

**PNOC Shipping and Transport Corporation  
EXECUTIVE SUMMARY**

**A. Introduction**

In 2011, the Company's tankers were all contracted by Petron Corporation, namely: M/T General Antonio Luna under Consecutive Voyage Charter Party (CVCP) which contract expired on June 2011, M/T Dr. Jose P. Rizal under Time Charter (TC) which contract is until 2013, and M/Ts PNOC Lapu-Lapu and PNOC Emilio Jacinto are also under TC for ten (10) years ending in 2017. The three tankers under TC have existing registrations with the Board of Investments under E.O. 226, also known as Omnibus Investments Code of 1987, and are enjoying certain privileges in the form of Income Tax Holiday (ITH)

Reinforcing its goal of providing efficient marine transport services, the Company also embarked on a program to develop and implement a quality management system that is compliant with ISO 9001: 2000 standards. The ISO seal of approval focuses the organization on refinement of core business processes which management believes is essential to delivering quality service to its customer.

Following stringent performance guidelines and quality management procedures, the Company's ISO Team ensures that all core processes are geared towards organizational efficiency, effectiveness and productivity. Through a combination of intensive orientation, documentation and infrastructure improvements, PSTC promises to develop and effectively implement an efficient quality management system.

The current preparation for ISO Certification is a reflection of the Company's thrust of consistently delivering high standards of performance in its business processes.

**B. Financial Highlights**

**1. Comparative Financial Position**

	In Million Pesos		Increase (Decrease)
	2011	2010	
Assets	1,283,475	1,427,542	(144,067)
Liabilities	1,306,476	1,089,054	217,422
Equity	(23,001)	338,488	(361,489)

## 2. Comparative Results of Operation

	In Million Pesos		Increase (Decrease)
	2011	2010	
Revenues	252,577	446,337	(193,760)
Operating expenses	(325,983)	(324,542)	(1,441)
Gross income (loss) from operations	(73,406)	121,795	(195,201)
General and administrative expenses	(69,879)	(42,784)	(27,095)
Income (loss) from operations	(143,285)	79,011	(222,296)
Finance costs	(84,702)	(80,590)	(4,112)
Foreign exchange loss	(2)	(12)	10
Impairment loss	-	(82,773)	82,773
Other income (charges)	(130,416)	16,071	(146,487)
Net loss before tax	(358,405)	(68,293)	(290,112)
Income tax benefit	-	5,821	(5,821)
Profit (loss)	(358,405)	62,472	(420,877)
Other comprehensive income	-	-	-
Total Comprehensive income (loss) for the year	(358,405)	62,472	(420,877)

### C. Scope of Audit

A financial and compliance audit was conducted on the accounts and operations of PNO Shipping and Transport Corporation 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 qualified opinion on the fairness of the presentation of the financial statements of the PNO Shipping and Transport 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 a qualified 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. Completed building construction and several furniture and equipment totaling P20.475 million remained in the incomplete construction account, resulting in the improper valuation of the PPE account and overstatement of income due to non-recognition of the corresponding depreciation of those assets.

***We recommended and Management agreed to cause the reclassification of item of assets in the incomplete construction account to the appropriate Property, Plant and Equipment (PPE) account and provide corresponding depreciation in accordance with Philippine Accounting Standards (PAS) 16; and consider this***

***audit concern seriously due to its adverse effect on the financial statements, particularly on the carrying amount of the assets and its effect on income in regard to depreciation.***

2. Incurrence of loss of P182.471 million in CY 2011 due to high cost of operating expenses vis-a-vis the limited source of revenue from Petron Corporation, sole customer in the petroleum transport industry, depicted PSTC's inability to continue as a going concern.

***We recommended that Management adopt alternative courses of action to enable it to improve its revenues and continue performing its mandate in the transporting and shipping industry.***

3. PSTC hired the services of a private firm/lawyer without securing the prior written conformity and acquiescence of the Office of the Government Corporate Counsel (OGCC) and the written concurrence of the Commission On Audit (COA) in violation of COA Circular No. 86-255.

***We recommended that Management secure the OGCC's written conformity and acquiescence and COA's written concurrence before hiring the services of a private firm/lawyer.***

#### **F. Status of Implementation of Prior Year's Recommendations**

Of the seven (7) audit recommendations issued in CY 2010, two (2) were fully implemented and five (5) were not implemented. Details are presented in Part II.B of this Report.