RC

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

August 24, 2020

OFFICE OF THE CORPORATE SECRETARY
PHILIPPINE NATIONAL OIL CO.
RECEIVED
AUG 25 2020
BY: KIM TIME: 2:36 pm

THE BOARD OF DIRECTORS
Philippine National Oil Company
Energy Center, Rizal Drive,
Bonifacio Global City, Taguig City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of Philippine National Oil Company (PNOC) for the years ended December 31, 2019 and 2018.

The report consists of three Parts: I – the Independent Auditor's Report and Audited Financial Statements, II – the Audit Observations and Recommendations and III – the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of PNOC.

The significant audit observations and recommendations that need immediate action are as follows:

1. The non-implementation of the Decentralized Energy Systems (DES) Project prevented the Government of the Republic of the Philippine (GRP) from performing its international commitment with the European Union (EU) and limited the capacity of certain offices in PNOC in exercising functions, thus, contrary to the Financing Agreement (Agreement) dated February 6, 1987 and the Governance Commission for GOCCs (GCG) Memorandum Order No. 2018-05 dated July 26, 2018, respectively.

   Recommendations:

   a. *Prepare and implement a plan of action to carry out the activities and meet the objectives of the DES Project as faithful compliance of the GRP with its commitment with the EU under the Agreement dated February 6, 1987; and*

   b. *Ensure the best use of the DES Fund in conformity with functional statements of the Office of the Senior Vice President for Energy Investments under GCG Memorandum Order No. 2018-05 dated July 26, 2018.*

2. The procurements of various Information and Communications Technology (ICT) projects costing P3.254 million for Calendar Year (CY) 2019 were not supported with an approved Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent of the total ICT

projects were not bought from the DBM-Procurement Service (PS), thus, contrary to Section 4.4 of the Department of Budget and Management (DBM) Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.

Recommendations:

a. *Give utmost importance in finalizing the ISSP for submission to and approval of the Department of Information and Communications Technology; and*

b. *Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.*

3. The reimbursable expenses paid to the Board of Directors (Board) of PNOC in the amount of P2.777 million for CY 2019 exceeded the amount allowed under Section 10 of GCG Memorandum Circular No. 2016-01 dated May 10, 2016 by P1.281 million.

Recommendations:

a. *Secure approval of the GCG on the excess reimbursed expenses. In case of denial, immediately require the concerned member of the Board to refund the same to prevent the issuance of notice of disallowance; and*

b. *Strictly adhere to the rates allowed by GCG Memorandum Circular No. 2016-01 dated May 10, 2016 in the payment of reimbursable expenses to the Board.*

4. The grant of monetary award under the Civil Service Commission (CSC) -approved Program for Awards and Incentives for Service Excellence (PRAISE) for PNOC as implemented under its Service Award Policy Guidelines is computed based on number of years rendered in the agency, thus, contrary to Section 6 of CSC Memorandum Circular (MC) No. 1, Series of 2001.

Recommendation:

Revisit the PNOC Service Award Policy Guidelines to conform to the standards in CSC-approved PRAISE or CSC MC No.1, particularly on the giving of monetary awards

5. The GAD Plan and Budget (GPB) for CY 2019 amounting to P1.080 million or .22 per cent of the approved Corporate Operating Budget for CY 2019, was below the required five per cent set forth under Section 32 of the General Provisions of the GAA for FY 2019 . In addition, the lack of GAD Database delayed the establishment of a system for monitoring and evaluation purposes of GAD issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission on Women (PCW) prior to undertaking of activities other than those indicated in the PCW-endorsed GPBs was contrary to Section 4.4 and 9.2, respectively, of PCW-NEDA-DBM Joint Circular No. 2012-01.

Recommendations:

a. *Prioritize the completion and operation of the long overdue GAD Database; and*

b. *Submit the written communication/s with the PCW, for the changes made on the planned activities, and the response if any, to the Office of the Supervising Auditor, for evaluation.*

The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on July 24, 2020 are discussed in detail in Part II of the report.

In a letter of even date, we requested the PNOC President and Chief Executive Officer to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Lydia F. de Joya

MA. LYDIA F. DE JOYA
Director III
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The National Library
The UP Law Center

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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

August 24, 2020

RECEIVED BY:
PNOC - OFFICE OF THE PRESIDENT
ON: AUG 25 2020
TIME: 2:29 NAME: ALVIO

ADM Reuben S. Lista (Ret)
President and Chief Executive Officer
Philippine National Oil Company
Energy Center, Rizal Drive,
Bonifacio Global City, Taguig City

Dear President Lista:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of Philippine National Oil Company (PNOC) for the years ended December 31, 2019 and 2018.

The report consists of three Parts: I – the Independent Auditor's Report and Audited Financial Statements, II – the Audit Observations and Recommendations and III – the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of PNOC.

The significant audit observations and recommendations that need immediate action are as follows:

1. The non-implementation of the Decentralized Energy Systems (DES) Project prevented the Government of the Republic of the Philippine (GRP) from performing its international commitment with the European Union (EU) and limited the capacity of certain offices in PNOC in exercising functions, thus, contrary to the Financing Agreement (Agreement) dated February 6, 1987 and the Governance Commission for GOCCs (GCG) Memorandum Order No. 2018-05 dated July 26, 2018, respectively.

   Recommendations:

   a. *Prepare and implement a plan of action to carry out the activities and meet the objectives of the DES Project as faithful compliance of the GRP with its commitment with the EU under the Agreement dated February 6, 1987; and*

   b. *Ensure the best use of the DES Fund in conformity with functional statements of the Office of the Senior Vice President for Energy Investments under GCG Memorandum Order No. 2018-05 dated July 26, 2018.*

2. The procurements of various Information and Communications Technology (ICT) projects costing P3.254 million for Calendar Year (CY) 2019 were not supported with an approved

Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent of the total ICT projects were not bought from the DBM-Procurement Service (PS), thus, contrary to Section 4.4 of the Department of Budget and Management (DBM) Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.

Recommendations:

a. *Give utmost importance in finalizing the ISSP for submission to and approval of the Department of Information and Communications Technology; and*

b. *Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.*

3. The reimbursable expenses paid to the Board of Directors (Board) of PNOC in the amount of P2.777 million for CY 2019 exceeded the amount allowed under Section 10 of GCG Memorandum Circular No. 2016-01 dated May 10, 2016 by P1.281 million.

Recommendations:

a. *Secure approval of the GCG on the excess reimbursed expenses. In case of denial, immediately require the concerned member of the Board to refund the same to prevent the issuance of notice of disallowance; and*

b. *Strictly adhere to the rates allowed by GCG Memorandum Circular No. 2016-01 dated May 10, 2016 in the payment of reimbursable expenses to the Board.*

4. The grant of monetary award under the Civil Service Commission (CSC) -approved Program for Awards and Incentives for Service Excellence (PRAISE) for PNOC as implemented under its Service Award Policy Guidelines is computed based on number of years rendered in the agency, thus, contrary to Section 6 of CSC Memorandum Circular (MC) No. 1, Series of 2001.

Recommendation:

Revisit the PNOC Service Award Policy Guidelines to conform to the standards in CSC-approved PRAISE or CSC MC No.1, particularly on the giving of monetary awards

5. The GAD Plan and Budget (GPB) for CY 2019 amounting to P1.080 million or .22 per cent of the approved Corporate Operating Budget for CY 2019, was below the required five per cent set forth under Section 32 of the General Provisions of the GAA for FY 2019 . In addition, the lack of GAD Database delayed the establishment of a system for monitoring and evaluation purposes of GAD issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission on Women (PCW) prior to undertaking of activities other than those indicated in the PCW-endorsed GPBs was contrary to Section 4.4 and 9.2, respectively, of PCW-NEDA-DBM Joint Circular No. 2012-01.

Recommendations:

a. *Prioritize the completion and operation of the long overdue GAD Database; and*

b. *Submit the written communication/s with the PCW, for the changes made on the planned activities, and the response if any, to the Office of the Supervising Auditor, for evaluation.*

The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on July 24, 2020 are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be fully implemented and that this Commission be informed of the actions taken by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt thereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Lydia F. de Joya
MA. LYDIA F. DE JOYA
Director III
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The National Library
The UP Law Center

PHILIPPINE NATIONAL OIL COMPANY
AGENCY ACTION PLAN and STATUS of IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Years 2019 and 2018

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reasons for Partial/Delay/Non-Implementation, if applicable	Action Taken/ Action to be taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Prepared by: ____________________

Certified by: ____________________

Note: Status of Implementation may either be (a) Fully Implemented, (b) On-going, © Not Implemented, (d) Partially Implemented, or € Delayed

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL OIL COMPANY

(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)

For the Years Ended December 31, 2019 and 2018

EXECUTIVE SUMMARY

A. Introduction

Philippine National Oil Company (PNOC)

1. PNOC was created through Presidential Decree No. 334 on November 9, 1973 to provide and maintain an adequate and stable supply of oil. Focusing its efforts and resources in learning the ropes of the petroleum industry, PNOC rose to occupy market leadership in an industry thought to be the domain of multinationals. Its charter was amended in December 1992 to include energy exploration and development.

   It initiated the exploration of the country's indigenous oil and non-oil energy resources. Its purpose is to build an energy sector that will bring energy independence to the country. Eventually, PNOC expanded its operations to include total energy development, including indigenous energy sources like oil and gas, coal, and geothermal.

2. PNOC's Vision by 2030

   The company has provided vital energy resource/development and energy infrastructure, conducive to a clean environment and balanced and sustainable economic growth.

3. PNOC's Mission

   Through the efforts and initiative of a dedicated and competent workforce, PNOC is committed to develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing the country's self-sufficiency level in oil, gas and other energy sources; foster sustainable and environmentally-friendly sources of energy and promote energy efficiency and conservation; and maintain the highest standard of service and corporate governance.

4. The Governance Commission for GOCCs (GCG) mandated PNOC to transform from a mere holding to also an operating company in September 2014. Thus, GCG recommended the abolition of PNOC Alternative Fuels Corporation and PNOC Development and Management Corporation, which was duly approved by the Office of the President on that same month. PNOC will continue to act as holding company in relation to PNOC Exploration Corporation and PNOC Renewables Corporation while it took over the ongoing programs and assumed the functions of the abolished subsidiaries.

Objectives and Scope of Audit

5. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions

(ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

6. The audit covered the examination on a test basis of the accounts and financial transactions of PNOC for Calendar Years 2019 and 2018 in accordance with ISSAIs. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of PNOC to prescribed laws, rules and regulations.

B. Financial Highlights (In Million Pesos)

Financial Position

	2019	2018	Increase (Decrease)
Assets	40,482.524	40,124.464	358.060
Liabilities	3,965.734	3,955.789	9.945
Equity	36,516.790	36,168.675	348.115

Results of Operation

	2019	2018	Increase (Decrease)
Income			
Service and Business Income	1,354.205	1,168.179	186.026
Non-Operating Income/Gain	9.428	2.604	6.824
Total Income	**1,363.633**	**1,170.783**	**192.850**
Expenses			
Personnel Expenses	(105.907)	(104.347)	(1.560)
Maintenance and Other Operating Expenses	(157.809)	(140.699)	(17.110)
Financial Expenses	(8.789)	(9.305)	0.516
Direct Cost	(152.837)	(106.321)	(46.516)
Non-Cash Expenses	(51.052)	(39.338)	(11.714)
Total Expense	**(476.394)**	**(400.010)**	**(76.384)**
Profit Before Tax	**887.239**	**770.774**	116.465
Income Tax Expense	**(172.880)**	**(155.103)**	**(17.777)**
Profit After Tax	**714.359**	**615.671**	**98.688**
Other Comprehensive Loss for the Period	**(0.223)**	**(2.350)**	**2.127**
Comprehensive Income	**714.136**	**613.321**	**100.815**

C. Auditor's Opinion

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of PNOC as at December 31, 2019 and 2018 as stated in the Independent Auditor's Report in Part I.

D. Significant Audit Observations and Recommendations

Although the Auditor rendered an unmodified opinion, there are significant audit observations that were noted in the review of transactions. These, together with the audit recommendations that need immediate action are presented below. Details are in Part II of this Report.

1. The non-implementation of the Decentralized Energy Systems (DES) Project prevented the Government of the Republic of the Philippine (GRP) from performing its international commitment with the European Union (EU) and limited the capacity of certain offices in PNOC in exercising functions, thus, contrary to the Financing Agreement (Agreement) dated February 6, 1987 and GCG Memorandum Order No. 2018-05 dated July 26, 2018, respectively.

   Recommendations:

   a. *Prepare and implement a plan of action to carry out the activities and meet the objectives of the DES Project as faithful compliance of the GRP with its commitment with the EU under the Agreement dated February 6, 1987; and*

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   Recommendations:

   a. *Secure approval of the GCG on the excess reimbursed expenses. In case of denial, immediately require the concerned member of the Board to refund the same to prevent the issuance of notice of disallowance; and*

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   Recommendations:

   a. *Prioritize the completion and operation of the long overdue GAD Database; and*

   b. *Submit the written communication/s with the PCW, for the changes made on the planned activities, and the response if any, to the Office of the Supervising Auditor, for evaluation.*

E. Summary of Total Disallowances, Suspensions and Charges as of December 31, 2019

A notice of disallowance issued for CY 2019 pertinent to payment of premiums amounting to P64,220, for insurance of personnel on official local travel that have exceeded the limit under Executive Order No. 248, Series of 1995, as amended, has unsettled portion amounting to P2,080, as of July 31, 2020. Also, there is no audit disallowance that has become final and executory and is under appeal or with petition for review during CY 2019.

F. Status of Implementation of Prior Years' Recommendations

Out of 29 audit recommendations embodied in the prior years' Annual Audit Report, 11 were fully implemented, 17 were partially implemented, 3 of which were restated with updates in this Report, and 1 was not implemented. Details are presented in Part III of this Report.

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PART I - AUDITED FINANCIAL STATEMENTS

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine National Oil Company
Energy Center, Rizal Drive
Bonifacio Global City, Taguig City

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Philippine National Oil Company (PNOC), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PNOC as at December 31, 2019 and 2018, and its comprehensive income, changes in equity and cash flows, for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PNOC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PNOC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PNOC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PNOC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PNOC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the PNOC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PNOC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

TEODORA M. VEGA
OIC - Supervising Auditor

August 11, 2020

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

FOR FINANCIAL STATEMENTS

The Management of the Philippine National Oil Company is responsible for the preparation of the financial statements as at December 31, 2019, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the PNOC in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

ALFONSO G. CUSI
PNOC Chairman of the Board

Republic of the Philippines
DEPARTMENT OF ENERGY
IN REPLYING PLS. CITE:
DOE-AGC-20003709

AUG 10 2020
Date Signed

GLENDA G. MARTINEZ
PNOC Senior Vice President for Finance and Administrative Services

July 30, 2020
Date Signed

ADM REUBEN S LISTA (RET)
PNOC President and CEO

Date Signed

AUG 1 1 2020

SUBSCRIBED AND SWORN TO BEFORE ME this _________ of __________ 2020 at Taguig City, affiants exhibited to me their respective identification cards with the details shown below as follows:

Name	TIN
Alfonso G. Cusi	130-661-594
Reuben S. Lista	137-725-162
Glenda G. Martinez	132-679-205

NOTARY PUBLIC

Doc. No. 250
Page No. 51
Book No. II
Series of 2020

JERWIN U. NICOLAS
Appointment No. 62 (2019-2020)
Notary Public for Taguig City
Until 31 December 2020
PNOC Bldg. VI, Energy Center, Rizal Drive,
Bonifacio Global City, Taguig City
Roll No. 62150
PTR No. A-4764726; 01/08/2020; Taguig City
IBP No. 105647; 01/09/20
MCLE Compliance No. VI - 0013070

PHILIPPINE NATIONAL OIL COMPANY

(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)

STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019 AND 2018

	NOTE	2019	2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	307,369,693	61,503,106
Financial Assets	6	1,558,023,580	1,626,944,534
Other Investments	6	0	274,351,080
Receivables	7	565,653,935	575,587,912
Other Current Assets	12	395,295,955	337,746,738
Total Current Assets		**2,826,343,163**	**2,876,133,370**
Non-Current Assets			
Financial Assets	6	6,970,750,000	6,378,700,000
Investments in Associates	6	99,978,000	99,978,000
Investments in Subsidiaries	6	4,859,775,056	4,859,775,056
Other Investments	6	96,632,450	96,632,450
Receivables	7	58,057,732	70,146,286
Banked Gas Inventory	8	13,536,589,980	13,689,426,885
Investment Property	9	11,358,039,066	11,368,923,689
Property and Equipment	10	330,114,536	338,658,078
Deferred Tax Assets	11	345,968,978	345,761,781
Other Non-Current Assets	12	275,191	328,877
Total Non-Current Assets		**37,656,180,989**	**37,248,331,102**
Total Assets		**40,482,524,152**	**40,124,464,472**
LIABILITIES			
Current Liabilities			
Financial Liabilities	13	101,214,883	93,656,112
Inter-Agency Payables	14	35,289,360	74,567,946
Trust Liabilities	15	226,782,307	214,582,262
Other Payables	16	357,451,847	307,083,473
Total Current Liabilities		**720,738,397**	**689,889,793**
Non-Current Liabilities			
Deferred Credits/Unearned Income	17	459,075,657	484,525,734
Provisions	18	32,357,328	26,940,111
Deferred Tax Liabilities	19	2,753,562,976	2,754,433,623
Total Non-Current Liabilities		**3,244,995,961**	**3,265,899,468**
Total Liabilities		**3,965,734,358**	**3,955,789,261**
EQUITY			
Retained Earnings		33,403,188,110	33,057,296,108
Stockholders' Equity		3,114,595,519	3,114,595,519
Cumulative Changes in Fair Value		(993,835)	(3,216,416)
Total Equity		**36,516,789,794**	**36,168,675,211**
Total Liabilities and Equity		**40,482,524,152**	**40,124,464,472**

The notes on pages 10 to 58 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY

(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	NOTE	2019	2018
Income			
Service and Business Income	21	1,354,204,634	1,168,179,213
Gains	27	4,944,515	1,763,239
Non-Operating Income/Gain	27	4,483,496	840,310
Total Income		**1,363,632,645**	**1,170,782,762**
Expenses			
Personnel Services	22	(105,906,933)	(104,347,108)
Maintenance and Other Operating Expenses	23	(157,808,601)	(140,698,888)
Financial Expenses	24	(8,789,153)	(9,304,617)
Direct Costs	25	(152,836,905)	(106,320,501)
Non-Cash Expenses	26,27	(51,052,293)	(39,337,776)
Total Expenses		**(476,393,885)**	**(400,008,890)**
Profit Before Tax		**887,238,760**	**770,773,872**
Income Tax Expense	28	**(172,879,516)**	**(155,102,744)**
Profit After Tax		**714,359,244**	**615,671,128**
Other Comprehensive Income (Loss) for the Period		**(222,585)**	**(2,350,166)**
Comprehensive Income		**714,136,659**	**613,320,962**

The notes on pages 10 to 58 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	Cumulative Changes in Fair Value of Investments	Retained Earnings/ (Deficit)	Contributed Capital	TOTAL
BALANCE AT JANUARY 1, 2018	**(866,250)**	**33,997,283,375**	**3,114,595,519**	**37,111,012,644**
CHANGES IN EQUITY FOR 2018				
Add/(Deduct):				
Comprehensive Income for the year	0	615,671,128	0	615,671,128
Dividends	0	(306,504,872)	0	(306,504,872)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	(2,350,166)	0	0	(2,350,166)
Impairment loss	0	(1,247,151,370)	0	(1,247,151,370)
Adjustment on withholding tax	0	(3,509,307)	0	(3,509,307)
Adjustment on depreciation expenses	0	(1,111,199)	0	(1,111,199)
Reversal of accrued liabilities and expenses	0	2,618,353	0	2,618,353
BALANCE AT DECEMBER 31, 2018	**(3,216,416)**	**33,057,296,108**	**3,114,595,519**	**36,168,675,211**
CHANGES IN EQUITY FOR 2019				
Add/(Deduct):				
Comprehensive Income for the year	0	714,359,244	0	714,359,244
Dividends	0	(356,719,259)	0	(356,719,259)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	(222,585)		0	(222,585)
Adjustment on interest receivable	0	(13,888,552)	0	(13,888,552)
Impairment loss	0	(4,132,472)	0	(4,132,472)
Reversal of guaranty/security deposits payable	0	4,993,377	0	4,993,377
Reversal of accrued liabilities and expenses	0	1,279,664	0	1,279,664
Net realized forex loss on dolllar account	2,445,166		0	2,445,166
BALANCE AT DECEMBER 31, 2019	**(993,835)**	**33,403,188,110**	**3,114,595,519**	**36,516,789,794**

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of Income/Revenue	984,792,965	749,321,278
Collection of Receivables	150,654,603	665,363
Receipt of Inter-Agency Fund Transfer	0	3,250,000
Trust Receipts	19,959,425	9,916,992
Other Receipts	3,218,743	71,136,180
Total Cash Inflows	**1,158,625,736**	**834,289,813**
Adjustments	0	0
Adjusted Cash Inflows	**1,158,625,736**	**834,289,813**
Cash Outflows		
Payment of Expenses	229,452,333	207,024,117
Grant of Cash Advances	302,000	292,170
Prepayments	30,926,093	3,063,659
Refund of Deposits	22,964,485	5,092,305
Payments of Accounts Payable	9,322,724	18,239,107
Remittance of Personnel Benefit Contributions and Mandatory Deductions	67,530,779	39,535,708
Release of Inter-Agency Fund Transfers	53,821,265	3,809,176
Other Disbursements	226,299,485	81,419,920
Total Cash Outflows	**640,619,164**	**358,476,162**
Adjustments	1,897,157	2,265,970
Adjusted Cash Outflows	**642,516,321**	**360,742,132**
Net Cash Provided by Operating Activities	**516,109,415**	**473,547,681**
CASH FLOWS FROM INVESTING ACTIVITIES		
Total Cash Inflows		
Proceeds from Sale/ Disposal of Investment Property	5,504,900	0
Receipt of Interest Earned	282,506,667	224,203,572
Receipt of Cash Dividends	2,474,010	5,595,776
Proceeds from Matured Investments	3,577,317,211	2,473,481,255
Proceeds from Sale of Other Assets	0	0
Total Cash Inflows	**3,867,802,788**	**2,703,280,603**
Adjustments	0	0
Adjusted Cash Inflows	**3,867,802,788**	**2,703,280,603**
Cash Outflows		
Purchase/Construction of Investment Property	397,356	747,304
Purchase/Construction of Property and Equipment	5,098,211	50,499,049
Purchase of Investments	3,826,045,177	2,973,424,967
Total Cash Outflows	**3,831,540,744**	**3,024,671,320**
Adjustments	0	0
Adjusted Cash Outflows	**3,831,540,744**	**3,024,671,320**
Net Cash Used in (Provided by) Investing Activities	**36,262,044**	**(321,390,717)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of Cash Dividends	306,504,872	148,028,418
Total Cash Outflows	**306,504,872**	**148,028,418**
Net Cash Used In Financing Activities	**(306,504,872)**	**(148,028,418)**
INCREASE IN CASH AND CASH EQUIVALENTS	**245,866,587**	**4,128,546**
CASH AND CASH EQUIVALENTS, JANUARY 1	**61,503,106**	**57,374,560**
CASH AND CASH EQUIVALENTS, DECEMBER 31	**307,369,693**	**61,503,106**

1. GENERAL INFORMATION

The financial statements of Philippine National Oil Company *(herein referred to as PNOC or "the Company")* was authorized for issue on August 11, 2020 as shown in the Statement of Management Responsibility for Financial Statements signed by Secretary of Energy Alfonso G. Cusi, PNOC Chairman of the Board of Directors, Adm. Reuben S. Lista (Ret), PNOC President and Chief Executive Officer, and Ms. Glenda G. Martinez, PNOC Senior Vice President for Finance and Administrative Services.

PNOC is a corporation established on November 9, 1973 and operates under the authority of the Presidential Decree No. 334, as amended.

Mandate

PNOC shall undertake and transact the corporate business relative primarily to Oil or Petroleum Operations and Other Energy Resources Exploitation.

Oil or Petroleum Operation shall include actual exploration, production, refining, tankerage and/or shipping, storage, transport, marketing, and related activities concerning oil and petroleum products.

Energy Resources Exploitation shall include Exploration, Discovery, Development, Extraction, Utilization, Refining, Processing, Transport, and Marketing of all forms of energy resources.

Energy Resources are any substance, mineral or otherwise, which by itself or in combination with other substance or after processing or refining or the application to it of technology emanates, gives off, generates or causes, the emanation or generation of heat or power or energy such as, but not limited to, petroleum or oil, coal, marsh gas, methane gas, geothermal sources of heat and power, uranium and other minerals and fossils deposits.

Vision

By 2030, PNOC has provided vital energy resource/development and energy infrastructure, conducive to a clean environment and balanced and sustainable economic growth.

Mission

Through the efforts and initiative of a dedicated and competent workforce, PNOC is committed to:

- Develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing the country's self-sufficiency level in oil, gas and other energy sources;

- Foster sustainable and environment-friendly sources of energy and promote energy efficiency and conservation; and

- Maintain the highest standards of service and corporate governance.

Governance Commission for Government-Owned or Controlled Corporations (GCG) mandated PNOC to transform from a mere holding to also an operating company in September 2014. Thus, GCG recommended the abolition of PNOC Alternative Fuels Corporation (PAFC) and PNOC Development and Management Corporation (PDMC), which was duly approved by the Office of the President on that same month.

PNOC will continue to act as a holding company in relation to PNOC Exploration Corporation (PNOC-EC) and PNOC Renewables Corporation (PNOC-RC) while it took over the ongoing programs and assumed the functions of the abolished subsidiaries, PAFC and PDMC.

The entity's registered office is located at PNOC Building 6, Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.

Changes

After the approval of PNOC's Reorganization Plan in August 2018, PNOC started to implement the reorganization in January 2019.

In summary, based on the guidelines set under Republic Act No. 6656 and Executive Order No. 366, series of 1988, 89 employees out of a total of 198 manpower complement (44.9%) were placed to comparable positions. The remaining 110 residual positions (55.6%) will be filled up through the hiring of co-terminous to the incumbent employees, employees under job order contract, contractual employees and external applicants. There were a total of 15 affected employees that had no comparable positions based on their qualifications.

PNOC started its hiring process for vacant positions last October 2019 based on the approved Reorganization Plan and its approved Competency Based Human Resource System. From October to December 2019, two (2) positions were filled up.

Projects

1.1 *Batangas Liquefied Natural Gas (LNG) Hub*

Description:

PNOC, as the corporate arm of the Department of Energy (DOE), has steadily taken action towards the performance and attainment of the DOE's mandate, that is, for PNOC to spearhead the development of energy infrastructure for Liquefied Natural Gas (LNG). To attain this vision and direction, the project, known as the "PNOC Liquefied Natural Gas (LNG) Hub Project," was conceptualized.

The project is a complete value chain LNG facility to be used to receive, store, regasify, and distribute imported LNG, and at the same time facilitate the withdrawal of banked gas owned by PNOC from the Malampaya gas field. With a complete LNG facility, it is aimed at contributing to the economic growth of the country by providing a dependable, sustainable and efficient source of energy. This will fill the gap in addressing the lost energy capacity from the Malampaya gas field when Service Contract (SC) 38 expires in 2024 and if and when the Malampaya gas is depleted.

Initially, the proposed implementation for the project was under a Government-to-Government (G-to-G) modality. However, with PNOC's continued "market sounding", various private sector, both local and foreign showed keen interest in the project. Hence, PNOC adopted the concept of the unsolicited proposal under the 2013 Revised National Economic and Development Authority (NEDA) Joint Venture (JV) Guidelines and the Build-Operate-Transfer (BOT) Law. However, all of the unsolicited proposals received were rejected/not accepted due to non-compliance with the Board approved eligibility/qualification criteria and rules under BOT law or NEDA JV guidelines, or due to incompleteness of proposals.

Then, in August 2018, the Board approved the Solicited Proposal Scheme. Consequently, the pre-qualification/eligibility criteria for the private sector participants were also approved by the Board and the Instructions to Private Sectors Participants were published in October 2018.

In January 2019, the PNOC Board directed management to conclude and terminate all activities in relation to the Competitive Selection of the Joint Venture Development partner for the project. This is without prejudice to exploration of new opportunities in the LNG value chain in light of current developments and business prospects available that are still timely and deemed feasible for PNOC's participation.

Following the Board directives, PNOC Management concluded and terminated the Competitive Selection process for the Project.

Also, on February 28, 2019, PNOC entered into Memorandum of Understanding (MOU) with CNOOC Gas and Power Group Co., Ltd., and PHOENIX Petroleum Philippines. The main objective of this MOU is to discuss potential cooperation on the LNG Hub Project. The parties intends to explore and discuss business opportunities and cooperation in relation to: (1) equity investment; (2) PNOC facilities; (3) market development; (4) Banked Gas; and (5) future energy projects.

Discussions with other market players were also undertaken in order to ascertain the feasible opportunities for PNOC in the LNG business in the Philippines.

1.2 *Monetization of the PNOC Banked Gas*

Description:

Banked Gas is the accumulated unused gas of the Ilijan Power Plant, amounting to 108.6 Petajoules (PJ), as a result of the underutilization of the plant's Take-or-Pay Quantity (TOPQ) within the period 2002 to 2007. Under TOPQ, a fixed quantity of gas is being paid for by the power plant every year, whether they use the gas or not. The banked gas was originally paid for by the Government of the Philippines (GOP), through the Net Government Share, in assistance to the National Power Corporation (NPC), then owner of the Ilijan Power Plant, to satisfy the plant's TOPQ provisions of their Gas Sales and Purchase Agreement (GSPA) with the SC 38 Consortium. In September 2009, PNOC purchased from the DOE all the rights, benefits and entitlements of the banked gas.

Currently, the remaining volume of banked gas is equivalent to 97.67 PJ since Power Sector Assets and Liabilities Management Corporation (PSALM) withdrew 4.61 PJ in 2013 for the Ilijan Power Plant and another portion, equivalent to 6.324 PJ, was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2014 for its Tabangao Refinery. PSPC has started withdrawing from its contracted volume of banked gas in 2018 which will end in 2024.

In 2018, PNOC has advertised the sale of the remaining 97.67 PJ of banked gas which turned out unsuccessful. PNOC's publication of the sale of banked gas was intended to test current market demands. It is recognized that the continuous changing trends in the market has an effect on the price of the natural gas. Hence, the conduct of market sounding is necessary to provide a benchmark in the re-evaluation of the pricing mechanisms, along with other factors PNOC is legally-bound to observe, as a government corporation.

As a result of the market sounding conducted in 2018, the Board authorized the Management to negotiate the sale of the banked gas but without making any commitment as to the price at which it can be disposed of. The final selling price shall be subject to the approval of the PNOC Board.

Currently, PNOC is discussing with PSPC on the potential sale of additional volume of banked gas on top of its existing GSPA with PNOC. This additional volume is intended as supplementary supply to the fuel requirement of PSPC's Tabangao Refinery in line with its proposed projects to produce quality fuel. Period of withdrawal of the volume being contracted is proposed to be from January 2021 to February 2024. PNOC has prepared the key terms sheet to serve as guide in the negotiation of a separate GSPA with PSPC. The term sheet was submitted to and approved by the PNOC Board during its November 26, 2019 meeting.

PSALM also signified interest to purchase a portion of the remaining volume of the banked gas for the Ilijan Power Plant, for withdrawal starting 2022 when its existing GSPA with the SC38 Consortium expires. PNOC is currently coordinating with PSALM to request for a more detailed offer.

A more comprehensive discussion with PSPC and PSALM for the potential sale of PNOC's banked gas is set to be undertaken by PNOC in 2020.

1.3 *Establishment of PNOC's Strategic Petroleum Reserve (SPR)*

Description:

According to the 2019 Oil Supply/Demand Report prepared by the Department of Energy (DOE), 99.9 per cent of the country's oil supply comes from imports. As a highly-dependent country on oil imports, the country would be severely affected by domestic fuel volatility costs in the events of shifts in global demand, price, exchange rate movements, and international disputes.

Thus, the establishment of a National Strategic Petroleum Reserve (SPR) in the Philippines is a PNOC's initiative to mitigate the effect of sudden oil supply disruptions that can affect the economy of the country. The PNOC is mandated, through Memorandum Order 2019-11-0001 issued by the DOE in November 14, 2019, to conduct a comprehensive feasibility study for the establishment of a SPR, and prepare an implementation plan based on the conducted study.

A comprehensive desktop study had been conducted for the completion of the SPR project framework. The framework covers applicable oil stockpiling strategies in the Philippines, which includes the legal and institutional framework, recommended oil stockpile composition and volume, recommended stockpile ownership methods and recommended stockpiling technologies. This document was prepared with the aim to provide basic understanding and preliminary recommendations for the implementation of the project to the readers based on related studies and literatures. The Detailed Feasibility Study (DFS) to be conducted, however, can either refine or completely alter the preliminary recommendations provided in the project framework. The project framework has been presented to and approved by the PNOC Board during its November 26, 2019 meeting.

The Terms of Reference (TOR) for the hiring of a Transaction Advisor (TA) to, among others, conduct and prepare the DFS for the Project has been prepared, submitted to and approved by the PNOC Board also during the November 26, 2019 meeting. The DFS to be conducted by PNOC with the assistance of the TA shall cover the technical, legal, social, environmental, financial and economic aspects as well as the risks associated in developing and implementing the Project.

PNOC has also sought the approval of its Board during the same meeting to expand the mode procurement to include Negotiated Procurement under Section 53 of the RA 9184 (Government Procurement Reform Act) in addition to the approved Public Bidding and Agency-to-Agency.

PNOC has identified several agencies and institutions as potential candidates with the competence to provide the necessary expertise and advisory assistance for the envisioned development of the national SPR for the Philippines. PNOC has started sending out invitation letters to and coordinating with these institutions to discuss possible facilitation, assistance or arrangements on PNOC's required transaction advisory services.

1.4 *Energy Supply Base (ESB) Operations*

PNOC's ESB is a19.2-hectare property and is located in Mabini, Batangas. ESB is primarily operated to provide logistical support for the energy industry. However, it has extended its services to other commercial clients pursuant to the grant of a Permit-to-Operate as a private commercial port (Certificate of Registration No. 291) was granted on October 1996 by Philippine Ports Authority (PPA).

PNOC continues to assume the administration and operations of the ESB since 2018.

The conduct of DFS for the implementation of the ESB Master Development Plan is 31.45 per cent complete.

ESB accommodated two additional locators during the year, bringing the total locators to 20. Moreover, it accredited four Additional Cargo Handling Operators bringing the total to six.

The planned re-strengthening of deck 3 and slabs and repair works of Deck 1, 2 and 4 concrete slabs and beams were 40 per cent completed, while the concrete pavement project was 100 per cent completed.

Other Priorities

ISO Certification

PNOC secured the ISO Certification 9001:2015 in October 2017. All the processes at PNOC have been found compliant with the requirements of the standard for a quality management system.

An internal quality audit was conducted in April 2019 and PNOC passed the 2nd Surveillance Audit conducted in June 2019.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) prescribed by the Commission on Audit through COA Circular No. 2017-004 dated December 13, 2017.

The accounting policies have been consistently applied throughout the year presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statements of Cash Flows are prepared using the direct method.

The financial statements are presented in Philippine Peso (P), which is also the country's functional currency.

Amounts are rounded off to the nearest peso, unless otherwise stated.

The preparation of financial statements in compliance with the adopted PFRS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 *Basis of Accounting*

The financial statements are prepared on an accrual basis in accordance with the PFRS.

3.2 *Financial Instruments*

a. Financial assets

i. Classification and measurement

Financial assets within the scope of PFRS 9 - Financial Instruments: Recognition and Measurement are classified as Amortized Cost, Financial Assets at Fair Value through Profit or Loss (FVPL) and Financial Assets at Fair Value through Other Comprehensive Income (FVOCI), as appropriate.

When an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

a) Amortized cost—a financial asset is measured at amortized cost if both of the following conditions are met:

   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income—financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

c) Fair value through profit or loss—any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

When, and only when, an entity changes its business model for managing financial assets it must reclassify all affected financial assets.

PNOC's financial assets include cash and cash equivalents, trade and other trade receivables and quoted and unquoted financial instruments. PNOC has no derivative financial instrument as at December 31, 2019.

ii. Derecognition

PNOC derecognizes a financial asset or, where applicable, a part of a financial asset or part of PNOC of similar financial assets when:

1. the contractual rights to the cash flows from the financial asset expired or waived; and

2. PNOC has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PAS 39-Financial Instruments: Recognition and Measurement; and either the entity has:

    - transferred substantially all the risks and rewards of ownership of the financial asset; or

    - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iii. Impairment of financial assets

PNOC assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty;

2. Default or delinquency in interest or principal payments;

3. The probability that debtors will enter bankruptcy or other financial reorganization; and

4. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

    1) Financial assets carried at amortized cost

    For financial assets carried at amortized cost, PNOC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If PNOC determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to PNOC. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

2) Fair value through other comprehensive income

PNOC assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss, is removed from equity and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in the profit or loss.

b. Financial liabilities

All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that an entity designates to be measured at fair value through profit or loss.

After initial recognition, an entity cannot reclassify any financial liability.

i. **Derecognition**

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

c. **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

d. **Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

3.3 *Cash and Cash Equivalents*

Cash includes cash on hand and in banks. Cash equivalents are short-term money market placements that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of change in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.4 *Inventories*

The cost of banked gas inventory is based on acquisition cost.

3.5 *Investment Property*

Investment property are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment property are measured using the cost model and are depreciated over their estimated useful life as follows:

Property classification	Estimated useful life
Building and Improvements	25
Fencing	5

Investment property are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use.

PNOC uses the cost model for the measurement of investment property after initial recognition.

3.6 *Property, Plant and Equipment*

a. Recognition

An item is recognized as property and equipment if it meets the characteristics and recognition criteria as Property, Plant and Equipment (PPE).

The characteristics of PPE are as follows:

i. tangible items;

ii. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

iii. are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

i. it is probable that future economic benefits or service potential associated with the item will flow to the entity;

ii. the cost or fair value of the item can be measured reliably; and

iii. the cost is at least P15,000.

b. Measurement at recognition

An item recognized as PPE is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

Cost includes the following:

i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

ii. expenditure that is directly attributable to the acquisition of the items; and

iii. initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, PNOC recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in profit or loss as incurred.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. Depreciation method

The straight-line method of depreciation is adopted unless another method is more appropriate for PNOC operation.

iii. Estimated useful life

PNOC uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

Property classification	Estimated useful life
Land improvements	10
Building and improvements	25
Machinery and equipment	5
Communication equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5
Information technology equipment	3

iv. Residual value

PNOC adopt a residual value equivalent to at least five per cent of the cost of the PPE.

e. Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

f. Derecognition

PNOC derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognized.

3.7 *Leases*

a. PNOC as a lessor

i. Operating lease

Leases in which PNOC does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policies for PE are applied to similar assets leased by the entity.

3.8 *Provisions, Contingent Liabilities and Contingent Assets*

a. Provisions

Provisions are recognized when PNOC has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where PNOC expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent Liabilities

PNOC does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent Assets

PNOC does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of PNOC in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.9 *Changes in Accounting Policies and Estimates*

PNOC recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

PNOC recognizes the effects of changes in accounting estimates prospectively through profit or loss.

PNOC corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.10 *Foreign Currency Transactions*

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;
b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
c. Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in profit or loss in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.11 *Revenue from Non-exchange Transactions*

a. Recognition and measurement of assets from non-exchange transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
ii. The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

b. Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As PNOC satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

c. Measurement of revenue from non-exchange transactions

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

d. Measurement of liabilities on initial recognition from non-exchange transactions

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

e. Taxes

Taxes and the related fines and penalties are recognized when collected or when these are measurable and legally collectible. The related refunds, including those that are measurable and legally collectible, are deducted from the recognized tax revenue.

In 2019, no revenues was recognized by the Company from taxes and related fines and penalties.

f. Fees and fines not related to taxes

PNOC recognizes revenue from fees and fines, except those related to taxes, when earned and the asset recognition criteria are met. Deferred income is recognized instead of revenue if there is a related condition attached that would give rise to a liability to repay the amount.

Other non-exchange revenue are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

g. Gifts and donations

Assets and revenues are recognized from gifts and donations when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which are ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair values are ascertained by reference to quoted prices in an active and liquid market.

In 2019, no asset and revenue were recognized by the Company for gifts and donations.

h. Transfers

PNOC recognizes an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset, except those arising from services in-kind.

i. Services in-kind

Services in-kind are not recognized as asset and revenue considering the complexity of the determination of and recognition of asset and revenue and the eventual recognition of expenses.

j. Transfers from other government entities

Revenue from non-exchange transactions with other government entities and the related assets are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to PNOC and can be measured reliably.

In 2019, PNOC has no transaction relating to transfer of assets with other government entities.

3.12 *Revenue from Exchange Transactions*

a. Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

b. Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

c. Dividends

Dividends or similar distributions are recognized when PNOC’s right to receive payments is established.

d. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

3.13 *Impairment of Non-Financial Assets*

a. Impairment of cash-generating assets

At each reporting date, PNOC assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PNOC estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or the cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, PNOC estimates the asset’s or cash-generating unit’s recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

b. Impairment of non-cash-generating assets

PNOC assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PNOC estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. PNOC classifies assets as cash-generating assets when those assets are held with the primary objective generating a commercial return. Therefore, non-cash-generating assets would be those assets from which PNOC does not intend (as its primary objective) to realize a commercial return.

3.14 *Related Parties*

PNOC regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over PNOC, or vice versa.

Members of key management are regarded as related parties and comprise the Members of the Board of Directors, the President and Chief Executive Officer and the Members of the Management Committee.

3.15 *Borrowing Costs*

For loans borrowed directly by PNOC, the allowed alternative treatment is used. As at December 31, 2019, PNOC has no existing loans.

3.16 *Employee Benefits*

The employees of PNOC are members of the Government Service Insurance System, which provides life and retirement insurance coverage.

PNOC recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.17 *Measurement Uncertainty*

The preparation of financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of significant estimates include the useful life of a capital asset, estimated employee benefits, rates for amortization, impairment of assets, etc.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4. CHANGES IN ACCOUNTING POLICIES

PNOC adopted the following new accounting policies:

4.1 *Adoption of Revised Chart of Accounts (RCA)*

As at December 31, 2017, PNOC adopted the conversion of accounts and account codes to the Revised Chart of Accounts in compliance with COA Circular No. 2015-010, "*Adoption of the RCA for Government Corporations (GCs) which consists of Government-Owned and Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), Government Instrumentalities with Corporate Powers (GICPs)/ Government Corporate Entities (GCEs), and their Subsidiaries and Water Districts",* dated December 1, 2015 and COA Circular No. 2016-006, "*Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System"* per COA Circular No. 2004-008 dated September 20, 2004, as amended to the *"Revised Chart of Accounts for Government Corporations under COA Circular No. 2015-010 dated December 1, 2015, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof"*, dated December 29, 2016.

4.2 *Preparation of Financial Statements and Other Financial Reports*

Also, as at December 31, 2017, PNOC implemented COA Circular No. 2017-004, "*Guidelines on the Preparation of Financial Statements and Other Financial Reports and Implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises"*, dated December 13, 2017. These accounting changes have an impact on PNOC's presentation of financial statements and related books of accounts.

5. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2019	As at December 31, 2018
Cash-Collecting Officers	2,000	0
Petty Cash	1	0
Cash in Bank-Local Currency	6,695,590	24,467,180
Cash in Bank-Foreign Currency	758,151	2,035,926
Cash Equivalents	299,913,951	35,000,000
Total Cash and Cash Equivalents	**307,369,693**	**61,503,106**

Cash in Bank is cash deposits that earn interest at the respective bank deposit rates. PNOC depository banks include the Land Bank of the Philippines, Development Bank of the Philippines, Philippine National Bank and Philippine Veterans Bank.

Cash Equivalents consists of money market placements in Time Deposit – Local and Foreign Currency which is made for a period of 31 days – 61 days and earn interest at 1.07 – 4.25 percent for local currency and 1.05 – 1.30 percent for foreign currency.

6. INVESTMENTS

6.1 Financial Assets

Particulars	As at December 31, 2019	As at December 31, 2018
Total Current Financial Assets	1,558,023,580	1,626,944,534
Total Non-Current Financial Assets	6,970,750,000	6,378,700,000
Total	**8,528,773,580**	**8,005,644,534**

a. Reconciliation of the Current Financial Assets

Particulars	As at December 31, 2019	As at December 31, 2018
Beginning Balance as at January 1, 2019	**1,626,944,534**	**790,651,182**
Additional investments made	1,930,738,291	1,676,073,887
Less: Investment sold / collected	(1,999,659,245)	(839,780,535)
Balance as at December 31, 2019	**1,558,023,580**	**1,626,944,534**

This account refers to *Financial Assets – Held to Maturity* which consists of investment in Treasury Bills which are made for varying periods of more than 90 days but less than 1 year and earn interest at 3.23 – 6.15 per cent deposit rates.

b. Reconciliation of the Non-Current Financial Assets

Particulars	Financial Assets – HTM	Financial Assets at FVOCI	Total
Beginning Balance as at January 1, 2019	**6,376,000,000**	**2,700,000**	**6,378,700,000**
Additional investments made	1,895,306,886	0	1,895,306,886
Fair value increase	0	50,000	50,000
Less: Investments sold / collected	(1,303,306,886)	0	(1,303,306,886)
Balance as at December 31, 2019	**6,968,000,000**	**2,750,000**	**6,970,750,000**

Particulars	Financial Assets – HTM	Financial Assets at FVOCI	Total
Beginning Balance as at January 1, 2018	**6,660,000,000**	**2,600,000**	**6,662,600,000**
Additional investment made	1,023,000,000	0	1,023,000,000

Particulars	Financial Assets – HTM	Financial Assets at FVOCI	Total
Fair value increase	0	100,000	100,000
Less: Investments sold / collected	(1,307,000,000)	0	(1,307,000,000)
Balance as at December 31, 2018	**6,376,000,000**	**2,700,000**	**6,378,700,000**

Financial Assets – Held to Maturity consists of investments in treasury bonds with a term 141 days to 25 years from value date and interest rates ranging from 2.70 to 6.25 per cent.

Financial Assets at FVOCI consists of Investment in quoted and unquoted equity shares.

Investment in quoted equity shares is measured at fair market value based on the latest quoted price, as at financial reporting date in an active market.

Unquoted equity shares represent shareholdings of the Company in various entities which are neither qualified to be investment in a subsidiary, associate or jointly controlled entity and are valued at cost. Management believes that there are no indications that these investments are impaired.

6.2 **Investments in Associates**

Particulars	Percentage of Ownership	As at December 31, 2019	As at December 31, 2018
Gulf Oil Philippines, Inc.	35	54,978,000	54,978,000
Philippine Mining Development Corp.	36	45,000,000	45,000,000
Total		**99,978,000**	**99,978,000**

6.3 **Investments in Subsidiaries**

Particulars	Percentage of Ownership	As at December 31, 2019	As at December 31, 2018
Investment in operating subsidiaries			
PNOC Alternative Fuels Corporation (PAFC)	100.00	2,400,000,000	2,400,000,000
PNOC Exploration Corporation (PNOC- EC)	99.79	2,019,188,332	2,019,188,332
PNOC Renewables Corporation (PNOC-RC)	100.00	374,972,000	374,972,000
PNOC Development and Management Corporation (PDMC)	98.08	65,614,724	65,614,724
Total Investment in operating subsidiaries		**4,859,775,056**	**4,859,775,056**
Investment in non-operating subsidiaries			
PNOC Coal Corporation (PCC)	100.00	427,067,950	427,067,950
PNOC Shipping and Transport Corporation (PSTC)	100.00	190,000,000	190,000,000

Particulars	Percentage of Ownership	As at December 31, 2019	As at December 31, 2018
PNOC Oil Carriers, Inc.	100.00	101,615,343	101,615,343
PNOC Tankers Corporation	100.00	50,000,000	50,000,000
Total		**768,683,293**	**768,683,293**
Less: *Allowance for impairment of non-operating subsidiaries*		**(768,683,293)**	**(768,683,293)**
Total Investment in non-operating subsidiaries		**0**	**0**
Total Investment in Subsidiaries		**4,859,775,056**	**4,859,775,056**

PAFC and PDMC

On September 8, 2014, a Memorandum from then Executive Secretary was issued stating that the Governance Commission for GOCCs' (GCG) recommendation to abolish PAFC and PDMC has been approved. The GCG issued Memorandum Circular No. 2014-26 on the implementation of the abolition of PAFC and PDMC. The transition and turnover plan for PAFC and PDMC were submitted to the GCG in 2015 and the going concerns of PAFC and PDMC were continued and transitioned into PNOC in 2016 and has undergone integration in PNOC's operations starting 2017 in accordance with the Plan.

PSTC

On February 7, 2013, in the special PSTC stockholders' meeting joined by all the PNOC Board of Directors (Board), the PNOC Board passed Resolution No. 2111, Series of 2013, approving the recommendation to shorten the corporate life of the PSTC effective March 15, 2013. This is to protect the interest of PNOC, as the sole stockholder, from the continued deterioration of the financial condition of PSTC. On March 6, 2013, PSTC filed the cessation of registration with the Bureau of Internal Revenue (BIR) effective March 15, 2013 to be able to be given a tax clearance as requirement to the SEC dissolution. On July 5, 2013, the Office of the President approved the recommendation of GCG for abolition of PSTC. On December 26, 2013, a Deed of Assignment of Assets and Assumption of Liabilities (DAAAL) was executed between PSTC being the Assignor and PNOC as the Assignee.

On December 10, 2014, an Addendum to the DAAAL between PSTC and PNOC was executed to include the P10.587 million credited to PNOC from PSTC account in the assignment of assets to be used in the settlement of all liabilities and obligations of PSTC.

PCC

The PCC ceased to operate effective May 31, 2002 due to continued losses. The PNOC Board under Board Resolution No. 1392, S'2002 shortened the corporate life of the company by amending its Articles of Incorporation. Its coal trading activities was absorbed by PNOC-EC effective June 1, 2002. The account of PCC is still retained in PNOC books pending the order of Revocation of Registration from SEC.

PNOC Oil Carriers, Inc. / PNOC Tankers Corporation

In 2003, SEC issued a certificate for the revocation of the PNOC Oil Carriers, Inc. and PNOC Tankers Corporation, but the accounts of these corporations are retained pending receipt of the clearances from the BIR. PNOC has provided 100 percent allowance for impairment of its investment to the dissolved subsidiaries pursuant to Philippine Accounting Standards 36.

6.4 **Other Investments**

Particulars	As at December 31, 2019	As at December 31, 2018
Total Current Financial Assets	0	274,351,080
Total Non-Current Financial Assets	96,632,450	96,632,450
Total	**96,632,450**	**370,983,530**

a. Reconciliation of Other Investments - Current

Other Investments – Current As at December 31, 2019		
Particulars	**As at December 31, 2019**	**As at December 31, 2018**
Beginning Balance as at January 1, 2019	274,351,080	326,700,720
Additional Investments made	65,000,000	274,351,080
Less: Investments sold/collected	(339,351,080)	(326,700,720)
Total	**0**	**274,351,080**

b. Reconciliation of Other Investments – Non-Current

Particulars	As at December 31, 2019	As at December 31, 2018
Investment in Stocks		
PLDT Preferred Shares	179,100	179,100
Total Investment in Stocks	**179,100**	**179,100**
Other Investments		
Goodyear Philippines (11% - Percentage of Ownership)	96,453,350	96,453,350
Talisay Bioenergy Inc.	57,685,382	57,685,382
Allowance for Impairment- Talisay Bioenergy Inc.	(57,685,382)	(57,685,382)
Total Other Investments	**96,453,350**	**96,453,350**
Total	**96,632,450**	**96,632,450**

7. RECEIVABLES

Particulars	As at December 31, 2019	As at December 31, 2018
Total Current Receivables	565,653,935	575,587,912
Total Non-Current Receivables	58,057,732	70,146,286
Total	**623,711,667**	**645,734,198**

7.1 Aging/Analysis of Receivable

As at December 31, 2019

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	80,248,412	79,863,660	190,647	15,669	178,436
Interests Receivable	102,092,583	24,766,546	23,522,695	26,205,889	27,597,453
Lease Receivable	199,781,250	406,750	110,486	38,834	199,225,170
Inter-Agency Receivables	1,668,139,220	52,960,183	43,877	0	1,615,135,160
Other Receivables	5,470,025	1,052,324	37,731	29,935	4,350,035
Less: *Allowance for Impairment*	(1,490,077,555)	0	0	0	(1,490,077,555)
Total	**565,653,935**	**159,049,473**	**23,905,436**	**26,290,327**	**356,408,699**

7.2 Loans and Receivables

Accounts	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable	80,248,413	58,057,732	138,306,145	151,050,880	70,146,286	221,197,166
Interests Receivable	102,092,583	0	102,092,583	80,455,050	0	80,455,050
Total	**182,340,996**	**58,057,732**	**240,398,728**	**231,505,930**	**70,146,286**	**301,652,216**

7.3 Lease Receivables

Accounts	As at December 31, 2019	As at December 31, 2018
Operating Lease Receivable	199,781,250	206,633,766
Total	**199,781,250**	**206,633,766**

7.4 Inter-Agency Receivables

Accounts	As at December 31, 2019	As at December 31, 2018
Due from Government Corporations	112,543,142	112,543,142
Due from Subsidiaries	1,555,596,078	1,502,896,622
Less: *Allowance for Impairment-Due from Subsidiaries*	(1,490,077,555)	(1,485,945,083)
Total	**178,061,665**	**129,494,681**

7.5 Other Receivables

Accounts	As at December 31, 2019	As at December 2018
Due from Officers and Employees	4,841,582	5,977,855
Other Receivables	628,443	1,975,680
Total	**5,470,025**	**7,953,535**

8. BANKED GAS INVENTORY

Accounts	As at December 31, 2019	As at December 31, 2018
Inventory Held for Sale		
Carrying Amount, January 1	13,689,426,885	13,789,376,675
Sold during the year (Space)	(152,836,905)	(99,949,790)
Total Carrying Amount, December 31	**13,536,589,980**	**13,689,426,885**

This account pertains to the banked gas bought by PNOC from the Department of Energy in September 2009 amounting to P14.4 billion which is equivalent to 108.6 Petajoules (PJ). The banked gas is an accumulation of the volume of natural gas that has been paid for but not yet taken by the Ilijan Power Plant of the National Power Corporation (NPC). The NPC and Power Sector Assets and Liabilities Management Corporation (PSALM) entered into a Gas Sale and Purchase Agreement (GSPA) with SC 38 Consortium, whereby NPC is committed to take a minimum volume of gas every year or take-or-pay commitment. Any unconsumed gas, but has been paid for, goes to the banked gas. In November 2013, PSALM has drawn a total quantity of 4.605 PJ amounting to P610.6 million.

In March 2016, PNOC and Pilipinas Shell Petroleum Corporation (PSPC) signed a Gas Sale Purchase Agreement for the sale of a total volume of 6.324 PJ of banked gas, hence the remaining banked gas available for sale is 97.671 PJ. The start date of PSPC drawing the gas is June 2018 until February 2024.

PSPC has withdrawn a total of .753 PJ from June 1 to December 31, 2018 and 1.153 PJ from January 1 to December 31, 2019. As of December 31, 2019, the banked gas has a remaining volume of 102.088 PJ amounting to P13,536,589,980.

9. INVESTMENT PROPERTY

Particulars	As at December 31, 2019		
	Investment Property-Land and Land Improvements	Investment Property-Buildings	Total
Carrying Amount, January 1	**11,283,379,375**	**85,544,314**	**11,368,923,689**
Additions/Acquisitions	0	397,356	397,356
Total	**11,283,379,375**	**85,941,670**	**11,369,321,045**
Disposals	(3,045,800)	0	(3,045,800)
Depreciation	(308,561)	(7,927,618)	(8,236,179)

Particulars	As at December 31, 2019		
	Investment Property-Land and Land Improvements	Investment Property-Buildings	Total
Adjustment to Cost	0	0	0
Carrying Amount, December 31	**11,280,025,014**	**78,014,052**	**11,358,039,066**

Gross Cost	11,281,760,271	167,848,698	11,449,608,969
Accumulated Depreciation	(1,735,257)	(89,834,646)	(91,569,903)
Carrying Amount, December 31	**11,280,025,014**	**78,014,052**	**11,358,039,066**

Particulars	AS at December 2018		
	Investment Property-Land and Land Improvements	Investment Property-Buildings	Total
Carrying Amount, January 1	**11,283,687,936**	**53,871,439**	**11,337,559,375**
Additions/Acquisitions	0	37,202,297	37,202,297
Total	**11,283,687,936**	**91,073,736**	**11,368,923,689**
Disposals	0	0	0
Depreciation	(308,561)	(5,529,422)	(5,837,983)
Adjustment to Cost	0	0	0
Carrying Amount, December 31	**11,283,379,375**	**85,544,314**	**11,368,923,689**

Gross Cost	11,284,806,071	167,451,342	11,452,257,413
Accumulated Depreciation	(1,426,696)	(81,907,028)	(83,333,724)
Carrying Amount, December 31	**11,283,379,375**	**85,544,314**	**11,368,923,689**

The leases mostly contain a lease period of minimum of 2 years and maximum of 25 years. Upon expiration of the contract, the lease may be renewed upon the mutual agreement of the parties under such terms and conditions as may be agreed upon by them.

Bulk of the properties was initially assessed by a third party appraiser in 2007 and 2008 and the fair value was treated as deemed cost.

During the year, the Company sold a total of 769 square meters of land located in Davao, Bulacan and Cabanatuan City for a total cost of P3,045,800 resulting in a gain amounting to P2,459,100 (see Note 27).

The fair value of investment properties amounted to P33,735,471,090 in 2019 and P31,220,379,194 in 2018.

Rental income earned from the investment properties amounted to P373,352,140 in 2019 and P395,842,938 in 2018.

10. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2019

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	**201,067,407**	**76,456**	**125,282,494**	**12,231,721**	**338,658,078**
Additions/Acquisitions		244,777	2,061,512	25,139,450	27,445,739
Total	**201,067,407**	**321,233**	**127,344,006**	**37,371,171**	**366,103,817**
Disposals	0	0	0	(2,861)	(2,861)
Depreciation	0	(21,015)	(31,388,966)	(4,533,984)	(35,943,965)
Impairment Loss	0	0	0	(24,306)	(24,306)
Adjustment	0	0	0	(18,149)	(18,149)
Carrying Amount, December 31	**201,067,407**	**300,218**	**95,955,040**	**32,791,871**	**330,114,536**

Gross Cost	**201,067,407**	**455,134**	**395,919,993**	**101,211,653**	**698,654,187**
Accumulated Depreciation	0	(154,916)	(299,964,953)	(68,395,476)	(368,515,345)
Accumulated Impairment Loss	0	0	0	(24,306)	(24,306)
Carrying Amount, December 31	**201,067,407**	**300,218**	**95,955,040**	**32,791,871**	**330,114,536**

As at December 31, 2018

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	**201,067,407**	**97,472**	**144,950,275**	**6,730,047**	**352,845,201**
Additions/Acquisitions	0	0	8,786,116	8,031,214	16,817,330
Total	**201,067,407**	**97,472**	**153,736,391**	**14,761,261**	**369,662,531**
Disposals	0	0	0	0	0
Depreciation	0	(21,016)	(28,445,629)	(3,649,007)	(32,115,652)
Adjustment	0	0	(8,268)	1,119,467	1,111,199
Carrying Amount, December 31	**201,067,407**	**76,456**	**125,282,494**	**12,231,721**	**338,658,078**

Gross Cost	**201,067,407**	**210,357**	**393,858,480**	**79,647,929**	**674,784,173**
Accumulated Depreciation	0	(133,901)	(268,575,986)	(67,416,208)	(336,126,095)
Carrying Amount, December 31	**201,067,407**	**76,456**	**125,282,494**	**12,231,721**	**338,658,078**

In 2019, additions in Building and Other Structures pertain mainly to the major repairs at 7th floor of PNOC Building 6 (P1,517,858) while the Machinery and Equipment consist mainly of the replacement of air condition system at PNOC Building 5 and Building 6 (P14,787,351), purchase of 10 units split type air condition (P2,680,893) and generator set 250 KVA (P1,461,607) and various machinery and equipment.

In 2018, additions in Building and Other Structures consists of retrofitting of the building (P4,709,086), modular partition (P1,980,735), repairs of all Air Handling Units (AHU) rooms, pump room, Automatic Transfer Switch, generator switch and other major repairs at PNOC building 6 (P2,096,295).

11. DEFERRED TAX ASSETS

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2019	345,606,781	155,000	345,761,781
Charged to other comprehensive income for the year	0	0	0
Credited to profit or loss for the year	122,197	0	122,197
Adjustments	0	85,000	85,000
December 31, 2019	**345,728,978**	**240,000**	**345,968,978**

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2018	345,714,200	160,000	345,874,200
Charged to other comprehensive income for the year	0	(5,000)	(5,000)
Credited to profit or loss for the year	(107,419)	0	(107,419)
December 31, 2018	**345,606,781**	**155,000**	**345,761,781**

12. OTHER ASSETS

Particulars	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	305,000	0	305,000	305,170	0	305,170
Prepayments	9,808,089	0	9,808,089	11,953,210	0	11,953,210
Deposits	209,904,136	0	209,904,136	189,705,654	0	189,705,654
Other Assets	175,278,730	275,191	175,553,921	135,782,704	328,877	136,111,581
Total	**395,295,955**	**275,191**	**395,571,146**	**337,746,738**	**328,877**	**338,075,615**

Deposits account consists mainly of cash from Decentralized Energy Systems (DES) Fund Project. The fund was transferred by Energy Development Corporation (formerly PNOC EDC) to PNOC, in accordance with the provision in the Deed of Assignment dated May 28, 1993. The Deed of Assignment states that in the event of PNOC EDC's partial or full privatization, the project shall be transferred to another institution such as foundation under PNOC. On July 29, 2010, PNOC and EDC jointly executed a Turnover Certificate where the authorized representatives of each party certified the delivery and receipt of all the assets and instruments evidencing the same as well as the contracts and documents in connection with the DES Project.

Other Assets is comprised mainly by prepaid interest on investment in bonds.

13. FINANCIAL LIABILITIES

Particulars	As at December 31, 2019	As at December 31, 2018
Accounts Payable	100,074,644	92,460,978
Due to Officers and Employees	1,084,739	1,195,134
Service Concession Arrangements Payable	55,500	0
Total	**101,214,883**	**93,656,112**

14. INTER-AGENCY PAYABLES

Particulars	As at December 31, 2019	As at December 31, 2018
Due to BIR	9,231,293	6,667,518
Due to GSIS	1,467,079	1,364,334
Due to Pag-IBIG	53,583	68,709
Due to PhilHealth	116,268	103,480
Due to Subsidiaries	24,421,137	29,675,418
Income Tax Payable	0	36,688,487
Total	**35,289,360**	**74,567,946**

15. TRUST LIABILITIES

Particulars	As at December 31, 2019	As at December 31, 2018
Trust Liabilities	207,278,783	187,319,357
Guaranty/Security Deposits Payable	19,503,524	27,262,905
Total	**226,782,307**	**214,582,262**

Trust liabilities pertain mainly to fund for the Decentralized Energy System Project.

16. OTHER PAYABLES

PNOC has payables to entities not classified as financial liabilities pertaining to:

Particulars	As at December 31, 2019	As at December 31, 2018
Unclaimed Balances	16,000	16,000
Dividends Payable	356,719,259	306,504,872
Other Payables	716,588	562,601
Total	**357,451,847**	**307,083,473**

Dividends Payable pertains to the declared cash dividend to the National Government based on the Company's net earnings. This is in compliance with the revised 2016

Implementing Rules and Regulations of Republic Act (RA) No. 7656 issued by the Department of Finance.

17. DEFERRED CREDITS/UNEARNED INCOME

Particulars	As at December 31, 2019	As at December 31, 2018
Unearned Revenue/Income-Investment Property	178,798,886	180,081,800
Other Deferred Credits	265,259,346	264,178,653
Output tax	15,017,425	40,265,281
Total	**459,075,657**	**484,525,734**

Unearned revenue pertains mainly to the balance of rental on refinery properties by New Ventures Refinery Corporation (NVRC) for 2018. PNOC recognized receivable from NVRC by applying the new rates based on PNOC's re-appraised value which was higher than NVRC's new rates that were based on their 2017 re-appraised value conducted by their accredited 3rd party appraiser. NVRC's payment of rental to PNOC was based on their computed new rates. Other deferred credits are non-current items which include accounts set-up for accrued receivables for various intercompany charges by PNOC to its dissolved subsidiaries.

18. PROVISIONS

Particulars	As at December 31, 2019	As at December 31, 2018
Leave Benefits Payable	32,357,328	26,940,111
Total	**32,357,328**	**26,940,111**

19. DEFERRED TAX LIABILITIES

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Accrued Rent Income	Total
January 1, 2019	2,754,432,373	1,250	0	2,754,433,623
Credited to profit or loss for the year	(895,647)	7,500	0	(888,147)
Adjustments	0	17,500	0	17,500
December 31, 2019	**2,753,536,726**	**26,250**	**0**	**2,753,562,976**

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Accrued Rent Income	Total
January 1, 2018	2,754,431,794	1,250	1,980	2,754,435,024
Credited to profit or loss for the year	579	0	(1,980)	(1,401)
Credited to retained earnings for the year	0	0	0	0
December 31, 2018	**2,754,432,373**	**1,250**	**0**	**2,754,433,623**

20. EQUITY

a. Capital Stock

The Company's authorized capital stock is divided into 10 million no par value shares, of which 2 million shares were initially subscribed and paid for by the Government at P50 per share. The remaining shares may be subscribed and paid for by the Republic of the Philippines or by government financial institutions at no less than P50 a share.

From 1975 to 1988 additional shares of 6,029,191 were subscribed by the Government at P500 per share.

b. Retained Earnings

In compliance with RA 7656, PNOC declared a total cash dividend of P356,719,259 for 2019 net earnings which is also the outstanding dividend payable due to the National Government as at December 31, 2019.

In 2018, PNOC declared a total cash dividend of P306,504,872 which was remitted directly to the Bureau of Treasury on April 25, 2019.

The revaluation surplus of P9,181,439,315 was reclassified to Retained Earnings, in compliance with PAS 40 on revaluation of investment property. The increment was inadvertently classified as Revaluation Surplus when PNOC adopted the Revised Chart of Accounts in 2017.

21. SERVICE AND BUSINESS INCOME

Particulars	2019	2018
Rent/Lease Income	404,280,906	425,997,093
Sales Revenue – Banked gas	560,752,373	383,132,726
Dividend Income	2,474,010	5,595,776
Interest Income	304,690,391	249,722,281
Fines and Penalties-Business Income	817,143	980,565
Other Business Income – ESB	81,189,811	102,750,772
Total	**1,354,204,634**	**1,168,179,213**

22. PERSONNEL SERVICES

Particulars	2019	2018
Salaries and Wages	66,656,900	61,390,152
Other Compensation	22,013,152	27,183,932
Personnel Benefit Contributions	8,580,801	7,980,394
Other Personnel Benefits	8,656,080	7,792,630
Total	**105,906,933**	**104,347,108**

22.1 Salaries and Wages

Particulars	2019	2018
Salaries and Wages-Regular	66,656,900	61,390,152
Total	**66,656,900**	**61,390,152**

22.2 Other Compensation

Particulars	2019	2018
Personnel Economic Relief Allowance (PERA)	2,466,742	2,484,079
Representation Allowance (RA)	1,888,250	1,821,375
Transportation Allowance (TA)	1,016,250	933,125
Clothing/Uniform Allowance	618,000	616,000
Honoraria	593,412	2,735,393
Longevity Pay	100,000	140,000
Overtime and Night Pay	2,168,630	2,307,313
Year End Bonus	5,548,903	5,190,790
Cash Gift	514,000	526,250
Other Bonuses and Allowances	7,098,965	10,429,607
Total	**22,013,152**	**27,183,932**

22.3 Personnel Benefit Contributions

Particulars	2019	2018
Retirement and Life Insurance Premiums	7,739,062	7,142,776
Pag-IBIG Contributions	122,200	123,500
PhilHealth Contributions	597,439	590,718
Employees Compensation Insurance	122,100	123,400
Total	**8,580,801**	**7,980,394**

22.4 Other Personnel Benefits

Particulars	2019	2018
Terminal Leave Benefits	8,487,375	7,456,737
Other Personnel Benefits	168,705	335,893
Total	**8,656,080**	**7,792,630**

23. MAINTENANCE AND OTHER OPERATING EXPENSES

Particulars	2019	2018
General Services	49,264,595	42,984,771
Taxes, Insurance Premiums and Other Fees	19,254,838	19,791,824
Professional Services	32,878,559	13,906,606
Utility Expenses	12,431,766	13,315,758
Supplies and Materials Expenses	8,755,764	8,887,529
Repairs and Maintenance	4,708,785	4,609,576

Particulars	2019	2018
Communication Expenses	4,780,217	4,548,262
Travelling Expenses	2,222,458	2,522,200
Training and Scholarship Expenses	1,949,392	1,548,608
Confidential, Intelligence and Extraordinary Expanses	188,660	139,897
Other Maintenance and Operating Expenses	21,373,567	28,443,857
Total	**157,808,601**	**140,698,888**

23.1 General Services

Particulars	2019	2018
Security Services	24,605,871	23,498,835
Other General Services	16,144,077	11,189,881
Janitorial Services	8,514,647	8,296,055
Total	**49,264,595**	**42,984,771**

23.2 Taxes, Insurance Premiums and Other Fees

Particulars	2019	2018
Taxes, Duties and Licenses	13,627,974	13,485,410
Insurance Expenses	5,437,573	6,199,891
Fidelity Bond Premiums	189,291	106,523
Total	**19,254,838**	**19,791,824**

23.3 Professional Services

Particulars	2019	2018
Other Professional Services	7,039,790	6,448,135
Auditing Services	6,138,519	5,296,831
Legal Services	1,846,500	1,764,000
Consultancy Services	17,853,750	397,640
Total	**32,878,559**	**13,906,606**

Consultancy Services consist mainly of accrual for the preparation of Feasibility and Detailed Engineering Design on the proposed development of PNOC's Energy Supply Base in Mabini, Batangas amounting to P17.8 million.

23.4 Utility Expenses

Particulars	2019	2018
Electricity Expenses	11,377,542	12,335,131
Water Expenses	826,496	980,627
Other Utility Expenses	227,728	0
Total	**12,431,766**	**13,315,758**

23.5 Supplies and Materials Expenses

Particulars	2019	2018
Other Supplies and Materials Expenses	4,436,510	4,717,796
Fuel, Oil and Lubricants Expenses	3,325,293	2,887,635
Office Supplies Expenses	630,761	572,982
Medical, Dental and Laboratory Supplies Expenses	139,512	302,657
Semi-Expendable Machinery and Equipment Expenses	91,917	203,119
Accountable Forms Expenses	97,887	141,326
Semi-Expendable Furniture, Fixtures and Books Expenses	31,473	62,014
Non-Accountable Forms Expenses	2,411	0
Total	**8,755,764**	**8,887,529**

23.6 Repairs and Maintenance

Particulars	2019	2018
Repairs and Maintenance-Buildings and Other Structures	2,787,563	2,287,098
Repairs and Maintenance-Transportation Equipment	1,512,722	1,220,345
Repairs and Maintenance – Investment Property	0	508,200
Repairs and Maintenance-Machinery and Equipment	264,431	456,250
Repairs and Maintenance – Land Improvements	131,983	0
Repairs and Maintenance-Furniture and Fixtures	12,086	106,149
Repairs and Maintenance-Other Properties	0	31,534
Total	**4,708,785**	**4,609,576**

23.7 Communication Expenses

Particulars	2019	2018
Telephone Expenses	3,174,852	3,013,475
Internet Subscription Expenses	1,461,953	1,360,750
Cable, Satellite, Telegraph and Radio	86,303	99,476
Postage and Courier Services	57,109	74,561
Total	**4,780,217**	**4,548,262**

23.8 Traveling Expenses

Particulars	2019	2018
Traveling Expenses-Local	1,404,512	1,277,783
Traveling Expenses-Foreign	817,946	1,244,417
Total	**2,222,458**	**2,522,200**

23.9 Training and Scholarship Expenses

Particulars	2019	2018
Training Expenses	1,949,392	1,548,608
Total	**1,949,392**	**1,548,608**

23.10 Confidential, Intelligence and Extraordinary Expenses

Particulars	2019	2018
Extraordinary and Miscellaneous Expenses	188,660	139,897
Total	**188,660**	**139,897**

23.11 Other Maintenance and Operating Expenses

Particulars	2019	2018
Representation Expenses	5,985,358	7,273,528
Directors and Committee Members' Fees	2,157,000	2,997,000
Major Events and Convention Expenses	2,601,972	2,470,226
Advertising Expenses	128,884	1,035,326
Membership Dues and Contributions to Organizations	483,290	323,623
Printing and Publication Expenses	270,073	211,830
Subscription Expenses	46,339	47,861
Documentary Stamps Expenses	0	13,976
Rent/Lease Expenses	45,728	800
Other Maintenance and Operating	9,654,923	14,069,687
Total	**21,373,567**	**28,443,857**

24. FINANCIAL EXPENSES

Particulars	2019	2018
Management Supervision/Trusteeship Fees	6,176,700	6,740,743
Bank Charges	2,612,453	2,563,874
Total	**8,789,153**	**9,304,617**

25. DIRECT COSTS

Particulars	2019	2018
Cost of Sales of banked gas	152,836,905	106,320,501
Total Direct Costs	**152,836,905**	**106,320,501**

26. NON-CASH EXPENSES

26.1 Depreciation

Particulars	2019	2018
Depreciation-Investment Property	8,236,179	5,837,983
Depreciation-Land Improvements	21,016	21,016
Depreciation-Buildings and Other Structures	31,388,966	28,445,629
Depreciation-Machinery and Equipment	815,041	262,408
Depreciation-Transportation Equipment	651,050	2,064,038
Depreciation-Furniture, Fixtures and Books	3,067,892	1,322,561
Total	**44,180,144**	**37,953,635**

27. NON-OPERATING INCOME, GAINS AND LOSSES

27.1 GAINS

Particulars	2019	2018
Gain on Foreign Exchange (FOREX)	2,485,415	1,763,239
Gain on Sale of Investment Property	2,459,100	0
Total	**4,944,515**	**1,763,239**

27.2 OTHER NON-OPERATING INCOME

Particulars	2019	2018
Miscellaneous Income	4,483,496	840,310
Total	**4,483,496**	**840,310**

27.3 NON-OPERATING LOSSES

Particulars	2019	2018
Loss on Foreign Exchange (FOREX)	6,872,149	1,341,312
Other Losses	0	42,829
Total	**6,872,149**	**1,384,141**

28. INCOME TAX EXPENSE (BENEFIT)

Particulars	2019	2018
Current Income Tax	173,897,361	154,996,726
Deferred Income Tax	(1,017,845)	106,018
Total	**172,879,516**	**155,102,744**

29. RELATED PARTY TRANSACTIONS

29.1. Key Management Personnel

The key Management personnel of PNOC are the President and Chief Executive Officer (CEO), the Members of the Board of Directors (Board) and the Members of the Management Committee.

Board of Directors

Section 15 of Republic Act (RA) No. 10149, or the GOCC Governance Act of 2011, as well as Section 12 of GCG Memorandum Circular No. 2012-07, or the Code of Corporate Governance, provide that all appointive directors in GOCCs and their Subsidiaries shall be appointed by the President of the Philippines from a shortlist prepared by the GCG. The Board is responsible for the overall management and direction of the Company. The Board meets on a regular monthly basis to review and monitor PNOC's operations.

Members of the Board are as follows:

Position	Name	Coverage
Ex-Officio Chairman	Energy Secretary Alfonso G. Cusi	January-December 2019
Alternate Chairman	Jesus Cristino P. Posadas	January-December 2019
President and CEO	Adm. Reuben S. Lista (Ret.)	January-December 2019
Director	Hermann Roy M. Atienza	January-December 2019
Director	Adolf P. Borje	January-December 2019
Director	Jonas Guy S. de Leon	January-December 2019
Director	Ramon Victor Antonio B. Mitra	January-December 2019
Director	Rex V. Tantiongco	January-December 2019
Director	Romeo D. Poquiz	January-December 2019
Director	Michael Ted R. Macapagal	September 10 – December 31, 2019

Term of Office

Section 17 of RA 10149 as well as Section 14 of GCG Memorandum Circular No. 2012-07 provide that any provision in the charters of each GOCC to the contrary notwithstanding, the term of office of each Appointive Director shall be for one year, unless sooner removed for cause; provided, however, that the Appointive Director shall continue to hold office until the successor is appointed.

Senior Management

PNOC's senior officers are regular employees of the Company and are remunerated with a compensation package comprising of 12 months base pay plus the statutory mid-year bonus and year-end bonus.

The Company's executive officers are as follows:

Position	Name
President and Chief Executive Officer	Adm. Reuben S. Lista (Ret.)
Senior Vice President for Finance and Administrative Services	Glenda G. Martinez
Senior Vice President for Energy Business	Atty. Graciela M. Barleta
Senior Vice President for Energy Investments November 27 – December 31, 2019	Atty. Lila Czarina A. Aquitania, Esq.
Manager, Administrative Services Department	Lino Gerardo G. Calaor
Manager, Accounting Department	Evangeline B. Albaytar
Manager, Asset Management Department	Atty. Efren A. Legaspi
Manager, Project Management Department	Adalia L Endaya
Administrator, PNOC Energy Supply Base November 18 – December 31, 2019	Engr. Carlito B. Pena
OIC-Manager, Strategy Management Office March 22 – December 31, 2019	Eleanor Rochelle S. Cruz
OIC-Manager, Internal Audit Office March 22 – December 31, 2019	Carmelita M. Orpilla
OIC-Manager, Office of the General Counsel March 22 – December 31, 2019	Atty. Antonio G. Buenviaje
OIC-Manager, Treasury Department	Jennifer R. Racho

29.2. Key Management Personnel Compensation

The aggregate remuneration of the Members of the Board and the Management Committee are:

Particulars	Aggregate Remuneration
Salaries and Wages	15,781,025
Other Compensation	7,861,291
Total	**23,642,316**

30. CONTINGENCIES

1. ***Bayan Muna Party List Representative, et al., vs. PGMA, DENR, DOE, PNOC, PNOC-E,C et al.,***
   G. R. Nos. 181702, 181703 & 182734, Supreme Court (SC)

   For: Petition for Certiorari and Prohibition with Application for Temporary Restraining Order

   Handling Counsel: OSG

This is a petition filed last June 2008 by members of the party list and other representatives to have the Joint Marine Seismic Undertaking among CNOOC, PNOC and Petro Vietnam, to be declared unconstitutional and void for violation of Section 17, Article XII of the 1987 Constitution and to enjoin the parties from further implementation of the agreement.

Status: The OSG filed its Memorandum. The case is submitted for decision.

2. ***Voltaire Rovira vs. PNOC***
Civil Case No. 5947
RTC Branch 5, Iligan City

For: Specific Performance and Damages

Handling Counsel: OSG

On January 14, 2014, PNOC received copy of the RTC decision dated November 18, 2013, ordering plaintiff Voltaire Rovira to pay PNOC the remaining balance of the loan amounting to P434,254.17, without any interest; and ordering PNOC to pay the travel and hotel expenses of plaintiff Rovira amounting to P34,701.49. Plaintiff Rovira filed Notice of Appeal. PNOC, on the other hand, filed a Motion for Partial Reconsideration of the Decision as amount of damages and the payment of interest prayed for was not awarded by the court.

On January 20, 2015, the RTC issued an Order granting PNOC's Motion for Partial Reconsideration. Voltaire Rovira filed an Appeal.

Status: The SC denied the appeal for failure of the Rovira to comply with the mandatory requirement under Rule 45 of the Rules of Court. The judgment became final and executory on June 19, 2019. Rovira, however filed a Motion for Reconsideration, Second Motion for Reconsideration and Motion to Recall Entry of Judgment which were also denied by the SC. We will coordinate with OSG to file a Motion for the Issuance of Writ of Execution.

3. ***PNOC vs. Antonio Bulatao***
Civil Case No. 9292
RTC, Tarlac City

For Ejectment

C.A.GR. SP No. 134642
Court of Appeals
12th Division, Manila

G.R. No. 228128
Third Division
Supreme Court

For: Petition for Review on Certiorari

Handling Counsel: PNOC Legal / OSG

PNOC filed an action for ejectment against Antonio Bulatao, et al. After trial, the court ruled in favor of PNOC and ordered Bulatao to vacate the premises. Bulatao appealed to the Court of Appeals where it also ruled in favor of PNOC. Hence, Bulatao filed an appeal with the SC.

In its January 30, 2017 resolution, the Supreme Court denied the Petition for failure of petitioner to show that the Court of Appeals (CA) committed any reversible error. On April 10, 2017, the OSG received a copy of petitioner's March 22, 2017 Very Urgent Motion for Reconsideration with Prayer for the Petition to be Granted Due Course praying that his petition be given due course.

Status: Awaiting for resolution from the SC.

4. ***PNOC vs. Mamerto Espina and Flor Penaranda***
   Civil Case No. 3670-0
   Civil Case 3394-0
   RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

On August 14, 2013, the court issued decision on the just compensation of the consolidated cases. Just compensation in Civil Case No. 3394-0 is valued at P100.00 per square meter while in Civil Case No. 3670-0, just compensation is valued at P85.00 per square meter. PNOC filed a motion for reconsideration contesting the higher valuation of the court.

On September 16, 2015, the RTC issued an Order denying the motion for reconsideration filed by PNOC. On October 15, 2015, PNOC filed notice of appeal.

On appeal to the CA, on November 21, 2016, PNOC received copy of the notice to file appellant's brief from the CA.

On December 5, 2016, PNOC filed a Compliance notifying the court that there was no other case on file involving the same parties and issues. PNOC also filed its brief.

Status: Waiting for the resolution of the case.

5. ***PNOC vs. Willie Vestil***
   Civil case No. 3298-0
   RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

PNOC filed a motion/manifestation informing the court that the subject lot is a forest land and prayed that the determination of just compensation as well as any further proceedings be held in abeyance. The trial court issued an order for the defendant Willie Vestil to comment on PNOC's motion however, the defendant did not file any comments. The trial court granted PNOC's manifestation and motion to hold proceedings in abeyance.

Status: During the February 8, 2019 meeting with PNOC, it was agreed upon that the OSG will proceed to just file a separate action against Energy Development Corporation.

6. ***PNOC vs. Margie Leila Maglasang***
   Civil Case No. 3298
   RTC Branch 12, Ormoc City

   For: Expropriation

   Handling Counsel: OSG

   The case is still at the trial stage for the determination by the Board of Commissioners of the just compensation on the expropriated lot. In an Order dated December 9, 2016, the trial court appointed Atty. Allan Castro as new Chairman of the Board of Commissioner. He took his oath of office on May 12, 2017.

   The RTC issued an Order dated February 23, 2018 directing the Board of Commissioners thru its Chairman Castro to submit to court within 30 days from receipt of the order a report of the proceedings conducted by them relative to their task of determining the just compensation of the property sought to be expropriated in this case.

   Status: Awaiting decision on the amount of just compensation.

7. ***PNOC vs. Heirs of Flaviano Maglasang***
   Civil Case No. 3268-0
   RTC Branch 35, Ormoc City

   For: Expropriation

   Handling Counsel: OSG

   The case is still at the trial stage for the determination of the amount of just compensation. Another issue raised by PNOC is the correction of exact area being expropriated as although the complaint alleges that the total area of the subject lot is 33,044 square meters as appearing on the tax declaration, subsequent relocation surveys shows that the subject land only has an actual area of 19,296 square meters.

   On February 29, 2016, the Board of Commissioners issued a Commissioners' Report determining the amount of just compensation on the expropriated lot at P300.00 per square meter.

   On July 26, 2016, PNOC filed a manifestation and motion to hold in abeyance the time within which PNOC would file its comments on the Commissioners' Report pending the resolution by the court on the pending motions particularly the resolution of the court on the correct total area expropriated.

Commissioner's Report is submitted for the court's resolution.

Status: Awaiting decision on the amount of just compensation.

8. ***PNOC vs. Flasalie Maglasang***
   Civil Case No. 3276
   RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

PNOC paid the just compensation plus 6 per cent interest. Thereafter, the court issued an order of the full settlement of the case last July 2, 2013.

Pending issue: PNOC to withdraw from the PNB Ormoc City Branch the initial deposit of just compensation deposited in the name of Flasalie Maglasang in December 1994 amounting to P104,750.00 plus interest.

On May 8, 2015, the RTC issued Order granting PNOC's Motion directing the PNB Ormoc City Branch to release to the plaintiff the amount of P104,750.00 plus accrued interest thereon.

On October 16, 2015, PNOC issued letter to PNB Ormoc City Branch with attached copy of the court order dated May 8, 2015 for the release of the bank deposit. Initially, the Branch Manager of PNB Ormoc City informed PNOC that they will consult their Legal Department at the PNB Head Office in Manila before the release of the subject deposit.

On November 2, 2016, a follow-up letter requesting for update was sent by PNOC to PNB Ormoc City.

Status: Waiting for PNB reply. A follow-up has been made last April 25 and 26, 2017, at the PNB Ormoc City.

9. ***PNOC vs. Sps. Celso Garilva and Anita Garilva***
   Civil Case No. 1141
   RTC Branch 62, Bago City

For: Expropriation

Handling counsel: OSG

The Board of Commissioners submitted the Commissioners' Report to the trial court recommending the value of the just compensation of the subject lot consisting of 26,898.35 square meters at P335,040.00 per hectare or a total of P901,202.32 pesos.

On November 19, 2015, the court issued decision ordering PNOC to:

a. Pay the remaining balance of the just compensation in the amount of P739,812.22;
b. Pay the commissioners fee at P45,000.00 each as honorarium fees; and
c. Reimburse the commissioners the amount of P15,000 for the expenses they incurred in the performance of their duties.

Status: Waiting for the execution of judgment.

10. PNOC vs. Sps. Dominador and Minerva Samson and Tongonan Holdings & Development Corporation (THDC)
Civil Case No. 3392-0
RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

Payment of judgment obligation in the total amount of P63,856,152.86 last September 6, 2010, was effected by virtue of a court order of garnishment of PNOC account at the Land Bank of the Philippines.

Pending issues to be resolved by RTC are:

a. PNOC's Motion for Reconsideration on the order of the court lifting the order of garnishment of EDC's account and dismissing all claims of PNOC against EDC;
b. PNOC's Urgent Motion to lift the Notice of Levy annotated on the TCTs of PNOC properties located in Tacloban City;
c. Tongonan Holdings' Urgent Motion seeking the issuance of an order directing the sheriff to re-compute the judgment award in its favor and demand the difference from PNOC. PNOC filed its opposition on this motion on February 7, 2013.

(THDC demands that 12 per cent instead of 6 per cent interest from the time of finality of judgment or from March 2005 until full payment should had been computed by the sheriff. Per THDC allegation, PNOC still owes not less than P11 million to them. PNOC opposed the said motion during the last hearing.)

Awaiting court resolution on the pending motions. Latest issue resolved by the court under this case is that between the defendant and their counsel on the issue of the attorney's fees.

Status: On September 17, 2019, the OSG received a notice of change of address dated September 2, 2019 filed by defendant-intervenor's counsel.

11. Petron Corporation vs. Hon. Danilo P. Galvez, Presiding Judge RTC Branch 24, Iloilo City and Sun Gas Inc.
PNOC – Plaintiff, Intervenor
Civil Case No. 05-28475
RTC Branch 24
Iloilo City

For: ***Injunction and Damages with Prayer for Temporary Restraining Order and Writ of Preliminary Injunction***
CA-G.R. CEB-SP No. 04139
Court of Appeals
Cebu City

For: Petition for Certiorari and Prohibition with prayer for Writ of Preliminary Injunction
G.R. No. 215771
First Division, Supreme Court

For: Petition for Review on Certiorari

Handling Counsel: OSG

Proceeding before the RTC:

Petron Corporation (Petron) filed this case against Sun Gas, Inc, as the latter installed a swing barrier consisting of a steel and bamboo pole across the road lot Petron and Shell used as ingress and egress from the main road to their respective bulk plants. The proceeding before the RTC Branch 24 is held in abeyance pending the petition for certiorari and prohibition praying for a writ of certiorari and prohibition to nullify the September 15, 2008 Order of respondent Judge Danilo P. Galvez and commanding him to cease and desist from hearing and conducting further proceedings in Iloilo RTC Branch 24, Civil Case No. 05-28475. The petition was filed by plaintiff Petron before the Court of Appeals (CA).

Petron filed a petition for review on certiorari at the SC assailing the decision of the CA. PNOC filed its comment to the petition for review siding with Petron petition being the owner of the property leased by Petron.

On September 24, 2018, the OSG received a copy of the RTC's Order dated August 31, 2018 directing the parties to comment on defendants Spouses Candelaria Dayot and Edmundo Dayot's Motion for Last and Final Motion for Reconsideration within ten days from notice.

On October 1, 2018, the OSG filed its comment thereto.

Status: Awaiting resolution from the RTC.

12. National Transmission Corp. vs. PNOC
Civil Case No. -131-ML
RTC Branch 94
Mariveles Bataan
(Stationed at Balanga City)

For: Expropriation

Handing Counsel: OSG

This is a complaint for expropriation filed by National Transmission Corporation (TRANSCO) against PNOC for a portion of land located in Alangan, Limay, Bataan consisting of 16,382 square meters affected by the transmission lines and has been in TRANSCO's possession since 1960.

On the December 6, 2018, counsel for TRANSCO claimed and manifested that they are not ready to make a deposit. As such, the court directed the parties to negotiate among themselves the amount involved and scheduled.

On June 6, 2019, both parties agreed that an ocular inspection shall be conducted on July 25, 2019 over the subject property to determine the amount of deposit that TRANSCO shall make.

Further, counsel for PNOC orally manifested for reimbursement of its payments made for taxes on the lot subject of the instant case, since it is the latter who has been paying the same despite the fact that the subject lot had been expropriated and is already occupied by TRANSCO.

Status: The trial court issued an Order to TRANSCO to deposit the amount of P3,000 for the roadside lots, P1,500 for near road lots and P500 for the inner lot. TRANSCO, however, asked for time to compute the amount of deposit as they still need to determine what is inner roadside and near road lots.

13. ***Petron Corporation vs. PNOC***
    Civil Case No. R-MND-17-03839-CV
    RTC Branch 278, Mandaluyong City

For: *Resolution and Reconveyance, and Damages, with Verified Ex Parte Application for 72-Hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction*

On October 27, 2017, PNOC received a complaint filed by Petron against PNOC for Resolution and Reconveyance, and Damages, with Verified Ex Parte Application for 72-Hour Temporary Restraining Order (TRO) and Verified Applications for 20-day TRO and Writ of Preliminary Injunction.

On November 7, 2017, the court issued an Order granting the TRO and enjoining PNOC for a 20 days from committing any act aimed at ousting Petron of its possession of the leased properties, including but not limited to:

1. Issuing invitations to bid on the lease or sale of the leased properties;
2. Offering for lease or sale any portion of the leased properties to third parties;
3. Negotiating or discussion with any third party potential lessees or buyers to lease or buy the leased properties or any portion thereof;
4. Issuing public statements on the supposed nullity of the renewal clauses;
5. Requiring the plaintiff to submit remediation plans for the abandonment and clean-up of the leased properties; and
6. Disrupting and depriving the plaintiff's use and enjoyment of the leased properties in any manner.

Status: On November 13, 2019, RTC promulgated a resolution with the following dispositive portion:

> *"WHEREFORE, premises considered, the Deeds of Conveyance for the Refinery Properties, Bulk Plant Properties and Service Station Properties dated October 29, 1993, are hereby RESCINDED. Defendant Philippine National Oil Company is hereby ordered to re-convey to Plaintiff Petron Corporation, all the properties covered under said Deeds of Conveyance dated October 29, 1993. Plaintiff Petron Corporation is likewise ordered to pay to Defendant Philippine National Oil Company the amount of One Hundred Forty Three Million Pesos (P 143,000,000.00), with legal interest reckoned from October 29, 1993."*

PNOC filed a Motion for Reconsideration last December 10, 2019.

Then, on December 17, 2019, PNOC received a copy of the Motion for Partial Reconsideration filed by Petron asking that *PNOC return the lease rentals paid by Petron for the subject properties from 1993 to present, with interest stating that it should be a natural consequence of the resolution of the Deeds of Conveyance*.

Parties commented and replied on the motions and it is now submitted for decision.

14. In the matter of the Petition for Declaration of State of Suspension of payments

GO UNIQUE Products, Inc. Petitioner
PNOC, BIR, DOST, SSS, DBP, PHIC (Creditors – Oppositors)
SP Proceeding No. 27-V-08
RTC Branch 75, Valenzuela City

PNOC-EDC is one of the listed creditors of the petitioner by virtue of the loan agreement under the Decentralized Energy System Program funded by the European Union.

Because of the negative financial condition, the GO UNIQUE Products, Inc. is unable to pay its creditors. Petitioner submitted to court their proposed rehabilitation plan. PNOC submitted its comment/opposition on the rehabilitation plan

Status: GO UNIQUE Products, Inc. offered to pay PNOC but requested waiver of penalties. PNOC cannot waive penalties and the GO UNIQUE Products, Inc. stated that they will go back to court to ask for the waiver or tempering of interests and penalties.

31. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR NO. 15-2010

The BIR issued on November 25, 2010 RR 15-2010, Amending Certain Provisions of RR No. 21-2002, as amended, Implementing Section 6 (H) of the Tax Code of 1997, authorizing the Commissioner on Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns. Under the said regulation, companies are required to provide, in addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year.

31.1 Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2019 in the total amount of P47,347,750 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2019 amounting to P31,164,025 were remitted to the Bureau of Internal Revenue in January 2020.

31.2 The Company's taxes and licenses in 2019 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	2019
Real estate tax	11,763,931
Capital Gains Tax	0
Motor Vehicle Registration	66,439
Business taxes	1,164,298
Other taxes, fees and licenses	633,305
Total	**13,627,973**

32. EVENTS AFTER BALANCE SHEET DATE

32.1 Declaration of Cash Dividend

The PNOC remitted to the Bureau of Treasury the total amount of P5 billion on April 8, 15 and 20, 2020, as approved by the PNOC Board, in its special meeting on April 7, 2020. The remittance is in response to the letter sent by the Secretary of Finance Carlos G. Dominguez dated April 1, 2020, pursuant to Republic Act (RA) No. 11469, known as the "Bayanihan to Heal as One Act" and RA 7656, known as the "Dividend Law".

In a letter to Secretary Dominguez dated April 7, 2020, PNOC President Reuben S. Lista requested that the Department of Finance (DOF) consider the amount of P5 billion remitted by PNOC to be inclusive of: a) the dividends due to National Government (NG) from the 2019 earnings of PNOC amounting to P356.7 million; and b) under-remittance of dividends due to NG from 2014 to 2018 earnings per COA AOM No. 2019-005 dated January 31, 2020 amounting to P5.6 million for a total of P362.3 million. The PNOC President requested further that the DOF consider the balance of P4,637 million as advance payments of dividends from future earnings to be credited to PNOC's account under RA 7656, or other similar laws or future issuances.

32.2 PNOC's Response to COVID-19

In response to the call of President Duterte for all government agencies to render full assistance and cooperation and to mobilize the necessary resources to undertake official, urgent and appropriate response and measures, in a timely manner, to curtail and eliminate the COVID-19 threat, the PNOC Board approved last May 14, 2020 the allocation of the amount of P5.0 million to the Company's CSR-GAD Program.

Phase 1 – included the (1) provision of rice subsidies to the provinces of Batangas and Bataan through their respective local government units in Mabini and Mariveles respectively, and to affected PNOC service providers, (2) provision of surgical masks to the Provincial Health Facilities of Batangas and Bataan and Taguig Pateros District Hospital, PNP Mabini and Bataan, and PNOC service providers, and (3) provision of vitamins to BGC front liners(Traffic Marshalls), and Energy Center, Energy Supply Base, and Industrial Park service providers. This Phase centered on assistance to those directly connected with PNOC operations or PNOC host communities.

Phase 2 – provided (1) rice subsidies to selected orphan caring facilities, children being one of the most vulnerable segments of the society, and (2) provision of food packs to medical front liners in selected government hospitals in recognition of their continuing contribution in the fight against COVID-19. This Phase, although still in areas where PNOC has operations, has widened its scope and reach.

Phases 1 and 2 had resulted in the distribution of 66,350 pcs (1,327 boxes) of surgical masks, 1,318 sacks (25kgs each) of rice, 31,200 Vitamin C tablets (312 boxes) and 2,040 meal packs (hospital front liners).

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Compliance Audit

1. The non-implementation of the Decentralized Energy Systems (DES) Project prevented the Government of the Republic of the Philippine (GRP) from performing its international commitment with the European Union (EU) and limited the capacity of certain offices in PNOC in exercising functions, thus, contrary to the Financing Agreement (Agreement) dated February 6, 1987 and the Governance Commission for GOCCs (GCG) Memorandum Order No. 2018-05 dated July 26, 2018, respectively.

1.1 In 1987, the EU and the GRP, entered into an Agreement granting the Energy Research and Development Center (ERDC) of PNOC a fund to promote the use of ***renewable energy technologies*** (photovoltaic, biogas systems, solar water heaters, mechanical grain dryers, fuel briquettes, charcoal stoves, biomass-fired ovens, etc.) and assist the private sector in venturing into large scale manufacture and commercialization of DES technologies. In Technical and Administrative Provisions of the Agreement, the ERDC will operate as service assisting firms/industries in commercializing promising decentralized village energy systems. To achieve the objectives, the methodology is through extending of loan.

Pursuant to GCG Memorandum Order No. 2018-05 dated July 26, 2018, the functional statements for the Office of the Senior Vice President for Energy Investments on the reorganization of PNOC are:

- **Manage the utilization/best use of all PNOC Assets** including real estate for long-term energy and energy-related project implementation in accordance with strategy framework and master plan

- **Operates, monitors and evaluates programs, projects and activities aligned to the PNOC mandate** and of the directives PNOC President and Board of Directors (Board); ensure that operations conform to the rules and regulations of government; monitor subsidiary projects

1.2 The facts and circumstances related to the DES Project are as follows:

a. **January 13, 1993 –**The PNOC Board of Directors approved the transfer of ERDC of PNOC to PNOC EDC, a subsidiary.

b. **May 28, 1993 –** PNOC and PNOC EDC executed a Deed of Assignment where the former transferred in favor of the latter, all the rights, titles, credits, interests and obligations relative to the DES Project and the Fund for the latter's implementation.

c. **June 7, 2001** – Due to EU's exit from the DES Project and impending privatization of PNOC EDC, the Department of Energy assured EU on the sustainability of DES Project, which is through cooperation of PNOC and PNOC EDC.

d. **November 29, 2007 –** PNOC EDC was fully privatized.

e. **March 7, 2008 –** PNOC created PNOC Renewables Corporation (PNOC RC) as its subsidiary with mandate to promote the development and implementation of renewable and environment-friendly energy sources in the country[1].

f. **July 29, 2010** – PNOC and Energy Development Corporation (formerly PNOC EDC) executed a Deed of Revocation cancelling the assignment of all the rights, titles, credits, interests and obligations from the latter, relative to the DES Project and the Fund. This caused the recognition of the DES Fund as asset of PNOC.

g. **November 2, 2011**–PNOC executed an agreement with Land Bank of the Philippines (LBP) placing the DES Fund in an interest-earning and risk-free account and obliged the latter to attribute its utilization in renewable energy projects and alternative energy sources to achieve the objectives of the DES Project.

h. **October 10, 2016** - PNOC terminated the agreement with LBP due to the directive of GCG to be an operating company and the recent developments in the renewable energy sector.

i. On **July 26, 2018**, the GCG approved the reorganization plan in PNOC, together with the revitalization of Energy Research Department (Business Research and Development Department) under the Office of Senior Vice President for Energy Investments, to develop new, energy related business ideas including renewable energy.

j. **As of December 31, 2019**, the DES Fund that are continuously invested in LBP, despite termination in 2016, has accumulated to P207 million:

Particulars	Amount
DES Fund	P132,473,357.67
DES Interest Income	74,805,425.25
Total	**P207,278,782.92**

1.3 Verification disclosed that the current placement with LBP has no relation with the purpose of DES Project. There is no attachment of obligation on LBP to prioritize the lending of the DES Fund to borrowers engaged in renewable energy sector, similar with the agreement in 2011. Moreover, after reorganization, there is no office that handles the evaluation as to whether the mere investment is sufficient or whether it is to be transferred to PNOC RC as it is primarily related to renewable energy.

In our inquiry dated January 8, 2020 as to the courses of action PNOC has taken to implement the DES Project after the implementation by PNOC EDC and termination of priority of LBP in October 2016, the concerned offices in PNOC gave the folowing responses:

[1] http://www.pnoc.com.ph/subsidiaries.php?sectionid=e4f3bb95-1514-11df-a7de-92d1637a39b1&menuid=a66575dd-15cf-11df-bb83-e1a07d93674e

- Treasury Department - *"As of 2019, we don't have existing MOA with the bank similar to what we have before in 2011. To date, Treasury Department is monitoring and investing the fund in government securities to maximize its returns".*

- Project Management Department - *"Upon the transferred of DES Funds to PNOC, the Treasury Department acts as the funds' manager-in-charge of investing the funds. These are currently invested in various instruments with Government Financial Institutions. Likewise, Treasury Department is in-charge of the collection of past due accounts together with the Estate Management and Legal Departments. Involvement of EMD deals with the real estate properties that were used as collaterals by the borrowers in availing of the loans. It goes without saying that Legal Department takes charge of the legal aspects.*

  The Project Management Department for its part, was tasked to address the "project side" of the DES in terms of studying viable projects and new development under the renewable and alternative energies taking into consideration of the original intent of the funds. This defines the scope of PMD's involvement in the DES Project."

In effect, the GRP is not-compliant with its international commitment under the Financing Agreement dated February 6, 1987 and PNOC has limited its capacity to be equipped in managing all of its assets which, in a way, will serve the defined purpose and help to realize the fruits of the DES Project. Consequently, the activities of the DES Project was not implemented and its objective was not achieved.

1.4 ***We recommended and Management agreed to:***

a) Prepare and implement a plan of action to carry out the activities and meet the objectives of the DES Project as faithful compliance of the Government of the Republic of the Philippines with its commitment with the European Union under Financing Agreement dated February 6, 1987; and

b) Ensure the best use of the DES Fund in conformity with functional statements of the Office of the Senior Vice President for Energy Investments under GCG Memorandum Order No. 2018-05 dated July 26, 2018.

2. The procurements of various Information and Communication Technology (ICT) projects costing P3.254 million for Calendar Year (CY) 2019 were not supported with an approved Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent of the total ICT projects were not bought from the DBM-Procurement Service (PS), thus, contrary to Section 4.4 of the Department of Budget and Management (DBM) Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.

2.1 Section 4.4 of the DBM Corporate Budget Memorandum No. 40 dated January 3, 2018 or the Corporate Budget Call for FY 2019 provides that for Medium-Term

Information and Communication Technology Harmonization Initiative (MITHI) ***endorsed*** *Information and Communication Technology (ICT) proposals, the following are required to be submitted to the DBM:*

- *Information Systems Strategic Plan* (ISSP) x x x.

ISSP contains the agency's overall strategy which involves medium term (3-5 year plan) planning for its ICT thrusts, strategies and programs for development. It indicates the ICT resource requirements of a particular agency on a per year basis. One of the purposes of an ISSP is to ensure that ICT efforts are aligned with and prioritized according to the organization's vision, mission, goals and strategies.[2]

Pursuant to the Citizen Charter of the Department of Information and Communications Technology (DICT), agencies are required to submit ISSP to the DICT for endorsement to DBM through MITHI.

Likewise, Section 24 of the General Provisions of the GAA for FY 2019 provides that:

> "*The amount authorized in this Act for Information and Communications Technology (ICT) equipment shall be used for the provision of personal computers inclusive of operating systems, basic software and other essential electronic devices to their respective officials and employees. Said ICT equipment shall be* ***procured exclusively from the Procurement Services*** *as common-use supplies, pursuant to LOI No. 755, EO No. 359 and AO No. 17*." (Emphasis Supplied)

Further, Sections 4 and 7 of Administrative Order (AO) No. 17 dated July 28, 2011 provide that common-use supplies[3] shall be procured directly from the PS or its depots without need of public bidding as provided in Section 53.5 of the Implementing Rules of Republic Act (RA) No. 9184 and non-compliance with the provisions of the AO shall be dealt with in accordance with applicable laws, rules and regulations, respectively.

2.2 Based on the 2019 Annual Procurement Plan (APP), PNOC intended to procure various ICT projects in the total amount of P3.254 million. Details are as follows:

Particulars	Amount
Desktop Computers	P 930,292.86
Various ICT System	636,365.18
Computer Server	742,759.82
Ethernet Switch and Others	944,607.15
Total	**P3,254,025.01**

2.3 Verification of the procurement on information and communication technology projects for CY 2019 disclosed the following:

[2] http://mithi.gov.ph/what-is-issp/

[3] Per MITHI Advisory dated February 9, 2016, servers are not considered common-use ICT equipment.

- **No approved ISSP** - the latest approved ISSP for PNOC pertains to CYs 2005 to 2007 and based on the duly-accomplished Agency-Level Control Checklist of PNOC for CY 2019, the same is still subject for approval of its Board of Directors (Board). In response to request for clearance of PNOC from DICT prior to procurement of ICT in June 2020, through email dated June 19, 2020, the latter replied that:

  > "*Based on our record PNOC does not have an endorsed ISSP nor did we receive a proposal draft ISSP that covers the year in question. Regrettably, we have no basis for evaluating your request. Hence we cannot issue a clearance.*"

- **Suppliers other than the DBM-PS –** Without disregarding the lack of the endorsed ISSP, records show that a total of P2.511 million or equivalent to 77 per cent of the total ICT projects in the 2019 APP were procured from various suppliers instead of the DBM-PS:

Particulars	Name of Supplier	Amount
Desktop Computers	Joneco Tech Mktg. Corp; Tekzone Computer Sales and Services Inc.	P 930,292.86
Various ICT System	Bentaco Information Technology;	636,365.18
Ethernet Switch and Others	Columbia Technologies Inc. and various suppliers	944,607.15
Total		**P2,511,265.19**

For several years from the lapsed of ISSP for 2005-2007, the procurements of various ICT projects thereafter had exposed PNOC to the risk of procuring non-priority ICT projects and investing in technology that may not be aligned with its vision, mission and strategy, and are not compliant with the DBM Corporate Budget Memorandum.

2.4 ***We recommended and Management agreed to***

a) Give utmost importance in finalizing the ISSP for submission to and approval of the DICT; and

b) Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.

2.5 During exit conference, in response to the query of the audit as to the reason for non-approval of ISSP after the lapse ISSP for 2005 to 2007, Senior Vice President, Energy Business, PNOC answered that the non-conformity with the requirements of the members of the Board and its committees prevented the finalization of ISSP for PNOC.

Insofar as the non-availment of DBM-PS, PNOC explained that the ICT equipment similar to the nature of the items procured were usually not available at DBM-PS. Thus, they opted to procure ICT equipment through public bidding, from suppliers that are PhilGEPS registered, following the rules of RA 9184. At present, PNOC recognizes the easy process on procuring items from DBM-PS. They noticed that DBM-PS had ramped up computer supplies and made available ICT equipment. In support of MITHI, PNOC committed to procure ICT equipment from DBM-PS.

3. The reimbursable expenses paid to the Board of Directors of PNOC in the amount of P2.777 million for CY 2019 exceeded the amount allowed under Section 10 of GCG Memorandum Circular No. 2016-01 dated May 10, 2016 by P1.281 million.

3.1 Section 10 of the GCG Memorandum Circular No. 2016-01 on Compensation Framework for Members of the GOCC Governing Board provides that:

> *"**Reimbursable Expenses** - There shall be no abuse of the structure of reimbursement of expenses as a means to gain indirect compensation by:*
>
> *10.1 Making it a matter of policy that expenses of members of the Governing Board to attend Board and other meetings and discharge their official duties shall be disbursed directly by the GOCC;*
>
> *10.2 The only time that Directors obtain a reimbursement of expenses can be:*
>
> *(a) When due to the exigency of the service and subject to the submission of receipts;*
>
> *(b) Limited to actual and reasonable transportation expenses for attending meetings; expenses for official travel; communication expenses; and meals during business meetings; and*
>
> *(c) Provided that the amount that may be reimbursed shall not be **higher than the RATA of an Undersecretary**."* (Emphasis Supplied)

Likewise, Section 59 of the GAA for FY 2019 provides that:

> *"**Representation Allowance and Transportation Allowance**. Government officials with the following ranks and their equivalent, as determined by the DDN while in the actual performance of their respective functions, are hereby authorized monthly commutable representation and transportation allowances at the rates indicated below, for each type of allowance:*
>
> *(a) P14,000.00 for Department Secretaries;*
> ***(b) P11,000.00 for Department Undersecretaries***
> *(c) x x x. Emphasis supplied*

3.2 In March 2016, the President of the Philippines, per Executive Order (EO) No. 203, **approved** the Compensation and Position Classification System and Index of Occupation Services for govenment corporations. In 2017, by virtue of EO 36, the

implementation of CPCS and IOS was suspended. In 2018, the GCG approved the Reorganitional Plan of PNOC without setting forth the implementation of CPCS and IOS.

For CY 2019, PNOC reimbursed to the Board the expenses they incurred in the exercise of their functions consisting of communication expense, transportation expense, representation expense and travelling expense, as enumerated under EO 24, Series of 2011 and adopted by PNOC through a resolution of the Board.

3.3 Verification of the transactions on reimbursable expenses pertaining to the payments made to the Board disclosed that it exceeded the limit by P1,281,241.02:

Board of Director	Reimbursed Expenses	Limit (P22,000 x no. of mos. rendered in a year)	Excess
A	P 314,450.06	P 176,000.00	P 138,450.06
B	567,116.40	242,000.00	325,116.40
C	510,534.00	264,000.00	246,534.00
D	151,531.67	88,000.00	63,531.67
E	418,019.15	242,000.00	176,019.15
F	355,965.19	220,000.00	135,965.19
G	459,624.55	264,000.00	195,624.55
Total	**P 2,777,241.02**	**P 1,496,000.00**	**P 1,281,241.02**

Under Section 3 of COA Circular No. 2012-003 dated October 29, 2012, transactions that are incurred without adhering to established laws, rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws are irregular expenditures.

Accordingly, the payments of the excess reimbursements amount P1,281,241.02 are without legal basis.

3.4 ***We recommended that Management:***

a) Secure approval from the GCG on the excess reimbursed expenses. In the absence of such approval, require the concerned member of the Board to refund the same to prevent the issuance of notice of disallowance; and

b) Strictly adhere to the rates allowed by GCG Memorandum Circular No. 2016-01 dated May 10, 2016 in the payment of reimburseable expenses to the Board.

3.5 PNOC commented that the Transitory Clause of the same Memorandum Circular allows all GOCCs with pending approval of their reorganization plan, CPCS and IOS to apply the compensation framework of their appointive directors based on EO 24. When the reorganization plan was approved in 2018, the CPCS and IOS was not provided. Thus, compensation framework of the directors still to be governed by the Transitory Clause or the Section 12 of said EO which does not prescribe any limits or conditions except to reimbursements that shall be subject to budgeting, accounting, and auditing rules and regulation.

In addition, PNOC said that the Board are based in provinces and that reimbursable expenses incurred by them in line of their functions as director are allowable expenses under EO 77, Series of 2019.

3.6 As our rejoinder, the approval of the Reorganization Plan in 2018, without the implementation of CPCS and IOS, sufficed to mean that the Transitory Clause of the Memorandum Circular is not applicable to maintain compensation based on EO 24. With regard to EO 77, while it is true that the Board is entitled to travelling expenses, the determination of a permanent work station, and the departure therefrom and arrival to destination and vice versa, with travel authority of the chairman of the board, are the basic conditions prior to the payment of travelling expense.

4. The grant of monetary award under the Civil Service Commission (CSC)-approved Program for Awards and Incentives for Service Excellence (PRAISE) for PNOC as implemented under its Service Award Policy Guidelines is computed based on number of years rendered in the agency, thus, contrary to Section 6 of CSC Memorandum Circular (MC) No. 1, Series of 2001.

4.1 Section 6 of the CSC MC No. 1 or the PRAISE of the CSC, permits the award of monetary and non-monetary awards and incentives to recognize, acknowledge and reward productive, creative, innovative and ethical behavior of employees through formal and informal mode. For this purpose, the PRAISE shall encourage the grant of non-monetary awards. Monetary awards shall be granted only when the suggestions, inventions, superior accomplishments and other personal efforts result in monetary savings which shall not exceed 20 percent of the savings generated.

After approval of CSC of the PRAISE for PNOC, the latter established a reward system including the grant of Service Award to recognize the employees' service to PNOC, which in one way or another, has contributed to the attainment of the company's mission. Under the CSC-approved PRAISE, Service Award is granted on retirees whether under optional or compulsory retirement schemes held during a fitting ceremony on or before the date of their retirement.

4.2 In 2019, PNOC granted monetary award in the amount of P75,000.00 as Service Award for a retiring personnel who had rendered service for 25 years, per Disbursement Voucher No. 256332 dated February 28,2019.

4.3 Verification disclosed that the PNOC Service Award Policy Guidelines grants a monetary award based on number of years rendered:

- [R]etirement gift in the form of monetary incentive shall be P3,000.00 for every year of service at PNOC
- x x x

In effect, the subject disbursement, computed based on number of years of service at an agency, is contrary to the above-mentioned CSC MC No.1 which permits the grant of monetary awards only when the suggestions, inventions, superior accomplishments and other personal efforts result in monetary savings.

4.4 ***We recommended that Management revisit the PNOC Service Award Policy Guidelines to conform to the standards in the CSC-approved PRAISE or CSC MC No.1, particularly on the giving of monetary awards.***

4.5 PNOC commented that the Service Award is a product of PRAISE per CSC Memorandum Circular No. 1, in pursuance to CSC Memorandum Circular No. 010112 dated January 10, 2001. The Memorandum Circular allows conferment on retirees of the award during a fitting ceremony on or before the retirement and monetary and non-monetary awards, hence, PNOC approved, among others, the P3,000 per year of service. The number of years in the computation prevents unreasonableness of the award considering that the there are instances where an employee who joined PNOC is at middle age or nearing senior years but nevertheless showed exemplary dedication to public service.

In addition, the Service Award is consistent with CSC Memorandum Circular No. 7, s. 1998 in relation to Resolution No. 980474, where government departments are enjoined to adopt "SALAMAT-PAALAM" program in recognition of the contributions of the retiring officials and employees in their respective offices. It is a program towards humanizing the bureaucracy and authorizes the giving of awards/tokens as may be deemed proper by the offices concerned.

Hence, the grant of retirement gift through Service Award is not a benefit but an award. It is a recognition of the extraordinary personal effort of a retiring personnel and to remain and render public service.

4.6 As our rejoinder, there is no doubt that PNOC adopted the PRAISE and have been approved by CSC. However, the computation for the monetary award under PNOC Service Award Policy Guidelines does not focus on monetary savings generated from the suggestions, inventions, superior accomplishments and other efforts of personnel. The emphasis on years of service eliminates the very purpose for which the PRAISE was created, that is, to provide incentives and awards based on performance, innovative ideas and exemplary behavior.

5. The GAD Plan and Budget (GPB) for CY 2019 amounting to P1.080 million or .22 per cent of the approved Corporate Operating Budget (COB) for CY 2019, was below the required five per cent set forth under Section 32 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year (FY) 2019 . In addition, the lack of GAD Database delayed the establishment of a system for monitoring and evaluation purposes of GAD issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission on Women (PCW) prior to undertaking of activities other than those indicated in the PCW-endorsed GPBs was contrary to Section 4.4 and 9.2, respectively, of PCW-NEDA-DBM Joint Circular No. 2012-01.

5.1 Section 32 of the General Provisions of the GAA for FY 2019 provides that:

> "*The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets*."

Sections 4.4 and 9.2 of the PCW-NEDA-DBM Joint Circular No. 2012-01 provide that

"*Institutionalizing GAD Database/Sex-disaggregated Data*: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation.*"*

"Agencies shall inform the PCW in writing if there are changes in the PCW -endorsed GPBs as a result of revising the GPB based on the approved GAA and or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable."

5.2 In 2019, the COB of PNOC amounted to P494.089 million. For said year, PNOC has allocated a budget amounting to P1.080 million for GAD activities including the creation of GAD Database for monitoring and evaluation system in PNOC. After implementation of the GPB, the GAD Accomplishment Report for CY 2019 contains, among others, the activites that were undertaken other than the planned, as follows:

Planned Activity	**Actual Activity**	**Reason for deviation/Remark**
i. Conduct of Gender Sensitivity for program implementers	GST program (1-day) was revised to GAD Advocacy Orientation (half-day) conducted on October 2, 2009	Management had to prioritize the completion of the placement plan re: PNOC Reorganization (June-October).
i.3-Year GAD Agenda Approval of the agenda by the Board of Directors	Conducted GAD Mainstreaming and Assessment and Preparatory Development of Agency GAD Agenda on June 14-15, 2019 with the following outputs: - Identified the PNOC-GAD Vision, Mission and Goals - Drafted the 2020 - 2022 GAD Agenda	The 3-year GAD Agenda will be updated to 6-year. GAD Agenda targeted to be completed under the 2020 GPB.

5.3 Verification of the pertinent documents disclosed the following:

- The budget for GAD amounting P1.080 million represents 0.22 per cent only of the total COB, lower than the required 5 per cent.

- The continuing absence of GAD Database, as follows:

Planned Activity	Actual Activity	Reason for deviation
Establishment of Monitoring and Evaluation System in place in November 2019	- Assigned group members from GFPS-TWG to handle the GAD M&E System; - Initial group meeting on the target output held on October 23, 2019; - Database consultation meeting with SME rescheduled in Q1 of 2020	Partially done. Prioritized the strategic alignment of the Integrated Management System program of Park Management Department in Bataan and Energy Supply Base Department in Batangas, with the Quality Management System of PNOC (July-November 2019)

- There is no proof of notification to PCW prior to undertaking of actual activities. To date, no document has been submitted to COA after request therefor per email dated May 27, 2020 to the Chairperson, GAD Focal Point System-Technical Working Group.

5.4 In 2017 and 2018 audit, the audit team noted the need for GAD Database for which Management has committed to set up the same by 2nd quarter of 2019.

With regard to lack of written communication, PNOC has been precluded to show its compliance with the required written communication to PCW for the latter's determination of acceptability of GAD Advocacy Orientation and GAD Agenda from three to six years.

5.5 ***We recommended Management to prioritize the completion and operation of the long overdue GAD Database and submit the written communication/s with the PCW, for the changes made on the planned activities, and the response if any, to the Office of the Supervising Auditor, for evaluation.***

5.6 Management commented that it will try to manually consolidate, build and generate reports for relevant GAD database from the selected departments while there is undergoing testing of Human Resource Information System (HRIS), expected to be completed within 2020, or the expected tie up of HRIS and GAD Database for easier access and generation of relevant data.

For the written communications, Management agreed to submit the same to the Office of the Supervising Auditor.

With regard to the budget, Management commented that it has no operational projects during the time the GPB was approved. Further, after implementation of the GPB, the actual budget utilized for GAD is P2.174 million, inclusive of amounts attributed for personal services. Management commented that it will continue to find and identify GAD responsive programs and projects to eventually be able to meet the five per cent GAD budget allocation.

During exit conference, the OIC-Manager A, Office of the General Counsel, PNOC commented that the definition of budget as contemplated in the law is the attribution of GAD program through and in every project/program of an agency and not a direct appropriation of an amount from the total budget in view of its impracticality.

B. Compliance with Tax Laws

Taxes withheld and due to the Bureau of Internal Revenue (BIR) for CY 2019 in the total amount of P47,347,750 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2019 amounting to P31,164,025 were remitted to the BIR in January 2020.

C. Compliance with Deductions and Remittances to Government Service Insurance System (GSIS), Home Development Mutual Fund (Pag-IBIG) and Philippine Health Insurance Corporation (PhilHealth)

Premiums due to GSIS, Pag-IBIG and PhilHealth for CY 2019 were deducted from the salaries of PNOC personnel in the amount of P14,843,190 and remitted within the prescribed period. The premiums deducted in December 2019 in the amount of P1,234,134 were remitted in January 2020 with details as follows:

Agency	Premiums collected and remitted in 2019 (January to November 2019)	Premiums collected in December 2019 and remitted in January 2020	Total
GSIS	12,535,284	1,099,412	13,634,696
Pag-IBIG	238,222	21,802	260,024
PhilHealth	835,550	112,920	984,470
Total	**13,609,056**	**1,234,134**	**14,879,190**

D. Status of Audit Suspensions, Disallowances and Charges

There is a Notice of Disallowance issued for CY 2019 pertinent to payment of premiums amounting to P64,220, for insurance of personnel on official local travel, that have exceeded the limit under Executive Order No. 248, Series of 1995, as amended.

As of July 31, 2020, the unsettled portion amounted to P2,080.00.

There are no audit disallowances that have become final and executory and are under appeal or with petition for review during CY 2019.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 29 audit recommendations embodied in the prior years' Annual Audit Report, 11 were fully implemented, 17 were partially implemented, 3 of which were restated with updates in this Report, and 1 was not implemented. Details are shown in the following table:

Reference	Audit Observation	Recommendations	Status of Implementation
2018 AAR Observation No. 1, pages 73-76	The non-recognition of assets and depreciation expenses relative to the Energy Supply Base (ESB) operations and properties turned over by PNOC Exploration Corporation (PNOC EC) to PNOC with a fair market value of P147.618 million is contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1, Chapters 4.4(a), 4.38 and Chapter 3 of the Conceptual Framework, Paragraph 31 of IFRS 3 and the Matching Principle of accounting, thus, affecting the fair presentation of balances of pertinent accounts in the financial statements.	1. Facilitate/negotiate with PNOC EC to finalize the agreement on the transfer of assets;	Fully implemented
		2. Recognize the assets of ESB at Fair Market Value in compliance with IFRS 3, Paragraph 31, Conceptual framework Chapter 4.4(a) and 4.38 and PAS 1; and	Partially implemented In December 2019, PNOC received the report of the third party appraisal for the ESB assets which will be used in negotiating with PNOC EC for its establishing fair value.
		3. Recognize depreciation expense pertaining to the ESB assets in compliance with the Matching Principle of accounting.	Partially implemented The appraisal is an initiatory stage on the determination of the ESB assets as bases for computing the associated depreciation expense.

Reference	Audit Observation	Recommendations	Status of Implementation
2018 AAR Observation No. 2, pages 76-79	The balance of Due from Government Corporations - PSALM account in the amount of P112.543 million as against the confirmed zero balance affected the fair presentation of balances of pertinent account in the financial statements contrary to Paragraph 15 of PAS 1, thus, the existence, validity and collectability cannot be ascertained.	4. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT; and 5. Facilitate/follow-up the resolution of Office of the Solicitor General (OSG) on Output VAT.	Partially implemented PNOC discussed the case with OSG which recommended that the same should be brought to arbitration before the Department of Justice (DOJ) instead of filing a case before the regular courts. Fully implemented
2018 AAR Observation No. 3, page 79-81 \ 2015 AAR Observation No. 1, page 52-54	Loans Receivable from Natural Resources Development Corporation (NRDC) in the amount of P70.090 million remained uncollected for more than ten years contrary to Item no. 2 of Loan Agreements dated March 9, 2004 and June 11, 2004 respectively, thereby, depriving the Company of its resources that could have been derived therefrom.	6. Exert extra effort in coordinating with NRDC for the issuance of Board Resolution assigning its future dividends from PMDC to PNOC as partial settlement of its long overdue accounts with PNOC; and 7. File appropriate legal charges against NRDC, if necessary.	Partially implemented On April 15, 2019, PNOC endorsed the case to OSG for appropriate legal action. Per reply dated November 15, 2019, OSG states that PNOC may collect from NRDC by commencing arbitration claim with the DOJ and a final demand letter will be sent by the OSG to NRDC. Partially implemented The referral of the non-collection to OSG as its statutory counsel forms part of the legal strategy of PNOC in collecting the receivables from NRDC.

Reference	Audit Observation	Recommendations	Status of Implementation
2018 AAR Observation No. 4, pages 81-82	The balance of Loans Receivable from NRDC of P70.090 million as against the confirmed balance of P58.001 million showed a difference of P12.089 million contrary to Paragraph 15 of PAS 1 on the Presentation of Financial Statements thus, affecting the fair presentation of the balances of the account in the financial statements.	8. Management to make representation and come up with an agreement with NRDC on the computation of interest to arrive at the total amount of receivables.	Fully implemented
2018 AAR Observation No. 5, pages 82-84	The Other Financial Liabilities account as at year-end in the amount of P3.579 million remained outstanding for more than two years and were not reverted to Cumulative Results of Operations – Unappropriated or Retained Earnings, contrary to Sections 3.1 and 3.3 of DBM-COA Joint Circular No. 99-6 dated November 13, 1999.	9. Review and analyze all the recorded payable accounts; and 10. Revert the other financial liabilities account that had been outstanding for more than two years to the Cumulative Results of Operations-Unappropriated or Retained Earnings as stated in Sections 3.1 and 3.3 of DBM-COA Joint Circular No. 99-6 dated November 13, 1999.	Fully implemented Fully implemented
2018 AAR Observation No. 6, pages 84-86\ 2017 AAR Observation No. 4, pages 73-76	Non-submission of the Report of the Annual Physical Inventory of Property and Equipment amounting to P338.658 million is contrary to Section IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18,	11. Preparing and gathering all the necessary Inventory Sheets, PEL and Employee Ledger Cards and other documents needed prior to the physical count;	Fully implemented

Reference	Audit Observation	Recommendations	Status of Implementation
	1980 and Section 122 of PD 1445, thus, the existence, completeness and valuation cannot be ascertained and the accountabilities of employees cannot be established.	12. Ensuring that all properties have complete and readable asset tags for easy identification and preparing and placing asset tags for those assets without tags or unreadable tags;	Fully implemented
		13. Renewing the Memorandum Receipts (Gen. Form No. 32) now PAR every three years; and	Partially implemented PNOC is still updating the data. It opted to issue Employees Ledger Cards instead.
		14. Requiring the submission to COA of a fully accomplished and reconciled Inventory Report	Fully implemented
2018 AAR Observation No. 7, pages 86-90	The GAD Plan and Budget for the calendar year 2018 in the amount of P1.243 million was below the minimum requirement of at least five per cent of the approved Corporate Operating Budget, contrary to Section 36 (a) of Republic Act (R.A.) 9710 – An Act Providing for the Magna Carta of Women (MCW). Likewise, no GAD Database and GAD Monitoring Evaluation System were	15. Maximize the utilization of the GAD funds through the implementation of GAD related programs and projects in order to attain the objective for which funds were provided;	Partially implemented (*Restated with updates in Part II. A, Finding No. 5 of this Report, pages 67-70*)
		16. Require Management's heads of implementing departments/offices to ensure that GAD related activities are implemented as planned to attain the GAD objectives;	Partially implemented (*Restated with updates in Part II. A, Finding No. 5 of this Report)*
		17. Attribute expenses related to GAD; and	Fully implemented

Reference	Audit Observation	Recommendations	Status of Implementation
	developed for PNOC contrary to Section 37 (D), Rule VI of the Implementing Rules and Regulations (IRR) of RA No. 9710, Magna Carta of Women.	18. Facilitate the establishment of PNOC GAD Database and GAD Monitoring and Evaluation System.	Partially implemented (*Restated with updates in Part II. A, Finding No. 5 of this Report)*
2018 AAR Observation No. 8, pages 90-92	The payment of premiums in the aggregate amount of P78,883 for the accident insurance of PNOC officers and employees while on official travel exceeded the allowable accident insurance coverage of P200,000 contrary to Section 19 of Executive Order No. 248 dated May 29, 1995.	19. Refund immediately the amount of P78,883 to preclude the issuance of Notice of Disallowance.	Partially implemented (*with issued notice of disallowance*) As of July 31, 2020, unsettled portion of disallowance amounted to P2,080.00.
2018 AAR Observation No. 9, pages 93	The Annual Physical Examination benefit under the Collective Negotiation Agreement in the amount of P2.020 million for the period February 1, 2018 to January 31, 2019 granted to PNOC employees did not undergo public bidding contrary to Section 10 of the 2016 Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184.	20. Comply with Section 10 of the 2016 IRR of RA 9184 in every procurement.	Fully implemented
2016 AAR Observation No. 5, page 59	Disbursements incurred by PNOC-Renewables Corporation (PNOC-	21. Recognize the payables to PNOC-RC amounting to P51.956 million and settle the	Not implemented The individual barangay certificate of

Reference	Audit Observation	Recommendations	Status of Implementation
	RC) amounting to P51.956 million for the implementation of the Barangay Electrification Project, a project entered into by and between Department of Energy (DOE) and PNOC, were not recognized as payables to PNOC-RC by PNOC, thus, understating the liability account by the same amount.	account as soon as possible.	installation is necessary to be secured through barangay visitation with DOE, PNOC and COA to be able to reimburse amount from DOE. However, the unavailability of local counterpart as well as the unstable peace and order hampered the pursuance of travel. Engagement of a third party must be considered to coordinate with local government units and facilitate the securing of the required document.
2016 AAR Observation No. 7, page 62-83	Investment Property as of December 31, 2016 amounting to P1.689 billion consisted of 23 lots with an area of 718,056 sq.m. with Transfer Certificates of Titles (TCTs) but not in the name of PNOC, and of 44 lots amounting to P100.041 million with an area of 241,741 sq.m. without TCTs in the name of PNOC. Also, discrepancies existed between the records being maintained by Estate Management Department (EMD) and	22. Cause the completion of processing the titles of 67 lots to ensure the proper transfer of ownership to PNOC;	Partially implemented PNOC finds the completion of the processing of titles, registration of untitled lots is a long term process for the subject lots considering the following: a.) lack/absence of primary documents (deed) to support the requirements in the registration / titling or even in the transfer of title in PNOC's name;

Reference	Audit Observation	Recommendations	Status of Implementation
	Accounting Department (AD) on: a) for land area consisting of 23 lots, per EMD records, the total area was 516,884 sq.m., while per AD records, the total area was 1,463,776 sq.m., or a difference of 946,892 sq.m.; and b) four TCTs with an area of 9,517 sq.m. and a total cost of P676.75 included in the accounting records but not included in the EMD records. Further, PNOC incurred additional expenses of P9.554 million in CY 2016 for the payment of real property taxes and security services for various lots which remained idle or unutilized for years with an area of 1.858 million sq.m. and appraised value of P1.683 billion.	23. Document the inventory of land to confirm and validate the TCTs establishing the required government land registrations and PNOC ownership over-all Investment Properties, to be able to check as well as the status of the land if these are not public domain and therefore, not outside the commerce of men;	b.) necessity to resolve issues which still requires judicial process like adverse claims and lack of technical descriptions; c.) unregistrable lots – part of the public domain; d.) could not be located; e.) Badoc Lots - with pending request with COA for clearance for dropping from the PNOC Book; and f.) some other issues which barred PNOC from having the said lots transferred in its name, titled/registered. Partially implemented (*ongoing evaluation of status on various lots per submitted Agency Action Plan and Status of Implementation*)

Reference	Audit Observation	Recommendations	Status of Implementation
		24. Require the reconciliation of records between the EMD and AD to determine the actual area under paragraphs 7.4 (c) and 7.4 (d) and make the necessary adjustments, where appropriate;	Partially implemented EMD and AD, from time to time, are conducting reconciliation of records found to be inconsistent.
		25. Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies; and	Partially implemented PNOC commented that maximization of the use of idle lots is a long term process. They have identified the best utilization of the lots (use in energy projects, to be leased out), however, they found that majority of the said lots are of no use for PNOC's energy project hence, recommended for disposal by sale and/or CMP for the lots occupied by Informal settlers. Also, the implementation is a tedious process. It requires PNOC Board approval upon recommendation of the Asset Management Department. PNOC also commented that they have already submitted the utilization plan of the idle lots and while the

Reference	Audit Observation	Recommendations	Status of Implementation
			Board has suggested to re-visit its plan for those that could be utilized for energy project and/or leased out, the disposal of those lots that are identified to be of no use for PNOC were disapproved considering the government stance of no disposal of government assets at that time.
		26. Study and submit PNOC's marketing strategy to hasten the disposal of the idle assets and to explore possibilities to generate income from their use while awaiting disposal for the purpose of optimizing their values and/or to at least recover the amount invested by PNOC.	Partially implemented PNOC have had disposal activities and was able to dispose several idle assets found to be not suitable for projects. PNOC will continue to update its strategy and pursue disposal as may be necessitated by industry conditions and objectives of the company.
2015 AAR Observation No. 2, page 54-57	Found existing for reciprocal accounts between Due from Subsidiaries per PNOC books and Due to PNOC per subsidiaries' records was a variance of P4.684 million involving various reconciling items which remained unresolved for more than one to 13 years. Also, no Allowance for Impairment was	27. Coordinate with the Finance Managers/ Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items;	Partially implemented PNOC provided PNOC-RC all the necessary documents on October 13, 2016 for the items that are being reconciled. PNOC-RC also settled its long outstanding accounts on December 19, 2016 amounting to P263,650.95.

Reference	Audit Observation	Recommendations	Status of Implementation
	recognized for the account Due from Subsidiaries, contrary to paragraphs 58 and 59 of PAS 39.	28. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements.	Partially implemented PNOC-RC committed to trace the various unreconciled items and prepare the corresponding journal vouchers.
		29. Consider developing and/or updating a written accounting policy/manual incorporating COA Rules and Circulars and PAS, to standardize the Company's accounting and operating policies and procedures.	Fully implemented