

## **PNOC RENEWABLES CORPORATION EXECUTIVE SUMMARY**

### **A. INTRODUCTION**

On March 13, 2002, the Philippine National Oil Company (PNOC) Board passed Resolution No. 1393, S'2002, approving the recommendation of PNOC for: the creation of PNOC New and Renewable Energy Sources Corporation (PNOC-NRES Corporation); the reactivation of the PNOC Dockyard and Engineering Corporation (PDEC); and the amendment of its corporate purposes to serve as the corporate vehicle for the creation of PNOC-NRES Corporation. On October 17, 2007, PNOC, through its Board Resolution No. 1706, S'2007, approved the recommendation to pursue the reactivation of PDEC, for the purpose of reorganizing it into PNOC Renewables Corporation (PNOC RC). The amended Articles of Incorporation was approved by the Securities and Exchange Commission on March 7, 2008. The Company's primary purpose 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 resources applying new and efficient energy conversion and/or utilization technologies for commercial application and promote their efficient utilization.

PNOC RC is a wholly-owned subsidiary of state-owned PNOC. It is the newest PNOC subsidiary established last February 2008 and will be the primary vehicle of PNOC and the government in promoting, developing and implementing new and renewable energy sources in the country. Through renewable energy, the country would be able to reduce its dependence on imported oil while mitigating climate change. Renewable energy is an important component in the country's drive towards energy self-sufficiency, security and independence.

As at December 31, 2011, PNOC RC has 16 regular staff and two out-source service personnel.

### **B. FINANCIAL HIGHLIGHTS (In Philippine Peso)**

The Corporation's operating budget for CY 2011 was P1,737,041,000. Five per cent of the budget, equivalent to P78,230,817 was utilized during the year.

The financial position and results of operations of PNOC RC are summarized in the next page.

## Financial Position

	2011	2010	Increase (Decrease)
Assets	1,115,710,378	1,095,624,276	20,086,102
Liabilities	112,317,220	93,391,794	18,925,426
Equity	1,003,393,158	1,002,232,482	1,160,676

## Results of Operations

	2011	2010	Increase (Decrease)
Revenue	51,494,648	800,777	50,693,871
Cost of sales	33,467,297	603,414	32,863,883
Gross profit	18,027,351	197,363	17,829,988
Other income	27,351,249	25,347,623	2,003,626
Operating expenses	43,560,419	22,770,995	20,789,424
Net profit	1,818,181	2,773,991	(955,810)
Income tax	362,749	7,041	355,708
Total comprehensive income	1,455,432	2,766,950	(1,311,518)

### C. SCOPE OF AUDIT

The audit covered the examination of the financial transactions and operations of PNOC RC for the period January 1 to December 31, 2011 to enable us to express an opinion on the financial statements for the year ending December 31, 2011 in accordance with the International Standards on Auditing.

### D. INDEPENDENT AUDITOR'S REPORT

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of PNOC Renewables Corporation for the year ended December 31, 2011 as shown in Part I of the Report.

### E. SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

Below are the observations and recommendations discussed in detail in Part II A of the report:

1. Discretionary bonus equivalent to one month basic salary was granted to each of the Company's officials and employees in the total amount of P696,484, notwithstanding the prohibition in Administrative Order (AO) No. 103, series of 2004, and Executive Order No. 7, series of 2010.

We recommended that Management secure authority from the Office of the President for the grant of discretionary bonus, within a reasonable period of time to preclude the issuance of COA's Notice of Disallowance.

2. Failure of the Company to withhold and remit the expanded withholding tax (EWT) on professional fees contravened Revenue Regulations (RR) No. 2-98.

We recommended that Management strictly comply with Revenue Regulations No. 2-98 to avoid the sanctions provided by Section 251 of Republic Act No. 8424. It is emphasized that any penalty that may be imposed for neglecting said provision shall be a personal liability of the employee concerned and will be disallowed in audit if disbursed against the Company funds.

3. Procurement of additional private health care insurance for the Company's officers and employees other than the health program already being provided by the Philippine Health Insurance Corporation (PHIC) violated COA Resolution No. 2005 – 001 dated February 3, 2005.

We recommended that Management stop the payment of health insurance premiums for PNOC RC employees, and request approval from the Office of the President of the Philippines. Non-receipt of the approval within reasonable period of time from the release of this report shall cause the issuance of the Notice of Disallowance for payments made in CY 2011.

4. Reimbursement of the cost of gasoline and oil incurred by the Company's regular employees for using their privately-owned motor vehicles during official local travel contravened COA Circular No. 96-004 dated April 19, 1996.

We recommended that Management discontinue the reimbursement of gasoline expenses to the Company employees and limit the claims for transportation expenses only to those amounts provided under COA Circular 96-004; hence, require immediate refund of the excess amount of transportation expenses.

5. The land area disclosed in Note 15 of the Company's Financial Statements and having a total appraised value of P277,529,750, showed a discrepancy of 32% or 54,045 sq. meters higher than in their corresponding Transfer Certificates of Title. Also, their idle status have contributed to the Company's losses in terms of expenses in water, electricity, security services, and real estate taxes.

We recommended that Management:

- a. verify the discrepancy of the land areas shown in the Notes to Financial Statements with the TCTs;
- b. cause the titling of the landholdings in the name of PNOC RC; and
- c. enhance its marketing strategy to hasten the development/disposal of these idle assets. Possibilities should be explored for the productive use of these assets.

6. The Company's reimbursement of the toll fees paid by a board director when traveling from home to work and vice-versa was considered a personal expense of the latter, and could not be charged against the funds of the Company.

We recommended that the reimbursement of toll fees to the board director be discontinued and that the total amount reimbursed be immediately refunded by the latter.

**F. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

The two audit recommendations embodied in CY 2010 were fully implemented.