

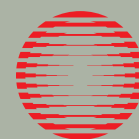
PNOC @

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EXPANDING ITS HORIZONS



ANNUAL REPORT 2008



PNOC
The Energy Company

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EXPANDING ITS HORIZONS

PNOC MISSION

To develop and implement projects and programs in a financially prudent and responsible manner aimed at:

- increasing self-sufficiency in oil, gas and other energy sources;
- ensuring security of supply; and
- maintaining energy price stability.

PNOC VISION

To be a world-class Philippine energy enterprise.

PNOC CORE VALUES

Professional Integrity
Professional Excellence
Company Loyalty
Teamwork



The onset of the 1973 energy crisis gave birth to the Philippine National Oil Company (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 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.



COMPANY PROFILE

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

WHERE WE ARE NOW

PNOC is continuously re-inventing itself to meet the country's demand for energy. After the successful privatization of PNOC EDC, the PNOC Alternative Fuels Corporation (PAFC), was created in response to current needs. A new subsidiary, PNOC Renewables Corporation (PRC), was formed to develop and implement renewable and environment-friendly energy sources in the country.



PNOC EC is still fulfilling its mandate to be at the forefront of exploring oil and gas, as the company's exploration arm. The country's search for indigenous sources of energy actively continues as PNOC performs with dedication and perseverance.

OIL AND GAS

Malampaya

The Camago-Malampaya Oil Leg (CMOL) Project was initiated to address the unpredictability of surges in world crude oil prices. A signed Participation Agreement was approved by the Department of Energy (DOE) in September 18, 2008, making Burgundy Global Exploration Corporation (BGEN) the CMOL operator with 84.9 percent CMOL interest, and PNOC EC holding the remaining 15.1 percent. Field operation for CMOL is targeted to commence in 2009.

The Malampaya Deepwater Gas-to-Power Project continued to provide 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 year's total natural gas offtake of these power plants was approximately 138.85 billion standard cubic feet (bcf), higher than last year's 126.03 bcf production.

The total condensate production of the Malampaya project decreased to 5.57 million barrels from last year's 5.75 million barrels. The condensate produced was shipped to buyers in Singapore, Thailand, and China.

Natural Gas Production

The 3MW San Antonio Gas and Power Plant (SAGPP) supplied electricity to around 10,000 households in certain municipalities in Isabela -

Echague, Jones, San Agustin, and parts of Santiago City – for the past 14 years. Due to the decline in reservoir pressure, gas production dropped to 186.71 million standard cubic feet (mmscf) from 324.8 mmscf produced in 2007. Thus, the plant's electricity generation also dropped to 6.24 GWhr from 14.71 GWhr generated last year.

Operations of the SAGPP was officially shut down last July 31, 2008, as the gas pressure dropped below the required inlet pressure of the power plant's gas turbine engine. PNOC EC is working with interested parties to produce and utilize the residual gas.


Oil Exploration and Development

PNOC EC has ventured into seven projects, namely: Ragay Gulf, Offshore Mindoro, Calamian, West Calamian, West Balabac, East Sabina, and the Joint Marine Seismic Undertaking (JMSU).

The projects are in various stages of development in acquiring, completing, processing, and evaluating 2D seismic data, specifically for West Calamian and East Sabina. Further studies on the petroleum potential of Kamia 1 in Offshore Mindoro is being explored, and PNOC EC is looking for strategic partners for West Balabac and East Sabina.

Joint Marine Seismic Undertaking (JMSU)

The JMSU Project, which involves the national companies of China, Vietnam, and the Philippines, covers an area of 142,886 square kilometers located in South China Sea, west of Palawan. The first phase of the project produced encouraging results, leading to the continuation of the second phase, involving a total of 11,704 line kilometers 2D seismic data, acquired from October 2007 to April 2008. The JMSU Agreement lapsed on June 30, 2008.



In 2002, PNOC assumed the operations of coal trading and integrated services from the PNOC Coal Corporation (PCC). Coal production has remained a core business activity of PNOC, and the demand is such that there is a need to locate and discover possible sources of coal, to be able to meet requirements.

COAL

There is no dearth in possible sources of coal, but great care is given to consultation, focus group discussions, information and education, and requisite training, when an area is targeted for coal development. There are always accompanying issues pertaining to the environment, the local people, and the perceived benefits to be had should coal operations start. For a project to be successful, obtaining local acceptance is a must.

The Integrated Coal Minemouth Power Project in Isabela showed promise as initial surveys were favorable, but was temporarily shelved in July 2008, because it encountered significant opposition from the barangays to be affected by the project. PNOC

EC commenced

the technical and economic reassessment of the project in 2008.

The environmental compliance process started the same year as the bidding out of the Environmental Impact Assessment (EIA) consultancy. Coordination works with the local government units of Isabela were revived through information, education, communication (IEC) campaigns, as well as the implementation of social development programs.

The Surigao Coal Project was recommended for suspension, but was given an extension until July 4, 2009. In 2008, PNOC EC obtained the Precondition Certificate from the National Commission on Indigenous People (NCIP), and the Environmental Management's Bureau's (EMB) Certificate of Non-Coverage for the project.

PNOC EC is venturing into the coal mining business in Indonesia in order to ensure a stable and price-competitive supply of coal for the Philippine market. PNOC EC signed a Memorandum of Agreement (MOA) PT Putra Asyano Mutiara Timur (PAMT) for the conduct of technical, legal and economic due diligence, to determine the viability and commerciality of operating a coalmine project.

Coal Production

PNOC EC operates Coal Operating Contract (COC) 41 within the Malangas Coal Reservation in Zamboanga Sibugay. The company operates a large-scale coal mine known as the Integrated Little Baguio (ILB) colliery, which is currently the largest semi-mechanized underground coal mine in the country.

This year's total coal production from Integrated Little Baguio (ILB), Lumbog, Shaft 3, and small-scale miners at 110.54 thousand metric tons (MT). The decrease in coal production from 2007, can be attributed to the major repair and rehabilitation activities that were undertaken at the ILB colliery.

Coal Sales

PNOC EC continued to serve the coal requirements of its industrial and power plant customers, with the coal production from COC 41 and other local coalmine sources. Direct coal sales were 870 thousand MT, an improvement from 2007's 776.83 thousand MT. This improvement can be attributed to increase in demand for domestic coal by PNOC EC's clients. Aside from that, PNOC EC was able to trade 112,536 metric tons of Indonesia coal to China during the year.

Aside from coal sales, integrated services consisting of discharging foreign and local coal shipments, stockpiling, screening, blending, and hauling of coal to cement plants in the country, are also offered. The actual volume handled for 2008 was 139 thousand MT, a slight fall from last year's 149.19 thousand MT.



RENEWABLE ENERGY



PNOC Renewables Corporation (PNOC-RC) was organized in February 2008, and is PNOC's newest subsidiary. PNOC-RC will be the primary vehicle of PNOC in promoting, developing and implementing new and renewable energy sources in the country, 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.

PNOC-RC has programs and projects in the pipeline as the company works toward the immediate implementation of projects. Projects being developed by the company integrates Clean Development Mechanisms (CDM) on hydropower, geothermal, solar, wind, biomass and waste-to-energy projects.





The PNOC Alternative Fuels Corporation (PAFC), formerly the PNOC Petrochemical Development Corporation (PPDC), has been making strides in their field. PAFC's primary mandate is to explore, develop, and accelerate the utilization and commercialization of alternative fuels in the country, as there is now a need to source alternative fuels instead of relying on the basic oil and gas, which are subject to the whims of the global market.



ALTERNATIVE FUELS



Jatropha

PAFC continued to lay the groundwork for the development of jatropha-related activities. The target was the production of seedlings which will be sufficient materials for at least 15,000 hectares of commercial jatropha plantations.

By the end of 2008, PAFC had ongoing establishment of production nurseries in 13 sites all over the country. Five nurseries are managed by PAFC, five nurseries are in partnership with various state universities and colleges, and the rest was undertaken by private cooperatives. The company signed agreements with

private companies, cooperatives and LGUs for the establishment of seed orchards and commercial plantations. The various partners of PAFC committed to manage the outplanting of these seedlings in marginal and idle lands.

PAFC actively pursued Research and Development on the jatropha plant, in collaboration with research institutions and the academe. The Department of Science and Technology (DOST) worked closely with PAFC on the formulation of parameters in the processing of *Jatropha curcas* to biodiesel, and the installation of a biofuel testing facility. PAFC's collaboration with the U.P. Los Baños – Institute of Plant Breeding (UPLB-IPB), involved efforts in identifying the best variety of *Jatropha curcas* that contained maximum oil yield.





SHIPPING AND TRANSPORT



The year 2008 can be dubbed as a challenging year for the PNOC Shipping and Transport Corporation (PSTC). It was faced with an enormous task of ensuring that all its vessels were in its finest condition while addressing the transport needs of the petroleum industry.

On its fleet, MT JP Rizal is on a 7 year Time Charter Party contract with Petron, lasting up to 2012. She had a low 67 percent utilization rate for the year due to main engine troubles. MT Gen. A. Luna bounced back from its past year's performance, and attained a 96.17

percent utilization rate, 18.89 higher from its posted figure in 2007, due to vessel's earlier drydock.

MT PNOC Lapu-Lapu joined the rosters of PSTC vessels with its first voyage in March 2008. She encountered main engine trouble in May 2008, but successful voyages thereafter contributed to its 90.88 percent utilization rate.

PSTC's second double hull tanker MT PNOC Emilio Jacinto, started trading in April of 2008. Its maiden voyage failed because of a major engine trouble. The crankshaft and engine block were damaged due to lube starvation, caused by structural defects in the yard it was built in. Only 28 percent utilization level was attained because the ship was drydocked for 183.96 days. However, she is currently PSTC's banner vessel, without any repairs after 13 voyages.



Total number of trips registered by the vessels is short of an average of 6 trips with that of its target. This was all brought about by the repairs done and delays due to weather and streaming.



ESTATE MANAGEMENT

PNOC Development and Management Corporation (PDMC), is PNOC's real estate arm. On March 28, 2008, the Board of Directors of the PDMC, unanimously approved the extension of its corporate life.

For 2008, the company was able to achieve Php81.6 million of gross revenue, or 119 percent above its targeted revenues from operations of Php68.8 million. The Company posted a net income of Php35.292 million.

Housing Projects

The Costa Verde Estate Project is an upscale residential and commercial real estate development located in Rosario, Cavite, under a joint venture with Sta. Lucia Realty and Development Corporation. The 5.4 hectare lot located within the subdivision, was sold to SM Properties, Inc. in 2007, where a 5-storey SM Department Store Building will stand. This development caused lot sales to soar to new record heights. Targeted sales and collections were

substantially surpassed in 2008. Cumulative lot sales and cash collections reached 316 lots, out of 539 lots, and Php 188.2 million, respectively.

25 hectares devoted to the GMA Abot Kayang Pabahay at Palupa under Executive Order 59, which involves the subdivision, titling and distribution of parcels has benefited more than 3,500 awardees (informal settlers). Php140.9 million in sales and collections were generated for the project.

Part of PDMC's Corporate Social Responsibility Program was to make available 1.1-hectare of land in Rosario, Cavite for the Gawad Kalinga Community Foundation, Inc., that will house around 80 qualified awardees/beneficiaries. Construction started in early 2008, and by end of 2008, 28 units were already awarded, completed, and occupied, and 14 units were in different stages of construction.





OTHER BUSINESSES



Energy Supply Base

The Energy Supply Base (ESB) in Mabini, Batangas, continued to serve the energy industry and commercial clients by providing docking, warehousing and other related services. PNOC and its subsidiaries occupy ESB facilities for the upkeep of equipment. To increase energy-related clients, marketing efforts are currently being intensified.

ESB accommodated a total of 232 local and foreign vessels, and handled 219 thousand metric tons of local cargos, and 155 thousand metric tons of foreign cargos. A total of 6.4 million liters of fuel were provided to its clients. ESB was also able to lease out a total of 57,618 square meters of warehouse, office space, pipe rack, and open yard space to its customers.



Petrochemical Park Management and Operations

The Petrochemical Park in Limay, Bataan is now under the management of the PNOC Alternative Fuels Corporation (PAFC), formerly the PPDC.

The Petrochem Park, under the Locators Agreement, continues to provide services, such as the provision of raw and fire water, power supply within the Park and other commercial areas, and jetty service, to its locators. Two locators, Phoenix Polypropylene Corporation, and NPC Alliance Corporation, commissioned their operations in 2008.

As part of its CSR Program, health, safety, security and environment programs were implemented which included among others, emergency response seminar, skills training program, environmental training and organizational meetings of the Multi-Partite Monitoring Team, regular water and ambient air quality monitoring, medical and dental outreach, tree planting, and livelihood programs. Also included in the CSR activities conducted was the IEC campaign to PNOC-AFC Industrial Park's host communities Limay and Mariveles, for the recommissioning of Phoenix Polypropylene Plant.



BOARD OF DIRECTORS



Antonio M. Cailao
President & CEO



Angelo T. Reyes
Chairman



Leopoldo E. Petilla
Director
(Jan-Mar 18, 2008)



Emil P. Jurado
Director



Dante B. Canlas
Director



Raymond Democrito C. Mendoza
Director



Julio J. Jalandoni
Director



Nicanor L. Sering
Director



Bob D. Gothong
Director



Ramon B. Mitra
Director



PNOCC PROJECT LIST

1. OIL AND GAS

1. Malampaya Deep Water Gas-to-Power Project (SC 38)
2. San Antonio Gas Power Plant (SC 37)
3. Calamian (SC 57)
4. West Calamian (SC 47)
5. West Balabac (SC 59)
6. Offshore Mindoro (SC 47)
7. Ragay Gulf (SC 43)
8. Tripartite Agreement Area (South China Sea)

2. COAL

9. Zamboanga-Sibugay Coal Project (COC 41)

3. RENEWABLE ENERGY

10. Solar Home Systems Distribution Project

4. ENERGY ALLIED ACTIVITIES

11. Energy Supply Base, Mabini, Batangas
12. Petrochemical Park, Limay & Mariveles, Bataan

5. REAL ESTATE DEVELOPMENT

13. Socialized Housing Project



BUSINESS ADDRESS



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PNOC SHIPPING AND TRANSPORT CORPORATION

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PNOC DEVELOPMENT AND MANAGEMENT CORPORATION

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Merritt Road, Fort Bonifacio, Taguig City
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PNOC RENEWABLES CORPORATION

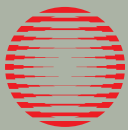
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Concept Design :
Mode Matrix Manila, Inc.



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The Energy Company

Philippine National Oil Company

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