Monitoring and maintenance of the water distribution system facilities/equipment and lighting facilities were regularly conducted. The implementation of civil works was deferred due to the re-alignment of the budget to other projects. The Construction of a Temporary Fence was likewise deferred since areas have yet to be freed-up by informal dwellers.

POPs Project

The POPs Project, thefirst of its kind in the country and in Southeast Asia, is part of a global program introducing and applying a non-combustion technology to destroy polychlorinated biphenyls (PCBs) wastes.

The PNOC-AFC has partnered with Department of Environment and Natural Resources (DENR) under the funding of United Nations Industrial Development

Organization (UNIDO) for the implementation of the POPS project. The PNOC-AFC was set to host and operate the PCB destruction facility to be located at the Industrial Park. PCB destruction equipment and its installation will be funded and provided by UNIDO while PNOC is in charge of the building structure and other civil works. POPs operation is expected to lasts for 5 years to destroy/treat a total estimated PCB waste of 6,000 tons for the entire Philippines.

In January 2014, the PAFC Board recommended that PNOC-AFC exit as the operating entity of the Non-Com POPs Project because of repeated delays and the depletion of the allocated budget for this project. PNOC-AFC has to coordinate with DENR-EMB for a smooth transition of the project to a private entity. PAFC's President and Chief Executive Officer (CEO) authorized to negotiate with DENR-EMB, UNIDO, and/or other parties for purposes of the transfer of POPs facility to a private entity operator, subject to applicable accounting, auditing, and procurement rules and regulations.

The DENR signed the Memorandum of Agreement (MOA) regarding the turnover of the POPs Project to DENR last December 22, 2014.

ESTATE MANAGEMENT

The PNOC Development and Management Corporation (PDMC), is PNOC's real estate armengaged 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 2014, PDMC sold 18 Costa Verde lots with a Total Contract Price of ₱23.6 million, and has collected ₱23.9 million of installment receivables.

Fourteen (14) El Pueblo Condomitelunits were sold with a Total Contract Price of ₱21.0 million cash sale representing ₱2.7 million cash collections from sales and ₱3.9 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 ₱10.4 million remittance from the LGU was received for the year 2014.

Lease of Capital Assets

For 2014, PDMC collected ₱13.3 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 ₱1.6 billion in dividends out of its 2103 earnings and subsidiaries' remittances for 2013 net earnings, to the Bureau of Treasury during the year.

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, 2014

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 in December 1992 to include energy exploration and development.

   It initiated the exploration of the country's indigenous oil and non-oil energy resources. Its purpose is 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 four subsidiaries working together to realize PNOC's vision: PNOC Exploration 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, 2014 in accordance with Philippine Standards on Auditing. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Corporation with prescribed laws, rules and regulations.

B. Financial Highlights (In Million Pesos)

The operating budget of PNOC for the year 2014 was P576 million. Forty-two percent of the budget, equivalent to P243 million, was utilized during the year.

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

Financial Position

	2014	(As restated) 2013	Increase (Decrease)
Assets	42,405	40,768	1,637
Liabilities	4,597	5,463	(866)
Equity	37,808	35,305	2,503

Results of Operations

	2014	(As restated) 2013	Increase (Decrease)
Revenues	4,440	1,018	3,422
Operating Expenses	234	256	(22)
Income From Operations	4,206	762	3,444
Other Income	812	207	605
Net Profit Before Tax	5,018	969	4,049
Income Tax	12	72	(60)
Comprehensive Income For the Period	5,006	897	4,109

PNOC remitted a total of P1.611 billion in dividends to the Bureau of Treasury during the year 2014.

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, 2014 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 were noted in the review of transactions. These, together with the audit recommendations, are presented below. Details are in Part II.

1. The PNOC's investments in dissolved subsidiaries of P578.683 million were still included in its *Investments* account. Moreover, there was no adequate allowance for impairment loss for subsidiaries which were already dissolved and/or under liquidation in the total amount of P217.068 million contrary to Philippine Accounting Standard (PAS) 36.

   Recommendation:

   a. *Evaluate the remaining assets and liabilities of subsidiaries which were dissolved and/or under liquidation; determine the amount of investments that have to be written down; and recognize as expense the necessary impairment loss.*

2. The assets and liabilities of the dissolved companies of PNOC in the total amount of P2.164 million were reflected in the Consolidated Financial Statements contrary to Sec. 20 and Sec. 25 (a) of Philippine Financial Reporting Standard (PFRS) 10.

   Recommendations:

   a. *Assess the fair market value of the remaining assets and substantiate the existence of accounts payable and accrued expenses of dissolved corporations; and*

   b. *Derecognize the accounts of its non-existing subsidiaries from the Consolidated Financial Statements to conform with PFRS 10.*

3. Long-outstanding reconciling items of P3.627 million aged more than ten years between the PNOC records and the subsidiaries' books of accounts indicated that the year-end balance of *Due from Subsidiaries* account was unreliable. Moreover, the non-recognition of allowance for impairment loss for these receivables was not in conformity with paragraphs 58 and 59 of PAS 39, resulting in the overstatement of *Other Assets – Due from Subsidiaries* account.

   Recommendations:

   a. *Determine if PNOC Shipping and Transport Corporation (PSTC) has remaining assets to pay for its outstanding accounts;*

   b. *Coordinate with the Finance Managers/Accountants of the Subsidiaries to settle the reconciling items and effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and*

c. *Provide allowance for impairment loss for dormant receivables to determine the net realizable value of Due from Subsidiaries and comply with the provisions of PAS 39.*

E. Summary of Total Suspensions, Disallowances and Charges as of December 31, 2014

There were no issued Notices of Suspension, Disallowance and Charge during the year. There were also no outstanding suspension, disallowance and charge pertaining to prior years as of December 31, 2014.

F. Status of Implementation of Prior Years' Recommendations

Out of the nine audit recommendations embodied in the previous years' Annual Audit Reports, three were fully implemented, five were partially implemented and one was not implemented. Details are presented in Part III of this Report.

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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
TaguigCity, 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 of the statement of financial position as at December 31, 2014, and the statement of 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 Philippine 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 Philippine 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 at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ROSALINA A. BERGONIA
State Auditor IV
OIC-Supervising Auditor

June 11, 2015

PHILIPPINE NATIONAL OIL COMPANY

PNOC
The Energy Company

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

COMMISSION ON AUDIT
PHILIPPINE NATIONAL OIL CO.
RECEIVED
MAR 04 2015
BY: Lea TIME: 5:55 pm

February 13, 2015

MS. ROSALINA A. BERGONIA
State Auditor
OIC-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, 2014 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, 2014
(In Philippine Peso)

	Note	2014	(As restated) 2013
ASSETS			
Cash and cash equivalents	4	**1,863,528,457**	909,476,103
Held-to-maturity investments	5	**7,309,178,894**	4,885,904,354
Receivables	6	**149,796,078**	1,087,733,767
Investments in subsidiaries and affiliates	7	**5,273,274,356**	5,273,274,356
Investment property	8	**11,584,823,981**	11,584,082,342
Property and equipment	9	**211,435,729**	219,765,473
Deferred tax assets	20	**273,912,132**	279,755,846
Banked gas inventory	10	**13,789,376,675**	13,789,362,859
Other assets	11	**1,950,128,087**	2,738,468,151
TOTAL ASSETS		**42,405,454,389**	40,767,823,251
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accrued expenses	12	**253,869,173**	265,767,406
Dividends payable	14	**1,073,899,265**	181,286,564
Deferred tax liabilities	20	**2,791,232,821**	2,789,156,407
Other credits	13	**478,044,395**	2,226,431,164
TOTAL LIABILITIES		**4,597,045,654**	5,462,641,541
EQUITY	14	**37,808,408,735**	35,305,181,710
TOTAL LIABILITIES AND EQUITY		**42,405,454,389**	40,767,823,251

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	(As restated) 2013
REVENUES			
Dividend Income	15	**3,022,856,455**	539,862,095
Rent Income		**258,617,785**	280,534,101
Interest Income		**1,158,413,962**	197,638,880
GROSS REVENUES		**4,439,888,202**	1,018,035,076
OPERATING EXPENSES	16	**(233,599,413)**	(256,161,812)
INCOME FROM OPERATIONS		**4,206,288,789**	761,873,264
FOREIGN EXCHANGE GAIN (LOSS)	17	**229**	(8,006)
OTHER INCOME	18	**812,363,721**	207,142,181
NET PROFIT BEFORE TAX		**5,018,652,739**	969,007,439
INCOME TAX	19		
Current		**(4,278,561)**	(8,719,915)
Deferred		**(7,920,128)**	(63,031,029)
PROFIT		**5,006,454,050**	897,256,495
OTHER COMPREHENSIVE INCOME		**0**	**0**
COMPREHENSIVE INCOME FOR THE PERIOD		**5,006,454,050**	897,256,495

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, 2014
(In Philippine Peso)

	CAPITAL STOCK (Note 14.1)	RETAINED EARNINGS (Note 14.2)	TOTAL EQUITY
Balances, 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 net earnings		(96,785,236)	(96,785,236)
Additional cash dividend for 2012 net earnings		(325,333,132)	(325,333,132)
Cash dividend for 2013 net earnings		(101,962,486)	(101,962,486)
Cash dividend directly remitted to the National Government by:			
PNOC Exploration Corporation		(249,723,185)	(249,723,185)
PNOC Development & Management Corp.		(17,618,498)	(17,618,498)
Balances, December 31, 2013, as previously reported	**3,114,595,519**	**32,111,262,113**	**35,225,857,632**
Adjustment in net income		158,648,156	158,648,156
Additional cash dividend for 2013		(79,324,078)	(79,324,078)
Balance, December 31, 2013 , as restated	**3,114,595,519**	**32,190,586,191**	**35,305,181,710**
Comprehensive income for 2014		5,006,454,050	5,006,454,050
Cash dividend for 2014 net earnings		(994,575,187)	(994,575,187)
Cash dividend directly remitted by:			
PNOC Exploration Corporation		(1,500,336,895)	(1,500,336,895)
PNOC Development & Management Corp.		(7,814,943)	(7,814,943)
PNOC Alternative Fuels Corp.		(500,000)	(500,000)
Balances, December 31, 2014	**3,114,595,519**	**34,693,813,216**	**37,808,408,735**

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, 2014
(In Philippine Peso)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers, subsidiaries and employees	**2,261,884,989**	476,126,847
Cash paid to suppliers, subsidiaries and employees	**(245,913,030)**	(448,155,206)
Net cash from operating activities	**2,015,971,959**	27,971,641
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in treasury bonds - net	**(2,416,757,306)**	(1,757,000,000)
Cash dividends from subsidiaries/associates	**1,514,204,616**	272,520,412
Loan drawdowns to subsidiaries	**(40,700,000)**	(33,000,000)
Net proceeds from disposal of assets	**8,115,850**	7,859,482
Capital expenditures	**(24,820,279)**	(19,727,212)
Net cash used in investing activities	**(959,957,119)**	(1,529,347,318)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividend to National Government	**(101,962,486)**	(500,000,000)
Net cash used in financing activities	**(101,962,486)**	(500,000,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**954,052,354**	(2,001,375,677)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**909,476,103**	2,910,851,780
CASH AND CASH EQUIVALENTS, END	**1,863,528,457**	909,476,103

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 one 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.

a. Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Interpretations (collectively PFRSs) issued by the Financial Reporting Standards Council (FRSC).

b. Basis of Preparation

The financial statements of the Company have been prepared using the measurement bases specified by PFRS 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:

	2014	2013
Cash in banks	**2,790,282**	22,563,314
Money market placements	**1,860,738,175**	886,912,789
	1,863,528,457	909,476,103

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 **P7.309 billion** in **2014** and P4.886 billion in 2013 that will mature from two to twenty-five years. These investments bear fixed interest rates ranging from 2.125 to 6.125 percent annually.

6. RECEIVABLES

This account consists of:

	2014	2013
Trade receivable	**112,543,142**	1,050,402,657
Loan receivable	**37,252,936**	37,252,936
Non-trade receivable	**0**	78,174
	149,796,078	1,087,733,767

As of December 2013, the trade receivable of P1.050 billion pertains to the Company's receivable from Power Sector Assets and Liabilities Management Corporation (PSALM) for the banked gas drawn in November 2013 for a total quantity of 4,605,117.06 gigajoules. On October 13, 2014, PNOC received the amount of P928.481 million (net of tax withheld of P9.378 million) from PSALM as payment for its account, leaving a balance of P112.543 million as of December 31, 2014. The amount represents the unpaid 12% Value Added Tax for the said transaction.

7. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

This account consists of the following:

	Percentage of Ownership	**2014**	2013
Investment in operating subsidiaries/affiliates:			
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
Total Investments		**5,273,274,356**	5,273,274,356

In a Memorandum from the Executive Secretary dated September 8, 2014, President Benigno Aquino III had approved the recommendation of the Governance Commission for Government Owned and Controlled Corporation (GCG) to abolish PNOC Development and Management Corporation (PDMC) and PNOC Alternative Fuels Corporation (PAFC). The same Memorandum directed that a Technical Working Group (TWG) shall be created, composed of representatives from the Department of Energy, Philippine National Oil Company and Securities and Exchange Commission, to coordinate with the GCG and implement the following activities:

a. Winding down of the operations, disposition of assets and settlement of liabilities of PDMC and PAFC;

b. Transfer of PDMC and PAFC functions and programs, as well as their remaining assets; and

c. Settlement of the retirement/separation benefits of affected employees of PDMC and PAFC.

The GCG will be coordinating with PNOC regarding the creation of the TWG and the implementation of the foregoing activities.

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.

Effective May 31, 2002, the PNOC Coal Corporation ceased to operate due to continued losses. The PNOC Board under Board Resolution No. 1392, S'2002 shortened the corporate life of the company by amending its Articles of Incorporation. Its coal trading activities were absorbed by the PNOC Exploration Corporation effective June 1, 2002.

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 period 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.*

Bulk of the properties was 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 property amounted to P250.435 million in 2014 and P280.534 million in 2013.

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, 2014	380,205,219	280,233	3,458,782	7,267,979	18,026,715	409,238,928
Additions	3,368,469	0	0	12,081,767	2,500,248	17,950,484
Disposals	0	0	(405,445)	(1,209,091)	(5,778,239)	(7,392,775)
Reclassifications/Adjustments	(78,815)	200,558	577,164	16,523,557	40,320,512	57,542,976
December 31, 2014	383,494,873	480,791	3,630,501	34,664,212	55,069,236	477,339,613
ACCUMULATED DEPRECIATION						
January 1, 2014	(176,280,863)	(170,154)	(2,981,706)	(1,074,603)	(8,966,129)	(189,473,455)
Depreciation	(17,982,902)	(32,077)	(468,628)	(3,341,353)	(4,196,006)	(26,020,966)
Disposals	0	0	405,245	1,208,791	5,756,806	7,370,842
Reclassifications/adjustments	0	(200,458)	(513,596)	(16,725,748)	(40,340,503)	(57,780,305)
December 31, 2014	(194,263,765)	(402,689)	(3,558,685)	(19,932,913)	(47,745,832)	(265,903,884)
NET CARRYING AMOUNT						
December 31, 2014	**189,231,108**	**78,102**	**71,816**	**14,731,299**	**7,323,404**	**211,435,729**
December 31, 2013	203,924,356	110,079	477,076	6,193,376	9,060,586	219,765,473

10. BANKED GAS INVENTORY

This account pertains to the banked gas bought by PNOC from the Department of Energy in September 2009 amounting to P14.4 billion which is equivalent to 108,600,000 gigajoules. 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 PSALM 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.

As of December 31, 2014, the banked gas has a remaining volume of 103,994,882.94 gigajoules.

11. OTHER ASSETS

This account consists of the following:

	2014	2013
Due from subsidiaries and affiliates	**1,301,275,762**	1,262,179,139
Deferred charges	**378,677,995**	392,686,756
Special deposits	**211,843,237**	204,531,167
Input VAT	**26,024,750**	45,319,490
Non-trade receivable	**18,758,418**	10,835,852
Prepaid expenses	**6,484,716**	5,704,088
Investment in available for sale securities	**3,804,100**	3,804,100
Deposits for utilities and others	**2,886,302**	2,775,209

Long-overdue receivables, net	**188,182**	188,182
Purchase price adjustment	**0**	809,757,306
Petty cash fund	**0**	422,119
Others	**184,625**	264,743
	1,950,128,087	2,738,468,151

Due from subsidiaries and affiliates consists of the following:

	2014	2013
Due from subsidiaries and affiliates:		
PNOC Shipping and Transport Corp (PSTC)	**1,308,412,286**	1,272,653,126
PNOC Oil Carriers, Inc.	**158,571,769**	158,571,769
PNOC Renewables Corporation (PNOC RC)	**9,641,477**	7,399,070
PNOC Exploration Corporation (PNOC EC)	**2,781,520**	2,552,312
PNOC Coal Corporation	**1,659,522**	1,659,522
PNOC Dev't and Management Corp (PDMC)	**1,145,602**	283,153
PNOC Alternative Fuels Corporation (PAFC)	**302,854**	299,455
	1,482,515,030	1,443,418,407
Allowance for impairment	**(158,448,907)**	(158,448,907)
	1,324,066,123	1,284,969,500
Due to PNOC Tankers Corporation	**(22,790,361)**	(22,790,361)
	1,301,275,762	1,262,179,139

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.

The Purchase Price Adjustment of P809.757 million in 2013 was reverted back to PNOC Fund since the Stock Purchase Agreement executed by and between PNOC, Saudi Arabian Oil Company and ARAMCO Overseas Company has expired in 2014.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2014	2013
Accrued expenses	**38,626,971**	64,859,462
Accounts payable	**19,672,971**	14,533,164
Other accounts payable	**195,569,231**	186,374,780
	253,869,173	265,767,406

Accrued expenses account consists mainly of expenses/services already incurred but not invoiced as of year-end.

Other accounts payable consists mainly of funds for the Decentralized Energy Systems (DES) Project in the amount of P168.335 million. 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.

13. OTHER CREDITS

This account includes non-current items of other deferred income and other deferred credits amounting to **P478.044 million** and P2.226 billion for **2014** and 2013, respectively.

14. EQUITY

14.1 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.

14.2 Retained Earnings

Pursuant to Republic Act (RA) 7656, PNOC declared a total cash dividend of P2.503 billion for its 2014 net earnings, which includes the amount of P1.509 billion that was remitted directly to the Bureau of Treasury by PNOC subsidiaries: PNOC EC of P1.500 billion, PDMC of P7.815 million and PAFC of P500,000.

On April 30, 2014 and July 23, 2014, PNOC remitted a total of P101.962 million cash dividend to the National Government out of the Company's net income for 2013.

15. DIVIDEND INCOME

This account consists of dividends from the following:

	2014	2013
PNOC Exploration Corporation	**3,000,673,791**	499,446,370
PNOC Development and Management Corp.	**15,629,886**	35,236,996
Gulf Oil Philippines, Inc	**5,552,778**	5,085,465
PNOC Alternative Fuels Corporation	**1,000,000**	0
Others	**0**	93,264
	3,022,856,455	539,862,095

16. OPERATING EXPENSES

This account consists of the following:

	2014	2013
Employee Costs	**82,145,523**	83,053,556
Purchased Services and Utilities	**62,841,410**	61,650,786
Depreciation	**30,773,716**	35,149,006
Business Expenses	**28,408,918**	42,036,512
Rentals/ Insurance/ Taxes	**16,136,606**	20,361,028
Materials and Supplies	**7,963,744**	9,004,400
Maintenance and Repairs	**2,570,708**	2,918,107
Awards and Indemnities	**0**	191,519
Miscellaneous Charges	**2,758,788**	1,796,898
	233,599,413	256,161,812

17. FOREIGN EXCHANGE GAIN (LOSS)

This account pertains to realized foreign exchange gain of P229 in 2014 and loss of P8,006 in 2013 from the Company's dollar account.

18. OTHER INCOME (CHARGES)

This account consists of the following:

	2014	2013
Gain from the sale of banked gas	**0**	183,222,374
Maturity of Purchase Price Adjustment from Petron's privatization	**809,757,306**	0
Gain on disposal of assets	**6,961,547**	9,947,210
Interest and penalties on VAT deficiency	**(6,407,707)**	0
Other income	**2,052,575**	13,972,597
	812,363,721	207,142,181

19. INCOME TAX

Components of income tax expense are as follows:

	2014	2013
Current income tax	**4,278,561**	8,719,915
Deferred income tax	**7,920,128**	63,031,029
	12,198,689	71,750,944

The reconciliation of net income to taxable income is as follows:

Net income before income tax	**5,018,652,739**	969,007,439
Non-taxable income		
Interest income	**(1,158,413,962)**	(197,530,822)
Dividend income	**(3,022,856,455)**	(539,862,095)
Matured Purchase Price Adjustment from Petron Corp. privatization	**(809,757,306)**	0
Gain on sale of land	**(4,838,379)**	(8,995,628)
Unearned rent income	**(8,182,800)**	(346,420)
Non deductible expenses		
Deficiency tax	**6,466,357**	0
Others	**0**	9,855,032
Net taxable income (loss) before NOLCO	**21,070,194**	232,127,506
Less: NOLCO	**(21,070,194)**	(232,127,506)
Taxable income	**0**	0

Current income tax was computed based on the Minimum Corporate Income Tax (MCIT) rate of two percent. Under R.A. 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.

20. DEFERRED TAX

The components of deferred tax assets are as follows:

	2014	2013
Deferred tax assets:		
Tax effect of temporary differences	**256,630,515**	256,630,515
Carry forward of unused tax losses	**847,334**	7,168,392
Minimum Corporate Income Tax	**16,434,283**	15,956,939
	273,912,132	279,755,846

	2014	2013
Deferred tax liabilities:		
Revaluation increment on investment proper	**(2,788,777,981)**	(2,789,156,407)
Unearned rent income	**(2,454,840)**	0
	(2,791,232,821)	(2,789,156,407)

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 PAS No. 12. The tax effect of temporary differences consists mainly of the allowance for doubtful accounts and allowance for impairment of investments.

Deferred tax asset is also recognized for the carry forward of unused tax losses and MCIT in accordance with PAS 12. As of December 2014, the Company has accumulated MCIT amounting to P16.434 million available for deduction against the regular income tax due and Net Operating Loss Carry Over (NOLCO) for offsetting against future taxable income. Movement of the NOLCO is as follows:

Year Incurred	Amount	Applied In 2013	Applied In 2014	Balance
2012	39,634,845	15,740,204	21,070,194	2,824,447
2013	0	0	0	0
	39,634,845	15,740,204	21,070,194	2,824,447

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, 2014.

21. RATIONALIZATION PROGRAM

As of December 31, 2014, the PNOC Rationalization Plan submitted initially to the Department of Budget and Management was effectively shelved and a reorganization program will be undertaken to transform the PNOC from a "parent" or holding company to an "operations" company. This is in consideration of the Governance Commission for GOCCs (GCG) mandate for PNOC to assume the operations of two (2) of its subsidiaries that were approved by the Office of the President of the Philippines for closure. The PNOC will undertake bidding in 2015 for an Organizational Development/Restructuring Project to effect the mandate given by GCG.

22. 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 of 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 PFRSs, 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 output tax declaration of P30.058 million and input taxes of P40.364 million for 2014.

B. Documentary Stamp Tax (DST) **98,920**

C. Withholding Taxes

Withholding taxes paid/accrued for the year amounted to:	
Tax on compensation and benefits	**13,064,711**
Creditable withholding taxes	**2,808,888**
VAT and other percentage taxes	**5,813,044**
	21,686,643

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	**12,017,792**
Transfer tax and registration fees	**43,004**
Business taxes	**10,500**
Other taxes, fees and licenses	**482,767**
	12,554,063

23. RESTATEMENT OF COMPARATIVE 2013 FINANCIAL STATEMENTS

The Company has restated its previously issued Financial Statements for the year ended December 31, 2013 to reflect the sale of Banked Gas to Power Sector Assets and Liabilities Management Corporation (PSALM) in November 2013.

The effect of the restatement resulted in an addition of P158,648,156 to both the net income and total assets.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial and Compliance Audit

1. **The PNOC's investments in dissolved subsidiaries of P578.683 million were still included in its *Investments* account. Moreover, there was no adequate allowance for impairment loss for subsidiaries which were already dissolved and/or under liquidation in the total amount of P217.068 million contrary to Philippine Accounting Standard (PAS) 36.**

1.1 Subsidiary is an entity that is controlled by another entity, known as the parent. The parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

1.2 Paragraphs 59 and 60 of PAS 36 provide that an impairment loss is recognized whenever recoverable amount is below carrying amount. The impairment loss is recognized as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease).

1.3 As of December 31, 2014, investments in dissolved subsidiaries were presented at cost, net of allowance for impairment losses, detailed as follows:

	Cost	Allowance for Impairment	Net Investment
Dissolved Subsidiaries			
PNOC Coal Corporation (PCC)	P427,067,950	P400,000,000	P27,067,950
PNOC Oil Carriers, Inc. (POCI)	101,615,343	101,615,343	0
PNOC Tankers Corporation (PTC)	50,000,000	50,000,000	0
	P578,683,293	P551,615,343	P27,067,950
Under Liquidation			
PNOC Shipping and Transport Corp. (PSTC)	190,000,000	0	190,000,000
	P768,683,293	**P551,615,343**	**P217,067,950**

1.4 In 1995, PTC and POCI ceased operations due to continued losses. In 2003, the Securities and Exchange Commission issued a certificate for the revocation of registration of these tanker companies.

1.5 In 2002, the PNOC Board shortened the life of another subsidiary, the PCC, due to recurring losses, per Resolution No. 1392. On August 15, 2008, BIR approved its application for dissolution of business registration. Its coal trading activities were absorbed by PNOC Exploration Corporation effective June 1, 2002.

1.6 In February 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 PSTC until March 15, 2013 to protect the interest of PNOC from the continuous deterioration of PSTC financial condition. The audited Statement of Changes in Equity of PSTC showed a capital deficiency of P996.768 million as of December 31, 2013.

1.7 Clearly, the dissolved companies no longer qualify as subsidiaries because they are no longer existing and PNOC had already lost control over them. Based on the last audited financial statements of the said companies, PNOC cannot fully recover the investments it made. Hence, the investment account reflected in the PNOC financial statements was overstated because the carrying value was less than the recoverable amount.

1.8 ***We recommended that Management evaluate the remaining assets and liabilities of the dissolved subsidiaries; determine the amount of investments that have to be written down; and recognize as expense the necessary impairment loss.***

1.9 Management replied that PNOC will provide allowance for impairment loss for PSTC after the completion of its winding down process. On the other hand, investments in PNOC Tankers Corporation, PNOC Oil Carriers, Inc. and PNOC Coal Corporation will be written off upon approval by the PNOC Board. The corresponding impairment loss will be reflected in the 2015 year-end report.

2. **The assets and liabilities of the dissolved companies of PNOC in the total amount of P2.164 million were reflected in the Consolidated Financial Statements contrary to Sections 20 and 25(a) of Philippine Financial Reporting Standard (PFRS) 10.**

2.1 Section 20 of PFRS 10 - Consolidated Financial Statements states that consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

Further, Section 25(a) provides that if the parent loses control of a subsidiary, the parent derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

2.2 The Securities and Exchange Commission (SEC) had already issued mass revocation orders covering corporations registered in 1936 to 2006 for non-filing of reports, such as the General Information Sheet and the Financial Statements.[1]

2.3 As mentioned in Audit Observation No. 1, the tanker companies and PNOC Coal Corporation ceased operations in 1995 and 2002, respectively. These companies no longer comply with the reportorial requirements of the SEC for many years.

[1] SEC Circular No. 4, series of 2008 and Memorandum Circular No. 22, series of 2013.

2.4 Pursuant to Section 122 of the Corporation Code, the dissolved corporation is given three years to continue as a body corporate for purposes of liquidation. After the expiration of the three-year winding-up period, pending actions by or against the dissolved corporation are abated.

2.5 PNOC, as the sole stockholder of these dissolved corporations, includes the following accounts in its 2013 Consolidated Financial Statements:

Name of Subsidiary	Account Name	Amount
PNOC Oil Carriers, Inc.	Materials and supplies and Other assets Accounts payable and accrued expenses	P10,258,592 (8,862,900)
PNOC Tankers Corp.	Other current assets Accounts payable and accrued expenses	916,040 (715,004)
PNOC Coal Corporation	Other non-current assets	567,059
		P 2,163,787

2.6 PNOC also prepared separate financial statements as of December 31, 2014 which include the following:

Account Name	Amount
Other assets (Special deposits) - Restricted cash owned by PNOC Tankers Corporation	P 43,348,955
Due from PNOC Coal Corporation	1,659,522
Due from PNOC Oil Carriers, Inc. of P158,571,770 less allowance for unrecoverable advances of P158,448,907	122,863
Due to PNOC Tankers Corporation	(22,790,361)

The abovementioned corporations ceased to exist and no longer have legal personality for years now since the three-year winding-up period had already lapsed.

2.7 ***We recommended that Management:***

a. ***Assess the fair market value of the remaining assets and substantiate the existence of accounts payable and accrued expenses of dissolved corporations; and***

b. ***Derecognize the accounts of its non-existing subsidiaries from the Consolidated Financial Statements to conform with PFRS 10.***

2.8 Management submitted the following comments:

a. The remaining assets of the Tanker Companies and PNOC Coal Corporation will be evaluated and the existence of accounts payable and accrued expenses will be substantiated; corresponding adjustments shall be reflected in the 2015 year-end report as well.

b. The accounts of PNOC Tankers, PNOC Oil Carriers, Inc. and PNOC Coal Corporation will be derecognized in the Consolidated Financial Statements for CY 2015.

3. **Long-outstanding reconciling items of P3.627 million aged more than ten years between the PNOC records and the subsidiaries' books of accounts indicated that the year-end balance of *Due from Subsidiaries* account was unreliable. Moreover, the non-recognition of allowance for impairment loss for these receivables was not in conformity with paragraphs 58 and 59 of PAS 39, resulting in the overstatement of *Other Assets – Due from Subsidiaries* account.**

3.1 *Due from Subsidiaries* account pertains to fund transfer, rental charges, share in various expenses such as utilities, janitorial and security services, audit fees, and others.

3.2 Paragraph 58 of PAS 39 states that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Paragraph 59 provides that... Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a. Significant financial difficulty of the issuer or obligor;

b. A breach of contract, such as a default or delinquency in interest or principal payments;

c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

3.3 Confirmation requests were sent to verify the accuracy of PNOC receivables from its subsidiaries as of November 30, 2014. Results of confirmation (net of December 2014 adjustments) showed a difference of P3.627 million, broken down as follows:

Subsidiary	Per Books 11-30-14	Per Confirmation	Difference as of Nov. 30, 2014	Adjustments in Dec. 2014	Variance as of Dec. 31, 2014
PNOC RC	9,372,341	6,845,903	2,526,438	(56,881)	2,469,557
PNOC EC	1,176,447	5,949	1,170,498	(13,282)	1,157,216
PAFC	16,374	0	16,374	(15,371)	1,003
PSTC	1,305,880,393	1,305,897,369	(16,976)	16,288	(688)
PDMC	849,891	963,759	(113,868)	113,868	0
Total	**1,317,295,446**	**1,313,712,980**	**3,582,466**	**44,622**	**3,627,088**

The variance of P3.627 million was already identified in the reconciliation of intercompany accounts being prepared by PNOC Accounting Department but the reconciling items had not been recorded either in the books of accounts of PNOC or its subsidiaries for many years as early as 2002.

Subsidiary	Reconciling Items	Amount	Date of Transactions	Aging In Years
PNOC RC	PNOC Debits Not Booked by PNOC RC			
	Contractual services for 7/26-8/25 & 8/26-9/2	5,643.19	2010	4
	Lifeguard Securities for July-Dec 2011	70,028.40	2011	3
	PLDT Telephone charges Jan 2012	1,592.18	2012	2
	Various transactions for 2014_Net	2,014,260.51	2014	-
	Various Transactions Booked by PNOC RC but Not Booked by PNOC-Net	1,534,008.99	2010 to 2013	
	Various Adjustments	(1,155,976.98)	2008 to 2013	
		2,469,556.29		
PNOC EC	Interest on EC Privacom	384,745.77	Dec. 2002	12
	Advances to Petron Canada	761,897.12	2002	12
	Various charges not yet taken up in the books of PNOC EC	10,573.78	2014	-
		1,157,216.67		
PAFC	Underpayment not yet recorded by PAFC	**1,003.40**	2014	-
	Total	**3,627,776.36**		

3.4 The 1997 to 2001 outstanding items pertain to the account of PNOC Dockyard and Engineering Corporation, which was the former name of PNOC RC. Inquiry with the concerned personnel disclosed that PNOC has not yet booked up the PNOC RC reconciling items due to lack of supporting documents.

3.5 There was a minimal discrepancy between the confirmed receivable from PSTC and the amount per PNOC books. However, the outstanding receivable from PSTC of P1.308 billion as of December 31, 2014, which pertains to Loans and Fund Transfer including the accumulated interest, from CY 2007 to 2014 is considered bad debts because of the continuous deterioration of PSTC's financial condition.

3.6 No allowance for impairment losses had been provided for both the outstanding receivable from PSTC and these unresolved reconciling items which resulted in the overstatement of Other Assets–Due from Subsidiaries account.

3.7 ***We recommended that Management:***

a. ***Determine if PSTC has remaining assets to pay for its outstanding accounts;***

b. ***Coordinate with the Finance Managers/Accountants of the Subsidiaries to settle the reconciling items and effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and***

c. ***Provide allowance for impairment loss on dormant receivables to determine the net realizable value of Due from Subsidiaries and comply with the provisions of PAS 39.***

3.8 Management submitted the following comments:

a. PNOC is already in the process of determining if the remaining assets of PSTC are enough to cover its liabilities.

b. PNOC collected some of the charges/reconciling items from PAFC and PNOC EC in 2015. It also coordinated with PNOC RC on the status of their liabilities specifically the P2.26 million interests on the advances for Solar Home Project. Further, they will see to it that the monthly reconciliation between PNOC and Subsidiaries is being done.

c. PNOC is already in the process of determining the remaining assets of the subsidiaries and will provide allowance for bad debts for dormant receivables upon the approval of the board specifically the account of PSTC.

4. **The Gender and Development (GAD) Plan and Budget for the year 2014 were not fully implemented, resulting in the underutilization of funds allotted for it.**

4.1 Pursuant to Joint Circular Nos.2004-1 and 2012-01 of DBM, NEDA, and Philippine Commission for Women (PCW), the government agencies are authorized to conduct activities supporting the GAD plans and programs using at least five percent of the total agency budget appropriations. The main objective of GAD is to address the various gender needs and concerns of employees and clients as well.

4.2 The GAD Plan and Budget for FY 2014 of PNOC, which was endorsed by PCW, shows that P300,000 was allocated for the organization of at least one GAD activity for its 110 employees; and for GAD seminars and conferences.

4.3 PNOC reported that only P19,802 was used for three-hour GAD orientation dubbed as “BABAE PO AKO!” held on March 6, 2014 at the PNOC Mini-Theater.

4.4 ***We recommended that Management exert best efforts to accomplish the PCW-endorsed GAD Plan and Budget for the year and integrate its GAD plan to the company’s projects/activities/programs to address gender equality and issues.***

B. Compliance with Tax Laws

Taxes withheld and due to the Bureau of Internal Revenue for calendar year 2014 were recorded and remitted within the prescribed period.

C. Compliance with GSIS, PAG-IBIG and PHILHEALTH premium/loan amortization/ deductions and remittances

Premiums and loan amortizations due to GSIS, PAG-IBIG and PHILHEALTH for calendar year 2014 were recorded and remitted within the prescribed period.

D. Status of Notice of Suspension (NS), Notice of Disallowance (ND) and Notice of Charge (NC)

There were no issued NS, ND or NC during the year. There were also no outstanding suspension, disallowance and charge pertaining to prior years as of December 31, 2014.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the nine audit recommendations embodied in the previous years' Annual Audit Reports, three were fully implemented, five were partially implemented and one was not implemented, as shown in the following table:

Reference	Audit Observations	Recommendations	Status of Implementation
2011 AAR Observation No. 3, page 42	1. Six (6) parcels of lots carried in the books at P4.618 million are still registered in the name of PNOC Coal Corporation (PCC).	Make representations with the concerned government agencies in order to have updated information of the status of the reconstitution/ registration of the untitled lots. Further, an investigation should be conducted to determine the nature of PCC's claim on the dry creek and the location thereof.	Partially Implemented *The PNOC–Legal Department submitted on November 3, 2014 the Reply-Brief with the Court of Appeals in compliance with the latter's Resolution dated September 29, 2014. All the required pleadings having been submitted, PNOC awaits for the Court's Resolution/Decision on the case.*
2013 AAR Observation No. 1, page 20	2. 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	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 the corporate structure of its Estate Management Department to accommodate the real estate operations of PDMC, PAFC and other investment properties of other subsidiaries.	Partially Implemented *The Governance Commission for GOCCs (GCG) had already issued notices of abolition/dissolution to PDMC and PAFC in October 2014. GCG is still evaluating the status of PNOC RC.* Fully Implemented

Reference	Audit Observations	Recommendations	Status of Implementation
	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.		
2013 AAR Observation No. 2, page 23	3. 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.	a) Require the Property and Supply Management Division (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 the property custodianship and reliability of account balances;	Fully implemented
		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;	Fully implemented
		c) Use the Inventory and Inspection Report of Unserviceable	Fully Implemented

Reference	Audit Observations	Recommendations	Status of Implementation
		Property prepared by PMSD 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.	 *No adjusting entries were made because of the effect on the approved budget on Operating Expenses should PNOC charge the unused office supplies to prepaid expenses.*
2013 AAR Observation No. 3, page 26	4. 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.	Require the Accounting Department to go over the old files, review pertinent documents, analyze the transactions, and prepare the necessary adjusting entries.	Partially Implemented *Seventy two percent (72%) of the accruals established in 2000-2009 and one hundred percent (100%) established in 2010 and 2011 were already reversed. PNOC is continuously verifying the remaining balance of accruals and the P9.1 million liabilities of Malangas Coal Corporation absorbed by PNOC will be adjusted/reversed in 2015 applying PD 1445 specifically on liabilities that have been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered*

Reference	Audit Observations	Recommendations	Status of Implementation
			by perfected contracts on record.
2013 AAR Observation No. 4, page 27	5. 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.	Explore other alternative methods of obtaining information to substantiate the account balance.	Partially Implemented *PNOC had already traced/located the documents on P2.197 million. It is continuously looking for the files/documents to substantiate the remaining balance of P217,154.*

2014 BOARD OF DIRECTORS

Chairman	:	**Carlos Jericho L. Petilla**
President/CEO	:	**Antonio M. Cailao**
Directors	:	**Dante B. Canlas**
		Bob D. Gothong
		Potenciano V. Larrazabal, Jr.
		Pedro A. Aquino, Jr.
		John J. Arenas

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