

PNOC Exploration Corporation EXECUTIVE SUMMARY

A. Introduction

PNOC Exploration Corporation (PNOC EC or the Company) was incorporated under Philippine laws and was registered with the Securities and Exchange Commission under Registration Certificate Number 67111 on April 20, 1976. The Company's common shares are listed in the Philippine Stock Exchange (PSE).

In line with PNOC's mandate to provide and maintain an adequate supply of energy, the Company takes the lead in energy exploration and development. It has entered into service contracts with the Department of Energy on oil, gas, and coal exploration projects where the Company has either 100% ownership or is in joint venture with other partners.

PNOC EC has a wholly-owned subsidiary, the PNOC Malampaya Production Corporation, which, as at December 31, 2011, has not yet started its operations. The financial statements of PNOC EC are prepared separately since the Company is itself a subsidiary of the Philippine National Oil Company (PNOC) which owns 99.79% of the Company's outstanding shares of stock while 0.21% is owned by the public.

The expansion of the Company's operations particularly on exploration activities (gas, oil and coal) and the takeover of the mining operations in Zamboanga Sibugay led to the continuous hiring of new employees for the year 2011. As of end 2011, the Company has 320 employees as compared to 280 employees in 2010, and 262 in 2009.

B. Financial Highlights

1. Comparative Financial Position

	In Million Pesos		Increase (Decrease)
	2011	2010	
Assets	12,942.770	15,178.903	(2,236.133)
Liabilities	3,468.091	3,699.544	(231.453)
Equity	9,474.679	11,479.359	(2,004.680)

2. Comparative Results of Operation

	In Million Pesos		Increase (Decrease)
	2011	2010	
Revenues	10,042.466	8,822.759	1,219.707
Cost of Sales	(4,981.471)	(4,891.672)	(89.799)
Gross Profit	5,060.995	3,931.087	1,129.908
Other Income	121.808	227.487	(105.679)
Administrative Expenses	(499.106)	(490.893)	(8.213)
Other Expenses	(251.091)	(19.820)	(231.271)
Foreign Exchange Gain/Loss	(7.597)	(185.000)	177.403
Finance Cost	(5.592)	(12.288)	6.696
Net Profit Before Tax	4,419.417	3,450.573	968.844
Income Tax Expense			
Current	(1,430.158)	(980.727)	(449.431)
Deferred	13.290	7.120	6.170
Profit	3,002.549	2,476.966	525.583
Other Comprehensive Income	-	-	-
Total Comprehensive Income	3,002.549	2,476.966	525.583
Basic/Diluted EPS	1.50	1.24	

C. Scope of Audit

A financial and compliance audit was conducted on the accounts and operations of PNOEC for the year ended December 31, 2011 to determine the fairness of presentation of the financial statements and the propriety of the financial transactions, in accordance with the International Standards on Auditing, applicable laws, rules and regulations.

D. Independent Auditor's Opinion

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the PNOEC Exploration Corporation as at December 31, 2011 as stated in the Independent Auditor's Report in Part I.

E. Significant Audit Observations and Recommendations

Although the Auditor rendered an unqualified opinion on the fairness of the presentation of the Company's financial statements, the audit disclosed certain deficiencies with audit recommendations that need to be addressed by the Management. A summary of the significant audit observations are presented below with details presented in Part II.A of this Report.

1. The credit terms between the Montenegro Shipping Lines Inc. (MSLI) and the Company vis-à-vis the latter's payment arrangement with its fuel supplier Pilipinas Shell Petroleum Corporation (PSPC) put the Company in a disadvantageous position.

We recommended that the existing credit scheme with MSLI be revisited with a view of adjusting the same to make it equitable to both parties.

2. The Company continued to maintain a Directors' and Officers' Liability Trust Fund in violation of Section 4 of Presidential Decree 1445.

This issue has been previously raised during the CYs 2008, 2009 and 2010 audits. It is restated due to Management's non-compliance with the recommendation that the maintenance of the Fund be discontinued and that an adjusting entry be drawn to revert its total balance to Cash in Bank. Total fund balance as of December 31, 2011 is P40.926 million.

F. Status of Implementation of Prior Year's Recommendations

Of the five audit recommendations issued in CY 2010, two was fully implemented, one was partially implemented and two was not implemented. Details are presented Part II.B of this Report.