

III. PHILIPPINE NATIONAL OIL COMPANY

SOURCES AND USES OF FUNDS BY EXPENSE CLASS, FY 2008  
(In Thousand Pesos)  
SUMMARY

|    |                                    | Current_Operating_Expenditures |   |                        |             |
|----|------------------------------------|--------------------------------|---|------------------------|-------------|
|    |                                    | Personal<br>Services____       | Maintenance<br>and Other<br>Operating<br>Expenses____ | Capital<br>Outlays____ | ____Total   |
| A. | PROGRAM/ACTIVITY/PROJECT           |                                |   |                        |             |
| 1. | General Administration and Support | P 51,203                       | P 91,565  | P 16,717               | P 159,485   |
| 2. | Operations                         | 10,955                         | 190,493   | 1,487,017              | 1,688,465   |
| 3. | Others                             |                                | 3,281,392   |                        | 3,281,392   |
|    | Debt Servicing                     |                                |   |                        |             |
|    | Principal                          |                                | 2,561,467   |                        | 2,561,467   |
|    | Interest Expense                   |                                | 719,925   |                        | 719,925     |
|    | TOTAL                              | P 62,158                       | P 3,563,450   | P 1,503,734            | P 5,129,342 |
|    |                                    | =====                          | =====   | =====                  | =====       |

III. PHILIPPINE NATIONAL OIL COMPANY

SOURCES AND USES OF FUNDS BY EXPENSE CLASS, FY 2008  
(In Thousand Pesos)  
CORPORATE FUNDS

Schedule I

|    |                                     | Current_Operating_Expenditures |   |                        |             |
|----|-------------------------------------|--------------------------------|---|------------------------|-------------|
|    |                                     | Personal<br>Services____       | Maintenance<br>and Other<br>Operating<br>Expenses____ | Capital<br>Outlays____ | ____Total   |
| A. | PROGRAM/ACTIVITY/PROJECT            |                                |   |                        |             |
| 1. | •General Administration and Support | P 51,203                       | P 91,565  | P 16,717               | P 159,485   |
| 2. | Operations                          | 10,955                         | 190,493   | 1,487,017              | 1,688,465   |
| 3. | Others                              |                                | 3,281,392   |                        | 3,281,392   |
|    | Debt Servicing                      |                                |   |                        |             |
|    | Principal                           |                                | 2,561,467   | a/                     | 2,561,467   |
|    | Interest Expense                    |                                | 719,925   | a/                     | 719,925     |
|    | TOTAL                               | P 62,158                       | P 3,563,450   | b/ P 1,503,734         | P 5,129,342 |
|    |                                     | =====                          | =====   | =====                  | =====       |

a/ Inclusive of subsidiaries' share

b/ MOOE, net of allowance for depreciation of P22.283 Million and Forex Loss of P305.879 Million

#### Special Provisions

1. Budget Flexibility and Report. The Philippine National Oil Company (PNOC), through its Board of Directors, is authorized to realign programs and projects, reallocate the corresponding budgetary requirements approved herein, as well as augment the requirements which may arise from factors beyond the PNOC's control. These may include, but shall not be limited to, increase in costs associated with the privatization of subsidiaries, changes in foreign exchange rate, increase in taxes, inflation, change in interest rates, payment of obligations as a result of final judgment of the court, and changes in programs/projects: PROVIDED, That augmentation funds shall not be used for the acquisition of motor vehicles and for payment of travelling, representation and discretionary expenses: PROVIDED, FURTHER, That appropriations for Personal Services shall not be augmented by savings from Maintenance and Other Operating Expenses and Capital Outlays, or by new funding sources.

A comprehensive financial and narrative report on the aforesaid budgetary adjustments shall be submitted to the House Committee on Appropriations and the Senate Committee on Finance, including the Department of Budget and Management, within thirty (30) days after such adjustments are made.

2. Funds for Capital Outlays. Notwithstanding the provisions of Special Provision 1, Capital Outlays, provided herein under Operations, Program 2, whether funded from internally generated funds, budgetary support or authorized borrowings, shall be utilized for the primary purposes of exploration, exploitation and development of indigenous energy resources as well as foster conditions related to oil or petroleum operations which shall include actual exploration, production, refining, tankerage and/or shipping, storage, and transport: PROVIDED, That an amount not exceeding One Billion Pesos (P1,000,000,000) in the aggregate may be invested in entities not engaged in the said primary purposes: PROVIDED, FURTHER, That consistent with the privatization program of the government, such equity investment shall not exceed thirty six percent (36%) of the outstanding capital stock of any one such entity concerned: PROVIDED, FINALLY, That such Capital Outlays shall not be used as loans or advances to entities not engaged in the primary purposes herein. This provision shall apply to the PNOC and all its subsidiaries.

3. Augmentation Beyond Approved Corporate Operating Budget. The PNOC is hereby authorized to augment and disburse funds beyond the total approved in this Act for the payment of damages and other money claims pursuant to a final and executory decision that may be rendered in the case entitled "Keppel Philippine Holdings, Inc. vs. PNOC, et al.," Court of Appeals - G.R. CV No. 86830: PROVIDED, That the amount to be disbursed shall come from corporate funds.

#### Special Provisions Applicable to NEA, NPC and PNOC, FY 2008

1. Payment of Compensation. Payment of salaries, wages and allowances or other forms of compensation shall be in accordance with R.A. No. 6758, or The Compensation and Salary Standardization Law, Joint Resolution No. 1, s. 1994 of Congress, Corporate Compensation Circular No. 10, s. 1999, Memorandum Order No. 20, s. 2001, and other pertinent implementing rules and regulations.

2. Remittance of Cash Dividends. Cash dividends equivalent to at least fifty percent (50%) of annual net earnings shall be remitted to the National Treasury pursuant to R.A. No. 7656 as income of the General Fund.

3. Acquisition of Equipment. The acquisition of equipment, funded from internally generated funds, budgetary support or authorized borrowings, shall be subject to Corporate Budget Circular No. 17, s. 1996, National Budget Circular No. 446, s. 1995, as supplemented by National Budget Circular No. 446-A, s. 1998, and other applicable Presidential issuances and existing statutory requirements.

4. Audit of Government Funds. Government funds authorized herein to be invested as equity by the corporation to its subsidiaries, as well as the grant of subsidy, loan contribution or any kind of financial assistance to end-user entities both in private or public sector, shall be subject to audit by the Commission on Audit pursuant to P.D. No. 1445, as amended.