Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR

Cluster 3 – Public Utilities

May 30, 2019

OFFICE OF THE CORPORATE SECRETARY
PHILIPPINE NATIONAL OIL CO.
RECEIVED
MAY 31 2019
BY: loi TIME: 3:

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. (PD) 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, 2018 and 2017.

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-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.

   Recommendations:

   a. *Facilitate/negotiate with PNOC EC to finalize the agreement on the transfer of assets;*

   b. *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*

   c. *Recognize depreciation expense pertaining to the ESB assets in compliance with the Matching Principle of accounting.*

2. 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 Philippine Accounting Standards (PAS) 1, thus, the existence, validity and collectability cannot be ascertained.

Recommendations:

a. *Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT; and*

b. *Facilitate/follow-up the resolution of Office of the Solicitor General on Output VAT.*

3. 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.

   Recommendations:

   a. *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*

   b. *File appropriate legal charges against NRDC, if necessary.*

4. 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 Philippine Accounting Standards (PAS) 1 on the Presentation of Financial Statements thus, affecting the fair presentation of the balances of the account in the financial statements.

   Recommendation:

   Make representation and come up with an agreement with NRDC on the computation of interest to arrive at the total amount of receivables.

5. 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.

   Recommendations:

   a. *Review and analyze all the recorded payable accounts; and*

   b. *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.*

6. 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, 1980 and Section 122 of PD 1445, thus, the existence, completeness and valuation cannot be ascertained and the accountabilities of employees cannot be established.

   Recommendations:

   a. *Prepare and gather all the necessary Inventory Sheets, PEL and Employee Ledger Cards and other documents needed prior to the physical count;*

   b. *Ensure 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;*

   c. *Renew the Memorandum Receipts (Gen. Form No. 32) now PAR every three years; and*

d. *Require the submission to COA of a fully accomplished and reconciled Inventory Report.*

7. 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 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.

   Recommendations:

   a. *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;*

   b. *Require Management's heads of implementing departments/offices to ensure that GAD related activities are implemented as planned to attain the GAD objectives;*

   c. *Attribute expenses related to GAD; and*

   d. *Facilitate the establishment of PNOC GAD Database and GAD Monitoring and Evaluation System.*

8. The Annual Physical Examination (APE) benefit under the Collective Negotiation Agreement (CNA) 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 of Republic Act (RA) 9184.

   Recommendation:

   Comply with Section 10 of the 2016 IRR of Republic Act (RA) 9184 in every procurement.

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 May 9, 2019 are discussed in detail in Parts II and III 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:

LEILA S. PARAS
Director IV

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 UP Law Center
The National Library

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, 2018 and 2017

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; ensure security of supply; contributing to energy price stability and affordability; foster sustainable and environmentally-friendly sources of energy; 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 (PAFC) and the PNOC Development and Management Corporation (PDMC), which was duly approved by the Office of the President that same month.

5. PNOC will continue to act as 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.

Objectives and Scope of Audit

6. 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.

7. The audit covered the examination on a test basis of the accounts and financial transactions and operations of PNOC for Calendar Years 2018 and 2017 in accordance with ISSAIs. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Company to prescribed laws, rules and regulations.

B. Financial Highlights (In Million Pesos)

Financial Position

	2018	2017	Increase (Decrease)
Assets	40,124.464	40,689.388	(564.924)
Liabilities	3,955.789	3,578.375	377.414
Equity	36,168.675	37,111.013	(942.338)

Results of Operation

	2018	2017	Increase (Decrease)
Income			
Business Income	1,168.179	570.705	597.475
Non-Operating Income/Gain	2.604	1.023	1.581
Total Income	**1,170.783**	**571.727**	**599.055**
Expenses			
Personnel Expenses	(104.347)	(91.973)	(12.374)
Maintenance and Other Operating Expenses	(140.699)	(121.898)	(18.801)
Financial Expenses	(9.305)	(2.025)	(7.280)
Direct Cost	(106.321)	0	(106.321)
Non-Cash Expenses	(39.338)	(41.276)	1.938
Total Expense	**(400.009)**	**(257.172)**	**(142.837)**
Profit Before Tax	**770.774**	**314.556**	**456.218**
Income Tax Expense	**(155.103)**	**(25.324)**	**(129.779)**
Profit After Tax	**615.671**	**289.232**	**326.439**
Other Comprehensive Income for the Period	**(2.350)**	**0.140**	**(2.490)**
Comprehensive Income	**613.321**	**289.372**	**323.949**

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, 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-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.

   Recommendations:

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   a. *Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT; and*

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   c. *Renew the Memorandum Receipts (Gen. Form No. 32) now PAR every three years; and*

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   Recommendation:

   Comply with Section 10 of the 2016 IRR of Republic Act (RA) 9184 in every procurement.

E. Summary of Total Disallowances, Suspensions and Charges as of December 31, 2018

There were no Notices of Disallowance (ND) issued to PNOC for the Calendar Year (CY) 2018.

F. Status of Implementation of Prior Years' Recommendations

Out of the 34 audit recommendations embodied in the prior years' Annual Audit Report, 20 were fully implemented, 13 were partially implemented and one (1) was not implemented, while three (3) of the partially implemented were reiterated in 2018. Details are presented in Part III of this Report.

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PART I - AUDITED FINANCIAL STATEMENTS

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, 2018 and 2017, 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, 2018 and 2017, and its financial performance and its 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 further 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 Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of financial statements in the Philippines, 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 determines 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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Supplementary Information required under Bureau of Internal Revenue (BIR) Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information described in Note 34 to the financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

By:

TEODORA M. VEGA
State Auditor IV
OIC - Supervising Auditor

May 28, 2019

PHILIPPINE NATIONAL OIL COMPANY

PNOC
The Energy Company

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, 2018, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls 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

5/27/19
Date Signed

GLENDA G. MARTINEZ
PNOC Senior Vice President for Management Services

5/20/19
Date Signed

ADM REUBEN S LISTA (RET)
PNOC President and CEO

5/20/19
Date Signed

PNOC Building 6, Energy Center,
Rizal Drive, Bonifacio Global City
Taguig, Philippines 1634
(632) 789-7662
www.pnoc.com.ph

MAY 2 8 2019

SUBSCRIBED AND SWORN TO BEFORE ME this _________ of __________ 2019 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. 9

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Book No. I

Series of 2019

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-4209113; 01/10/19; Taguig City
IBP No. 066755; 01/10/19
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, 2018 and 2017

	NOTE	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	61,503,106	57,374,560
Financial Assets	7	1,626,944,534	790,651,182
Other Investments	7	274,351,080	326,700,720
Receivables	8	575,587,912	1,436,806,092
Other Current Assets	13	337,746,738	466,706,612
Total Current Assets		2,876,133,370	3,078,239,166
Non-Current Assets			
Financial Assets	7	6,378,700,000	6,662,600,000
Investments in Associates/Affiliates	7	99,978,000	99,978,000
Investments in Subsidiaries	7	4,859,775,056	4,859,775,056
Other Investments	7	96,632,450	96,632,450
Receivables	8	70,146,286	66,178,947
Banked Gas Inventory	9	13,689,426,885	13,789,376,675
Investment Property	10	11,368,923,689	11,337,559,375
Property and Equipment	11	338,658,078	352,845,201
Deferred Tax Assets	12	345,761,781	345,874,200
Other Non-Current Assets	13	328,877	328,877
Total Non-Current Assets		37,248,331,102	37,611,148,781
Total Assets		40,124,464,472	40,689,387,947
LIABILITIES			
Current Liabilities			
Financial Liabilities	14	93,656,112	148,856,137
Inter-Agency Payables	15	74,567,946	29,228,951
Trust Liabilities	16	214,582,262	204,665,270
Other Payables	17	307,083,473	148,537,969
Total Current Liabilities		689,889,793	531,288,327
Non-Current Liabilities			
Deferred Credits/Unearned Income	18	484,525,734	266,370,302
Provisions	19	26,940,111	26,281,650
Deferred Tax Liabilities	20	2,754,433,623	2,754,435,024
Total Non-Current Liabilities		3,265,899,468	3,047,086,976
Total Liabilities		3,955,789,261	3,578,375,303
EQUITY			
Revaluation Surplus		9,181,439,315	9,181,439,315
Retained Earnings		23,875,856,793	24,815,844,060
Stockholders' Equity		3,114,595,519	3,114,595,519
Cumulative Changes in Fair Value		(3,216,416)	(866,250)
Total Equity		36,168,675,211	37,111,012,644
Total Liabilities and Equity		40,124,464,472	40,689,387,947

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
RECEIVED
JUN 24 2019

The notes on pages 10 to 72 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, 2018 and 2017

	NOTE	2018	2017
Income			
Business Income	22	1,168,179,213	570,704,566
Gains	28	1,763,239	222
Other Non-Operating Income	28	840,310	1,022,578
Total Income		1,170,782,762	571,727,366
Expenses			
Personnel Services	23	(104,347,108)	(91,973,315)
Maintenance and Other Operating Expenses	24	(140,698,888)	(121,897,794)
Financial Expenses	25	(9,304,617)	(2,024,903)
Direct Costs	26	(106,320,501)	0
Non-Cash Expenses	27, 28	(39,337,776)	(41,275,519)
Total Expenses		(400,008,890)	(257,171,531)
Profit Before Tax		770,773,872	314,555,835
Income Tax Expense	29	(155,102,744)	(25,324,108)
Profit After Tax		615,671,128	289,231,727
Other Comprehensive Income (Loss) for the Period		(2,350,166)	140,000
Comprehensive Income		613,320,962	289,371,727

The notes on pages 10 to 72 form part of these statements.

RECEIVED

JUN 24 2019

PHILIPPINE NATIONAL OIL COMPANY

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	Cumulative Changes in Fair Value of Investments	Revaluation Surplus	Retained Earnings/ (Deficit)	Contributed Capital	TOTAL
BALANCE AT JANUARY 1, 2017	(1,006,250)	9,295,926,603	24,637,737,851	3,114,595,519	37,047,253,723
CHANGES IN EQUITY FOR 2016					
Add/(Deduct):					
Comprehensive Income for the year	0	0	289,231,727	0	289,231,727
Dividends	0	0	(148,028,416)	0	(148,028,416)
Other Adjustments:					
Changes in fair value of available-for-sale securities	140,000	0	0	0	140,000
Realized gain on disposal of land	0	(2,320,000)	0	0	(2,320,000)
Decrease in valuation of land	0	(112,167,288)	0	0	(112,167,288)
Deferred tax liability for the decrease in valuation of land	0	0	33,650,186	0	33,650,186
Adjustment on dividend payable	0	0	6,455,788	0	6,455,788
Prior Period Adjustments	0	0	(3,203,076)	0	(3,203,076)
BALANCE AT DECEMBER 31, 2017	(866,250)	9,181,439,315	24,815,844,060	3,114,595,519	37,111,012,644
CHANGES IN EQUITY FOR 2018					
Add/(Deduct):					
Comprehensive Income for the year	0	0	615,671,128	0	615,671,128
Dividends	0	0	(306,504,872)	0	(306,504,872)
Other Adjustments:					
Changes in fair value of available-for-sale securities	(2,350,166)	0	0	0	(2,350,166)
Prior Period Adjustments	0	0	(1,249,153,523)	0	(1,249,153,523)
BALANCE AT DECEMBER 31, 2018	(3,216,416)	9,181,439,315	23,875,856,793	3,114,595,519	36,168,675,211

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of Income/Revenue	749,321,278	336,149,250
Collection of Receivables	665,363	40,815,422
Receipt of Inter-Agency Fund Transfer	3,250,000	0
Trust Receipts	9,916,992	4,998,686
Other Receipts	71,136,180	46,905,404
Total Cash Inflows	834,289,813	428,868,762
Adjustments	0	135,186
Adjusted Cash Inflows	834,289,813	429,003,948
Cash Outflows		
Payment of Expenses	207,024,117	205,445,237
Grant of Cash Advances	292,170	5,409,385
Prepayments	3,063,659	16,058,028
Refund of Deposits	5,092,305	4,372,538
Payments of Accounts Payable	18,239,107	1,439,778
Remittance of Personnel Benefit Contributions and Mandatory Deductions	39,535,708	18,705,334
Release of Inter-Agency Fund Transfers	3,809,176	24,477,891
Other Disbursements	81,419,920	0
Total Cash Outflows	358,476,162	275,908,191
Adjustments	2,265,970	11,596,797
Adjusted Cash Outflows	360,742,132	287,504,988
Net Cash Provided by Operating Activities	473,547,681	141,498,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Total Cash Inflows		
Proceeds from Sale/ Disposal of Investment Property	0	2,246,017
Receipt of Interest Earned	224,203,572	211,336,871
Receipt of Cash Dividends	5,595,776	7,335,523
Proceeds from Matured Investments	2,473,481,255	839,337,908
Proceeds from Sale of Other Assets	0	184,000
Total Cash Inflows	2,703,280,603	1,060,440,319
Adjustments	0	1,897,604
Adjusted Cash Inflows	2,703,280,603	1,062,337,923
Cash Outflows		
Purchase/Construction of Investment Property	747,304	580,357
Purchase/Construction of Property and Equipment	50,499,049	7,200,230
Purchase of Investments	2,973,424,967	1,005,651,182
Total Cash Outflows	3,024,671,320	1,013,431,769
Adjustments	0	0
Adjusted Cash Outflows	3,024,671,320	1,013,431,769
Net Cash Provided By (Used in) Investing Activities	(321,390,717)	48,906,154
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of Cash Dividends	148,028,418	137,181,381
Total Cash Outflows	148,028,418	137,181,381
Net Cash Used In Financing Activities	(148,028,418)	(137,181,381)
INCREASE IN CASH AND CASH EQUIVALENTS	4,128,546	53,223,733
CASH AND CASH EQUIVALENTS, JANUARY 1	57,374,560	4,150,827
CASH AND CASH EQUIVALENTS, DECEMBER 31	61,503,106	57,374,560

Philippine National Oil Company
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
Notes to Financial Statements
For the year ended December 31, 2018

1. GENERAL INFORMATION

The financial statements of Philippine National Oil Company *(herein referred to as PNOC or "the Company")* was authorized for issue on May 28, 2019 as shown in the Statement of Management Responsibility for Financial Statements signed by Secretary Alfonso G. Cusi, PNOC Chairman of the Board, Adm. Reuben S. Lista (Ret), PNOC President and Chief Executive Officer, and Ms. Glenda G. Martinez, PNOC Senior Vice President for Management Services.

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

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 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 (PAFC) and the PNOC Development and Management Corporation (PDMC), which was duly approved by the Office of the President 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 in PNOC Building 6, Energy Center, Rizal Drive, Bonifacio Global City, Fort Bonifacio, Taguig City.

Changes

PNOC submitted its first Reorganization Plan to the GCG in December 2016 which was subsequently received in 2017 to cover the increased manpower (from 210 to 253) intended to address the current and future needs of PNOC as a holding and operating corporation, and make it more responsive to the country's energy development. The Plan was approved by the GCG through Memorandum Order 2018-05 dated August 28, 2018, with a total of one hundred ninety eight (198) plantilla positions. PNOC received the official copy of the approval on September 12, 2018.

Projects

1.1 *Batangas Liquefied Natural Gas (LNG) Hub*

The PNOC Batangas LNG Hub Project originated with the Department of Energy's policy directive for PNOC to develop a 200 megawatt army reserve using natural gas. The concept eventually broadened into a more comprehensive project, covering the whole LNG value chain and the development of an LNG Hub. The aim is for sustainability of gas supply and to provide the requirements of the existing Malampaya-dependent natural gas power plants upon the expiration of the Service Contract (SC) 38. This major project is expected to likewise encourage investment in related industries, infrastructure and facilities that will further develop the local natural gas industry. Being strategically close to the location of the country's major gas-fired power plant developments, PNOC is considering various locations in Batangas as potential project sites.

Initially, the chosen modality for this project was a Government to Government transaction. It was however unfortunate that such modality did not materialize for the LNG Project.

PNOC then adopted the concept of the unsolicited proposals under the 2013 Revised NEDA Joint Venture Guidelines and the Build-Operate-Transfer (BOT) Law. Under this scheme, PNOC received eight (8) proposals. These proposals were evaluated by PNOC with the assistance from the Asian Development Bank (ADB) as the company's transaction advisor for the project using the Board-approved Eligibility/Qualification Criteria, and relevant laws, rules and regulations that governs the unsolicited proposals scheme. This scheme turned out to be unsuccessful having all eight (8) unsolicited proposals rejected either due to non-compliance to the Board-approved Eligibility/Qualification Criteria and rules under BOT Law or NEDA JV Guidelines.

In view of the above, the PNOC Board directed the PNOC Management to proceed with the Solicited Proposals Scheme under the National Economic and Development Authority's Revised Guidelines and Procedures for Entering into Joint Venture Agreements between Government and Private Entities (NEDA JV Guidelines). With this, PNOC created a Joint Venture Selection Committee (JVSC) as required under the aforesaid Guidelines.

PNOC adopted two-stage process under this scheme, namely: the pre-qualification stage; and the request for proposals stage.

PNOC launched the pre-qualification (PQ) stage for the selection of its Joint Venture partner through the publication of the invitation to private sector participants (PSP) for eligibility pre-qualification in newspapers of general circulation and on the PNOC website. Three interested parties purchased the pre-qualification documents.

As of December 31, 2018, the JVSC, together with ADB is still finalizing details as required by the project and continuously entertaining inquiries from interested Private Sector Proponents.

1.2 *Monetization of PNOC Banked Gas*

The banked gas, being classified as an inventory and with the Offtake Framework Agreement with SC 38 and the DOE-issued Guidelines for its Disposal and/or Sale already in place, PNOC entered into a Joint Tender Agreement (JTA) with SC 38 Consortium. With this, a public bidding was carried out to take advantage of the synergy of selling the combined volumes of banked gas and SC 38's new gas. At the end of the joint tender, PNOC and SC 38 were able to sell 14 PJ to Pilipinas Shell Petroleum Corporation (PSPC), of which 6.324 PJ is PNOC's pro-rata share. With this joint sale to PSPC, and with Power Sector Assets and Liabilities Management (PSALM), who previously drawn a 4.611 PJ of banked gas for the Ilijan Power Plant, PNOC's remaining volume amounts to 97.67 PJ. PSPC started withdrawing from the banked gas on June 1, 2018 at a rate of around 3.227 Terajouels a day (or around 1.18 PJ a year) until February 23, 2024.

Given the result of the joint tender, SC 38 and PNOC thoroughly discussed the most appropriate mode of sale for the remaining volume of banked gas.

With this, an Ad Hoc Committee was created by the PNOC Board to study and evaluate proposals/options to monetize the remaining banked gas. As a result of the Committee's study, offering the banked gas for public sale was recommended. The objective is primarily to test the market demand and to be able to monetize the banked gas at the earliest time possible.

Pursuant to the Guidelines for the Disposal/Sale of Banked Gas, a Disposal Committee was activated to help the PNOC Board advertise the sale as well as to evaluate the offers/proposals. The Committee published the Invitation to Submit Offers to Buy the PNOC Banked Gas in the leading newspapers and on the PNOC website on June 22, 2018. Simultaneous with the publication of sale, invitation letters were sent out to potential off-takers.

The Committee received three (3) offers, however, all were not compliant with the guidelines/ procedures set for the purpose.

The PNOC Board directed PNOC management to exhaust all possible actions to generate interest and instructed the Committee to proceed with a second round of publication. The second round of invitation, however, turned out to be unsuccessful as there was no proposal/offer received from any party.

Having two unsuccessful invitations and with a PNOC Board Resolution authorizing the Management to negotiate, without making any commitment as to the price at which the banked gas can be disposed of, PNOC is now keen to enter into comprehensive discussions and/or negotiation to whoever is interested to buy the Banked Gas. The selling price is subject to the approval of the PNOC Board of Directors. The terms and conditions of the negotiation must be advantageous to the government and must be similar to the terms set by the SC 38 consortium, which have to be agreed upon by both PNOC and the interested buyer.

Interested buyers are approaching PNOC but they are yet to submit formal proposals.

1.3 *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 the Philippine Ports Authority (PPA).

PNOC-EC previously operated the ESB until its transfer to PNOC in 2017 pursuant to PNOC Board Resolution No. 2416 S' 2017 dated February 8, 2017 and PNOC-EC Board Resolution No. 2-1 S' 2017 dated February 23, 2017), respectively. Thereafter, the transition and turnover of ESB ensued.

The transition and turnover of ESB's operations and corporate services functions from PNOC-EC to PNOC was completed on December 31, 2017. The administration and operations was fully assumed by PNOC in May 2018.

PNOC's vision for ESB is that by 2024, PNOC will provide world class energy supply base port facilities and offer services compliant with International Standards. Consistent with this Vision, the PNOC Board approved in July 2018 (PNOC Resolution No. 2522, S' 2018) the Energy Supply Base Master Development Plan.

As of end of 2018, the bidding process for the conduct of Detailed Feasibility Study (DFS) to validate the ESB Master Development Plan has started. Likewise, projects to improve the pier and other facilities to increase vessel berthing at the Base were awarded by the PNOC Board, including improvement of operating systems.

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.

PNOC has been found to demonstrate the ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity to the requirements of the standard.

An internal quality audit was conducted in May 2018 and PNOC passed the 1st Surveillance Audit conducted in June 2018.

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 Resolution No. 2014-003 dated January 24, 2014.

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 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. Initial recognition and measurement

Financial assets within the scope of Philippine Accounting Standards (PAS) 39-Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. PNOC determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that PNOC commits to purchase or sell the asset.

PNOC's financial assets include: cash and cash equivalents; trade and other trade receivables; loans and other loans receivables; quoted and unquoted financial instruments. PNOC has no derivative financial instrument as at December 31, 2018.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

b. Available-for-sale financial assets

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the Statement of Financial Position unless Management intends to dispose of the investment within 12 months from the balance sheet date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the Statement of Comprehensive Income when they are sold or when the investment is impaired. In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the Statement of Comprehensive Income. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the Statement of Comprehensive Income. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the Statement of Comprehensive Income, the impairment loss is reversed through the profit or loss.

c. Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when PNOC has the positive intention and ability to hold it to maturity.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in profit or loss.

d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the profit or loss.

iii. 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.

iv. 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).

a. **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.

b. **Available-for-sale (AFS) financial assets**

For AFS financial assets, 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 classified as AFS, 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.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

B. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

PNOC's financial liabilities include trade and other payables.

ii. Subsequent measurement

The measurement of financial liabilities depends on their classification.

a. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39.

Gains or losses on liabilities held for trading are recognized in profit or loss.

b. Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

PNOC has no existing loans and borrowings as at December 31, 2018.

iii. 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 and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes 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 lives
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 and Equipment*

a. Recognition

An item is recognized as property and equipment if it meets the characteristics and recognition criteria as Property and Equipment.

The characteristics of Property and Equipment 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 Property and Equipment 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 Property and Equipment is measured at cost.

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

The cost of the Property and Equipment is the cash price equivalent or, for Property and Equipment 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 Property and Equipment are stated at cost less accumulated depreciation and impairment losses.

When significant parts of Property and Equipment 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 Property and Equipment 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 Property and Equipment 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 Property and Equipment is available for use on or before the 15th of the month. However, if the Property and Equipment 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 Property and Equipment prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

iv. **Residual value**

PNOC adopt a residual value equivalent to at least five percent (5%) of the cost of the Property and Equipment in 2018.

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 Property and Equipment 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*

PNOC as a lessor

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 Property and Equipment 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 2018, 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 2018, no asset and revenue was 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 2018, 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, 2018, 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 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 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 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 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. PRIOR PERIOD ADJUSTMENTS

PNOC recognized Impairment Loss on the long outstanding receivables for the years 2008 to 2016 from its subsidiary, PNOC Shipping and Transport Corporation (PSTC) amounting to P1,247,151,370.15. The Company's corporate life was shorten effective March 15, 2013 (see Note 7.3). Other prior period adjustments pertain to adjustments to correct various accounts.

6. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2018	As at December 31, 2017
Cash in Bank-Local Currency	24,467,180	4,484,661
Cash in Bank-Foreign Currency	2,035,926	130,263
Cash Equivalents	35,000,000	52,759,636
Total Cash and Cash Equivalents	**61,503,106**	**57,374,560**

Cash in banks are 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 consist of money market placements in Treasury Bills which is made for a period of 33 days and earn interest at 1.65% deposit rate for 2018 while 77 days at 2.13% deposit rate for 2017.

7. INVESTMENTS

7.1 Financial Assets

a. Reconciliation of the Current Financial Assets

CURRENT FINANCIAL ASSETS As at December 31, 2018		
Particulars	**Financial Assets-Held to Maturity**	**Total**
Beginning Balance as at January 1, 2018	**790,651,182**	**790,651,182**
Additional investments made	1,676,073,887	1,676,073,887
Less: Investment sold / collected	(839,780,535)	(839,780,535)
Balance as at December 31, 2018	**1,626,944,534**	**1,626,944,534**

CURRENT FINANCIAL ASSETS As at December 31, 2017		
Particulars	**Financial Assets-Held to Maturity**	**Total**
Beginning Balance as at January 1, 2017	**0**	**0**
Additional investments made	790,651,182	790,651,182
Balance as at December 31, 2017	**790,651,182**	**790,651,182**

Financial Assets-Held to Maturity consist of investment in Treasury Bills which are made for varying periods of more than 90 days but less than one year and earn interest at 2.50 to 2.96 percent deposit rates.

b. Reconciliation of the Non-Current Financial Assets

Particulars	Financial Assets Held to Maturity	Available for Sale Financial Assets	Total
Beginning Balance as at January 1, 2018	**6,660,000,000**	**2,600,000**	**6,662,600,000**
Additional investments made	1,023,000,000	0	1,023,000,000
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**

Particulars	Financial Assets Held to Maturity	Available for Sale Financial Assets	Total
Beginning Balance as at January 1, 2017	**6,445,000,000**	**2,450,000**	**6,447,450,000**
Additional investment made	185,000,000	0	185,000,000
Fair value increase	0	150,000	150,000
Reclassification from a different class of investment	30,000,000	0	30,000,000
Balance as at December 31, 2017	**6,660,000,000**	**2,600,000**	**6,662,600,000**

Financial Assets-Held to Maturity consist of investments in treasury bonds with a term of more than one year to 25 years from value date and interest rates ranging from 2.70 to 6.125 percent.

Available-for-sale (AFS) Financial Assets consist 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.

The unrealized gain (loss) on changes in fair value of AFS investment recognized and presented as part of other comprehensive income amounted to P95,000 in 2018, net of deferred tax liability of P5,000 and P140,000 in 2017, net of deferred tax liability of P10,000.

The cumulative changes in fair value of AFS securities of these quoted shares amounted to (P771,250) in 2018 and (P866,250) in 2017, net of cumulative deferred tax of P153,750 in 2018 and P158,750 in 2017.

c. Financial Assets

Particulars	As at December 31, 2018	As at December 31, 2017
Total Current Financial Assets	1,626,944,534	790,651,182
Total Non-Current Financial Assets	6,378,700,000	6,662,600,000
Total	**8,005,644,534**	**7,453,251,182**

7.2 Investment in Associates

Particulars	Percentage of Ownership	As at December 31, 2018	As at December 31, 2017
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**

7.3 Investment in Subsidiaries

Particulars	Percentage of Ownership	As at December 31, 2018	As at December 31, 2017
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 & Management Corp. (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
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, 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 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 the PNOC Exploration Corporation (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.

7.4 Other Investments

a. Reconciliation of Other Investments - Current

Other Investments - Current As at December 31, 2018		
Particulars	**Investment in Time Deposits**	**Total**
Beginning Balance as at January 1, 2018	326,700,720	326,700,720
Additional Investments made	274,351,080	274,351,080
Less: *Investments sold/collected*	(326,700,720)	(326,700,720)
Balance as at December 31, 2018	**274,351,080**	**274,351,080**

Other Investments - Current As at December 31, 2017		
Particulars	**Investment in Time Deposits**	**Total**
Beginning Balance as at January 1, 2017	1,166,038,628	1,166,038,628
Less: Investments sold/collected	(839,337,908)	(839,337,908)
Balance as at December 31, 2017	**326,700,720**	**326,700,720**

b. Reconciliation of Other Investments – Non-Current

Particulars	As at December 31, 2018	As at December 31, 2017
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**

c. Other Investments

Particulars	As at December 31, 2018	As at December 31, 2017
Total Current Financial Assets	274,351,080	326,700,720
Total Non-Current Financial Assets	96,632,450	96,632,450
Total	**370,983,530**	**423,333,170**

8. RECEIVABLES

8.1 Loans and Receivables

Accounts	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable	151,050,880	70,146,286	221,197,166	0	66,178,947	66,178,947
Interests Receivable	80,455,050	0	80,455,050	58,892,010	0	58,892,010
Total	**231,505,930**	**70,146,286**	**301,652,216**	**58,892,010**	**66,178,947**	**125,070,957**

There were no securities held for each class of loans/receivables.

8.2 Aging/Analysis of Receivables

As at December 31, 2018

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	151,050,880	25,070	149,084,822	805,866	1,135,122
Interests Receivable	80,455,050	22,411,488	17,993,244	15,097,633	24,952,685
Lease Receivable	206,633,766	38,000	3,451,647	1,676,579	201,467,540
Inter-Agency Receivables	1,615,439,764	143,082	533,134	82,709	1,614,680,839
Other Receivables	7,953,535	0	776,811	3,656	7,173,068
Less: Allowance for Impairment	(1,485,945,082)	0	0	0	(1,485,945,082)
Total	**575,587,913**	**22,617,640**	**171,839,658**	**17,666,443**	**363,464,172**

8.3 Lease Receivables

Accounts	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Operating Lease Receivable	206,633,766	0	206,633,766	0	0	0
Total	**206,633,766**	**0**	**206,633,766**	**0**	**0**	**0**

8.4 Inter-Agency Receivables

Accounts	2018	2017
Due from Government Corporations	112,543,142	112,543,142
Due from Subsidiaries	1,502,896,622	1,495,458,389
Less: *Allowance for Impairment-Due from Subsidiaries*	(1,485,945,083)	(238,793,712)
Total	**129,494,681**	**1,369,207,819**

8.5 Other Receivables

Accounts	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Due from Officers and Employees	5,977,855	0	5,977,855	7,694,821	0	7,694,821
Other Receivables	1,975,680	0	1,975,680	1,011,442	0	1,011,442
Total	**7,953,535**	**0**	**7,953,535**	**8,706,263**	**0**	**8,706,263**

8.6 Total Receivables

Particulars	As at December 31, 2018	As at December 31, 2017
Total Current Receivables	575,587,912	1,436,806,092
Total Non-Current Receivables	70,146,286	66,178,947
Total	**645,734,198**	**1,502,985,039**

9. BANKED GAS INVENTORY

Accounts	2018	2017
Inventory Held for Sale		
Carrying Amount, January 1	13,789,376,675	13,789,376,675
Sold during the year	(99,949,790)	0
Total Carrying Amount, December 31	**13,689,426,885**	**13,789,376,675**

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, a Gas Sale Purchase Agreement between PNOC and Pilipinas Shell Petroleum Corporation (PSPC) was signed for the 6.324 PJ of banked gas. The start date of PSPC drawing the gas is June 2018 until February 2024.

A total of .753 PJ was withdrawn from June 1 to December 31, 2018 by PSPC. As of December 31, 2018, the banked gas has a remaining volume of 103.241 PJ amounting to P13,689,426,885.

10. INVESTMENT PROPERTY

Particulars	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**	**11,374,761,672**
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**

Particulars	2017		
	Investment Property-Land and Land Improvements	Investment Property-Buildings	Total
Carrying Amount, January 1	**11,336,527,251**	**52,793,955**	**11,389,321,206**
Additions/Acquisitions	556,893	6,297,927	6,854,820
Total	**11,337,084,144**	**59,091,882**	**11,396,176,026**
Disposals	(7,551,604)	0	(7,551,604)
Depreciation	(244,916)	(5,220,443)	(5,465,359)
Adjustment to Cost	(45,599,688)	0	(45,599,688)
Carrying Amount, December 31	**11,283,687,936**	**53,871,439**	**11,337,559,375**
Gross Cost	11,284,806,071	130,249,045	11,415,055,116
Accumulated Depreciation	(1,118,135)	(76,377,606)	(77,495,741)
Carrying Amount, December 31	**11,283,687,936**	**53,871,439**	**11,337,559,375**

The leases mostly contain a lease period of minimum of four years and maximum of 25 to 30 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.

Investment property also includes the land and building in the Energy Center and eight properties conveyed by the National Development Company to PNOC as redemption of the preferred shares through a two-tranche dacion en pago.

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.

Additions to Investment Property in 2018 pertains mainly to capital expenditures for the restrengthening of Deck 3 Piles at Energy Supply Base amounting to P17,171,096 and land and building improvements at PNOC building 5 amounting to P17,577,726.

In 2017, PNOC donated to Philippine Coast Guard the property (warehouse) in Anonas Street, Sta. Mesa Manila with a book value of P1,897,604.

Also in 2017, PNOC adjusted the cost of the land that resulted to a decrease amounting to P45,599,688.

Rental income earned from the investment properties amounted to P395,842,938 in 2018 and P336,616,375 in 2017.

11. PROPERTY AND EQUIPMENT

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

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
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**

As at December 31, 2017

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	**267,635,007**	**118,488**	**97,835,937**	**11,315,276**	**376,904,708**
Additions/Acquisitions	0	0	63,488,069	2,306,724	65,794,793
Total	**267,635,007**	**118,488**	**161,324,006**	**13,622,000**	**442,699,501**
Disposals	0	0	0	0	0
Depreciation	0	(21,016)	(16,373,731)	(6,189,710)	(22,584,457)
Adjustment	(66,567,600)	0	0	(702,243)	(67,269,843)
Carrying Amount, December 31	**201,067,407**	**97,472**	**144,950,275**	**6,730,047**	**352,845,201**
Gross Cost	**201,067,407**	**210,357**	**85,072,365**	**71,616,715**	**657,966,844**
Accumulated Depreciation	0	(112,885)	(240,122,090)	(64,886,668)	(305,121,643)
Carrying Amount, December 31	**201,067,407**	**97,472**	**144,950,275**	**6,730,047**	**352,845,201**

Addition to Building and Other Structures in 2018 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).

In 2017, additions in Building and Other Structures amounting to P63,488,069 pertains mostly to the retrofitting of PNOC Building 6 amounting to P56,214,075. During the year, PNOC decreased P66,567,600 from the cost of some land accounts. Also, the decrease of P702,243 was due to the adjustment in cost amounting to P6,733,920 and accumulated depreciation amounting to P6,031,677 of the Machinery and Equipment.

12. DEFERRED TAX ASSETS

Particulars	Tax effect of Temporary differences	Unrealized loss in AFS	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**

Particulars	Tax effect of Temporary differences	Unrealized loss in AFS	Total
January 1, 2017	342,951,969	170,000	343,121,969
Charged to other comprehensive income for the year	0	(10,000)	(10,000)
Credited to profit or loss for the year	2,762,231	0	2,762,231
December 31, 2017	**345,714,200**	**160,000**	**345,874,200**

13. OTHER ASSETS

Current and Non-Current Other Assets

Particulars	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	305,170	0	305,170	13,000	0	13,000
Prepayments	11,953,210	0	11,953,210	15,580,062	0	15,580,062
Deposits	189,705,654	0	189,705,654	194,848,440	0	194,848,440
Other Assets	135,782,704	328,877	136,111,581	256,265,110	328,877	256,593,987
Total	**337,746,738**	**328,877**	**338,075,615**	**466,706,612**	**328,877**	**467,035,489**

Other Assets includes the following:

Particulars	2018	2017
Deferred Charges	0	43,306,113
Other Assets	135,782,704	212,958,997
Total	**135,782,704**	**256,265,110**

Other assets is comprised mainly of prepaid interest on investment in bonds.

14. FINANCIAL LIABILITIES

Particulars	2018	2017
Payables		
Accounts Payable	92,460,978	106,144,112
Due to Officers and Employees	1,195,134	1,371,068
Service Concession Arrangements Payable	0	41,340,957
Total	**93,656,112**	**148,856,137**

15. INTER-AGENCY PAYABLES

Particulars	2018	2017
Due to BIR	6,667,518	5,044,106
Due to GSIS	1,364,334	1,242,804
Due to Pag-IBIG	68,709	71,199
Due to PhilHealth	103,480	80,481

Particulars	2018	2017
Due to Subsidiaries	29,675,418	22,790,361
Income Tax Payable	36,688,487	0
Total	**74,567,946**	**29,228,951**

16. TRUST LIABILITIES

Particulars	2018	2017
Trust Liabilities	187,319,357	181,976,610
Guaranty/Security Deposits Payable	27,262,905	22,688,660
Total	**214,582,262**	**204,665,270**

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

17. OTHER PAYABLES

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

Particulars	2018	2017
Unclaimed Balances	16,000	152,291
Dividends Payable	306,504,872	148,028,416
Other Payables	562,601	357,262
Total	**307,083,473**	**148,537,969**

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 to Republic Act No. 7656 issued by the Department of Finance.

18. DEFERRED CREDITS/UNEARNED INCOME

Particulars	2018	2017
Output Tax	40,265,281	0
Other Deferred Credits	264,178,653	263,479,578
Unearned Revenue/Income-Investment Property	180,081,800	2,890,724
Total	**484,525,734**	**266,370,302**

19. PROVISIONS

Particulars	2018	2017
Leave Benefits Payable	26,940,111	26,281,650
Total	**26,940,111**	**26,281,650**

20. DEFERRED TAX LIABILITIES

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in AFS	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**

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in AFS	Accrued Rent Income	Total
January 1, 2017	2,788,081,981	1,250	77,675	2,788,160,906
Credited to profit or loss for the year	0	0	(75,695)	(75,695)
Credited to retained earnings for the year	(33,650,187)	0	0	(33,650,187)
December 31, 2017	**2,754,431,794**	**1,250**	**1,980**	**2,754,435,024**

21. EQUITY

a. Capital Stock

The Company's authorized capital stock is divided into ten million no par value shares, of which two 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 Republic Act 7656, PNOC declared a total cash dividend of P306,504,872 for 2018 net earnings which is also the outstanding dividend payable due to the National Government as at December 31, 2018.

In 2017, PNOC declared a total cash dividend of P148,028,416 which was remitted directly to the Bureau of Treasury on April 25, 2018.

22. BUSINESS INCOME

Particulars	2018	2017
Business Income		
Rent/Lease Income	425,997,093	336,616,375
Sales Revenue – Banked gas	383,132,726	0

Particulars	2018	2017
Dividend Income	5,595,776	7,335,523
Interest Income	249,722,281	226,752,668
Fines and Penalties-Business Income	980,565	0
Other Business Income - ESB	102,750,772	0
Total Business Income	**1,168,179,213**	**570,704,566**

23. PERSONNEL SERVICES

23.1 Salaries and Wages

Particulars	2018	2017
Salaries and Wages-Regular	61,390,152	54,644,815
Total	**61,390,152**	**54,644,815**

23.2 Other Compensation

Particulars	2018	2017
Personnel Economic Relief Allowance (PERA)	2,484,079	2,395,959
Representation Allowance (RA)	1,821,375	1,962,625
Transportation Allowance (TA)	933,125	1,062,500
Clothing/Uniform Allowance	616,000	510,000
Honoraria	2,735,393	5,891,608
Longevity Pay	140,000	70,000
Overtime and Night Pay	2,307,313	1,674,202
Year End Bonus	5,190,790	4,540,256
Cash Gift	526,250	501,000
Other Bonuses and Allowances	10,429,607	4,911,474
Total	**27,183,932**	**23,519,624**

23.3 Personnel Benefit Contributions

Particulars	2018	2017
Retirement and Life Insurance Premiums (GSIS)	7,142,776	6,386,158
Pag-IBIG Contributions	123,500	118,700
PhilHealth Contributions	590,718	463,475
Employees Compensation Insurance Premiums	123,400	118,800
Total	**7,980,394**	**7,087,133**

23.4 Other Personnel Benefits

Particulars	2018	2017
Retirement Gratuity	0	210,726
Terminal Leave Benefits	7,456,737	6,392,961
Other Personnel Benefits	335,893	118,056
Total	**7,792,630**	**6,721,743**

24. MAINTENANCE AND OTHER OPERATING EXPENSES

24.1 General Services

Particulars	2018	2017
Security Services	23,498,835	16,321,507
Other General Services	11,189,881	11,751,047
Janitorial Services	8,296,055	7,025,308
Total	**42,984,771**	**35,097,862**

24.2 Taxes, Insurance Premiums and Other Fees

Particulars	2018	2017
Taxes, Duties and Licenses	13,485,410	10,212,585
Insurance Expenses	6,199,891	5,033,893
Fidelity Bond Premiums	106,523	136,525
Total	**19,791,824**	**15,383,003**

24.3 Professional Services

Particulars	2018	2017
Other Professional Services	6,448,135	4,508,970
Auditing Services	5,296,831	2,656,931
Legal Services	1,764,000	1,899,000
Consultancy Services	397,640	1,613,911
Total	**13,906,606**	**10,678,812**

24.4 Utility Expenses

Particulars	2018	2017
Electricity Expenses	12,335,131	8,451,696
Water Expenses	980,627	738,964
Total	**13,315,758**	**9,190,660**

24.5 Supplies and Materials Expenses

Particulars	2018	2017
Other Supplies and Materials Expenses	4,717,796	2,065,096
Fuel, Oil and Lubricants Expenses	2,887,635	2,182,011
Office Supplies Expenses	572,982	475,138
Medical, Dental and Laboratory Supplies Expenses	302,657	442,240
Semi-Expendable Machinery and Equipment Expenses	203,119	29,281
Accountable Forms Expenses	141,326	0
Semi-Expendable Furniture, Fixtures and Books Expenses	62,014	21,408
Total	**8,887,529**	**5,215,174**

24.6 Repairs and Maintenance

Particulars	2018	2017
Repairs and Maintenance-Buildings and Other Structures	2,287,098	1,712,449
Repairs and Maintenance-Transportation Equipment	1,220,345	1,157,777
Repairs and Maintenance – Investment Property	508,200	0
Repairs and Maintenance-Machinery and Equipment	456,250	0
Repairs and Maintenance-Furniture and Fixtures	106,149	1,134,512
Repairs and Maintenance-Other Properties	31,534	0
Total	**4,609,576**	**4,004,738**

24.7 Communication Expenses

Particulars	2018	2017
Telephone Expenses	3,013,475	3,096,587
Internet Subscription Expenses	1,360,750	1,221,780
Cable, Satellite, Telegraph and Radio Expenses	99,476	89,210
Postage and Courier Services	74,561	66,154
Total	**4,548,262**	**4,473,731**

24.8 Traveling Expenses

Particulars	2018	2017
Traveling Expenses-Local	1,277,783	1,440,628
Traveling Expenses-Foreign	1,244,417	1,546,931
Total	**2,522,200**	**2,987,559**

24.9 Training and Scholarship Expenses

Particulars	2018	2017
Training Expenses	1,548,608	2,021,819
Total	**1,548,608**	**2,021,819**

24.10 Confidential, Intelligence and Extraordinary Expenses

Particulars	2018	2017
Extraordinary and Miscellaneous Expenses	139,897	227,721
Confidential Expenses	0	0
Intelligence Expenses	0	0
Total	**139,897**	**227,721**

24.11 Other Maintenance and Operating Expenses

Particulars	2018	2017
Representation Expenses	7,273,528	6,257,064
Directors and Committee Members' Fees	2,997,000	3,900,000
Major Events and Convention Expenses	2,470,226	0
Advertising Expenses	1,035,326	1,206,922
Membership Dues and Contributions to Organizations	323,623	320,359
Printing and Publication Expenses	211,830	454,718
Subscription Expenses	47,861	108,109
Documentary Stamps Expenses	13,976	330
Rent/Lease Expenses	800	0
Donations	0	1,897,604
Other Maintenance and Operating Expenses	14,069,687	18,471,609
Total	**28,443,857**	**32,616,715**

25. FINANCIAL EXPENSES

Particulars	2018	2017
Management Supervision/Trusteeship Fees	6,740,743	0
Bank Charges	2,563,874	2,024,903
Total	**9,304,617**	**2,024,903**

26. DIRECT COSTS

Particulars	2018	2017
Cost of Sales	106,320,501	0
Total Direct Costs	**106,320,501**	**0**

27. NON-CASH EXPENSES

27.1 Depreciation

Particulars	2018	2017
Depreciation-Investment Property	5,837,983	5,465,359
Depreciation-Land Improvements	21,016	21,016
Depreciation-Buildings and Other Structures	28,445,629	16,373,731
Depreciation-Machinery and Equipment	262,408	68,086
Depreciation-Transportation Equipment	2,064,038	3,468,565
Depreciation-Furniture, Fixtures and Books	1,322,561	2,653,059
Total	**37,953,635**	**28,049,816**

27.2 Impairment Loss

Particulars	2018	2017
Impairment Loss-Loans and Receivables	0	10,109,507
Total	**0**	**10,109,507**

28. NON-OPERATING INCOME, GAINS AND LOSSES

28.1 GAINS

Particulars	2018	2017
Gain on Foreign Exchange (FOREX)	1,763,239	222
Total Gains	**1,763,239**	**222**

28.2 OTHER NON-OPERATING INCOME

Particulars	2018	2017
Miscellaneous Income	840,310	1,022,578
Total Other Non-Operating Income	**840,310**	**1,022,578**

28.3 NON-OPERATING LOSSES

Particulars	2018	2017
Loss on Foreign Exchange (FOREX)	1,341,312	0
Loss on Sale of Investment Property	0	1,799,000
Other Losses	42,829	1,317,196
Total	**1,384,141**	**3,116,196**

29. INCOME TAX EXPENSE (BENEFIT)

Particulars	2018	2017
Current Income Tax	154,996,726	28,162,034
Deferred Income Tax	106,018	(2,837,926)
Total	**155,102,744**	**25,324,108**

30. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO PROFIT/(LOSS)

Particulars	2018	2017
Profit after Tax	613,320,962	289,371,727
Non-cash Income/Expenses:		
Depreciation	37,953,635	28,049,817
Increase in Impairment Losses	0	10,109,507
Loss (gain) on sale of investment property	0	1,799,000

Particulars	2018	2017
Donated property	0	1,897,604
Increase in investment due to revaluation	0	(140,000)
Other non-cash income	(507,506)	(4,592,479)
Other non-cash expenses	0	1,317,195
Income credited to investing activities	(229,799,348)	(218,672,394)
Increase in Current Liabilities*	277,422,862	254,425,840
Decrease in Current Assets*	234,072,443	54,095,749
Decrease in Current Liabilities*	(58,483,959)	(143,764,801)
Increase in Current Assets*	(400,431,409)	(132,397,805)
Net Cash Flows from Operating Activities	**473,547,680**	**141,498,960**

**Except for Non-operating Current Assets and Current-Liabilities*

31. RELATED PARTY TRANSACTIONS

31.1 Key Management Personnel

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

Board of Directors

Section 15 of Republic Act 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 BOD is responsible for the overall management and direction of the Company. The BOD meets on a regular monthly basis to review and monitor PNOC's operations.

Members of the Governing Board are as follows:

Position	Name	Coverage
Ex-Officio Chairman	Energy Secretary Alfonso G. Cusi	January-December 2018
President and CEO	Adm. Reuben S. Lista (Ret.)	January-December 2018
Director	Hermann Roy M. Atienza	January-December 2018
Director	Adolf P. Borje	January-December 2018
Director	Jonas Guy S. de Leon	January-December 2018
Director	Ramon Victor Antonio B. Mitra	January-December 2018
Director	Rex V. Tantiongco	January-December 2018
Director	Romeo D. Poquiz	September-December 2018
Director	Benjamin B. Magalong	January-October 2018
Director	Marvel C. Clavecilla	January-March 2018
Director	Bruce S. Concepcion	January 1-16, 2018

Term of Office

Section 17 of Republic Act No. 10149, or the GOCC Governance Act of 2011, as well as Section 14 of GCG Memorandum Circular No. 2012-07, or the Code of Corporate Governance, 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 Management Services	Glenda G. Martinez
Senior Vice President for Legal, Administrative and Estate Management Services	Atty. Graciela M. Barleta
Manager, Accounting Department	Evangeline B. Albaytar
Manager, Administrative Services Department	Lino Gerardo G. Calaor
Manager, Estate Management Department	Atty. Efren A. Legaspi
Manager, Project Management Department	
July 5 – December 2018	Adalia L. Endaya
OIC Manager, Project Management Department	
January – July 4, 2018	Adalia L. Endaya
Manager, Legal Department	
January – July 5, 2018	Atty. Joycelyn S. Manuel
OIC-Manager, Legal Department	
July 6 – August 16, 2018	Atty. Antonio G. Buenviaje
August 17 – December 2018	Atty. Ma. Vivian E. Banayad
OIC Manager – Corporate Planning Department	
January – August 16, 2018	Glenda G. Martinez
August 17 – December 2018	Atty. Antonio G. Buenviaje
Manager, Treasury Department	
January – August 6, 2018	Carina U. Matutina
OIC Manager, Treasury Department	
August 7 – December 2018	Jennifer R. Racho
OIC Manager, Internal Control Office	Carmelita M. Orpilla

31.1 Key Management Personnel Compensation

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

Particulars	Aggregate Remuneration
Salaries and Wages	11,862,604
Other Compensation	6,861,594
Total	**18,724,198**

32. REORGANIZATION PROGRAM

As of December 2018, the PNOC Reorganization Plan was already approved by the Governance Commission for GOCCs (GCG) under Memorandum No. 2018-5 and transmitted its letter to DOE Secretary Alfonso G. Cusi and PNOC President Adm. Reuben S. Lista (Ret) dated July 26, 2018 which was officially received by DOE and PNOC on August 14, 2018 and September 12, 2018, respectively.

Upon receipt of the GCG letter of approval, the PNOC Change Management Team (CMT) meets on several occasions to craft the implementing rules of the PNOC Reorganization for approval of the PNOC President. On October 20, 2018, the PNOC President approved the "Guidelines for the Implementation of the PNOC Reorganization Plan", indicating therein the Basic Policies and Procedures and Implementation Timetable among others.

In consonance with the implementing guidelines, the PNOC Placement Committee was constituted with the following members:

Representation	Name	Committee Membership
Representative of Head of Agency	SVP Glenda G. Martinez	Chairman
Executive Level Representative	SVP Graciela M. Barleta	Member
Managerial Level Representative	Lino Gerardo G. Calaor	Member
2nd Level Representative	Helen M. Alfonso	Member
1st Level Representative	Marinelle D. Saynes	Member
PNOC Employees Association Representative	Erma C. Lacsamana	Member

The PNOC Placement Committee commenced crafting the PNOC Rules on Placement on November 21, 2018 and still deliberating it as of December 31, 2018.

33. CONTINGENCIES

1) **Bayan Muna Party List Representative et. al. vs. PGMA, DENR, DOE, PNOC, PNOC-EC et.al.**
G.R. No. 181702, 181703 & 182734
Supreme Court

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 representatives and other Congressmen to have the Joint Venture Marine Seismic Undertaking (JSMU) among CNOOC, PNOC and Petro Vietnam, to be declared unconstitutional for violation of Section 17, Article XII of the Constitution and to enjoin the parties from further implementation of the agreement.

The case is submitted for decision.

Awaiting for the resolution of the Supreme Court.

Status: The Petitioners filed a Motion for Leave of Court to File the Attached Motion for Directions, Status Updates and Immediate Resolution and a Motion for Directions, Status Updates and Immediate Resolution both dated 20 November 2018 praying before the Supreme Court En Banc that the said Court issue DIRECTIONS for the purpose of having this case resolved at once or provide STATUS UPDATES to inform the parties and the public what has been accomplished by the Honorable Court towards the resolution of this case or the good of all. IMMEDIATELY RESOLVE this case by declaring as unconstitutional or by in any other manner disposing of the Tripartite Agreement for Joint Marine Seismic Undertaking in the Agreement Area in the South China Sea by and among Philippine National Oil Company, China National Offshore Oil Corporation, and Vietnam Oil and Gas Corporation.

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 a copy of the RTC decision dated November 18, 2013, ordering plaintiff Voltaire Rovira to pay PNOC the remaining balance of the VAP 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 the full amount of damages prayed for was not awarded by the court.

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

On December 2, 2015, the Court of Appeals issued Notice to File Brief. On March 21, 2016, Rovira filed his Appellant's Brief and on August 25, 2016, PNOC filed the Appellee's Brief.

Status: The SC Second Division issued a Notice dated 29 November 2018 stating that a Resolution was issued by the Court DENYING the instant Petition for failure of the petitioner to comply with the mandatory requirement under Rule 45 of the Rules of Court to attach a certificate of non-forum shopping, among other procedural defects.

3) **Keppel Philippines Holdings, Inc. vs. PNOC/PDEC**
Civil Case No. 7364
RTC Branch 84
Batangas City

For: Specific Performance
Handling Counsel: OSG
PNOC/PDEC vs. Keppel Philippines Holdings, Inc.
CA G.R. CV No. 86830
Court of Appeals, Manila
For: Petition for Review

PNOC/PDEC vs. Keppel Philippines Holdings, Inc.
G.R. No. 202050
Supreme Court
For: Petition for Review on Certiorari
Handling Counsel: OSG

The Court of Appeals issued resolution affirming RTC decision. A Motion for Reconsideration was filed but it was denied by the CA. PNOC filed an appeal thru Petition for Review on Certiorari last July 16, 2012 with the Supreme Court.

On July 25, 2016, a decision was rendered by the Supreme Court to wit:

"In view of the foregoing, the Court AFFIRMS the decision dated 19 December 2011 and the resolution dated 14 May 2012 of the CA in CA-G.R. CV No. 86830 insofar as these rulings uphold the respondent Keppel Philippines Holding, Inc.'s option to buy the land, and REMANDS the case to the Regional Trial Court of Batangas City Branch 84, for the determination of whether the respondent Keppel Philippines Holdings, Inc., meets the required Filipino equity ownership and proportion in accordance with the Court's ruling in Gamboa vs. Teves, to allow it to require full title to the land".

On September 14, 2016, PNOC filed a Motion for Reconsideration on the July 25, 2016 decision of the Supreme Court. On November 16, 2016, the Supreme Court issued a resolution denying with finality the motion for reconsideration filed by PNOC.

Keppel Philippine Holdings, Inc. filed in the Supreme Court a Motion for Entry of Judgment dated February 17, 2017, and prays for the court to Order the immediate entry of judgment in this case. On the other hand, the RTC Branch 84, Batangas City set the hearing of the case for the determination of Keppels' equity ownership.

Meanwhile Keppel filed a Motion for the Issuance of the Writ of Execution.

On May 10, 2017, RTC heard on Keppel's Motion for Issuance of the Writ of Execution. No Notice of hearing for the May 10, 2017 was received by PNOC. Per court information, the Judge during the said hearing has ordered PNOC to file its Comments on the motion filed by Keppel within 15 days from received of the order. During the scheduled May 11, 2017 hearing of the determination of Keppel's equity, no representatives from Keppel attended the hearing. PNOC counsel form OSG and PNOC RC Lawyers manifested in court other issues to be resolved by the RTC before going through with the execution of the SC decision and likewise clarifies the May 10 hearing to which no notice of hearing has been issued. The Presiding Judge ordered PNOC counsel and PNOC RC counsel to file their written manifestation and motion in court. The next hearing was set on June 20, 22 and July 18, 2017 at 8:30am on the determination of Keppels' equity ownership. Continuation of hearing on respondent equity ownership was reset on Dec. 1, 2017 for determination of Keppel's equity ownership.

On December 14, 2017, notice was sent that Continuation of Hearing on Respondent's Equity Ownership is set on January 30, 2018 at 9:30 am. On the said hearing, Exhibits "A-Execution" to "J-Execution", duly offered in evidence by the plaintiff are all admitted as part of the testimonies of plaintiff's witnesses and for the purpose for which they were offered, with defendant's oral Comment/Opposition duly noted by the Court.

The case is set for presentation of defendant's evidence in support of its contrary position on February 27, 2018 and to continue on March 13, 2018, both at 8:30 am.

An Omnibus Motion was filed by Keppel on March 27, 2018. PNOC filed its Comment to the Omnibus Motion on April 12, 2018 and its Memorandum on April 2018. Keppel's opposition to PNOC's evidence was denied. Awaiting resolution.

Status: The OSG through a letter dated 10 October 2018 informed PNOC of the Decision rendered by the RTC on 24 September 2018 that the said Decision was in favor of PNOC. The said Decision states that Keppel FAILED to meet the required Filipino equity ownership and proportion in accordance with the Supreme Court's ruling Gamboa v. Teves considering that it has 50.3555 percent foreign equity, and thus, CANNOT acquire full title to the subject Bauan lands.

4) Republic of the Philippines (represented by DPWH) vs. Spouses Manuel T. Lim, PNOC et. al.
Civil Case No. CEB-25019
RTC Branch 13, Cebu City
CA – G.R. CEB SP No. 08474

For: Expropriation

Handling Counsel: PNOC Legal

DPWH Regional Office, Cebu expropriated certain parcels of land near Archbishop Reyes Avenue in Cebu City. One of the properties affected by the expropriation is the portion of the lot owned by PNOC. The court issued an Order directing plaintiff DPWH to pay the fair market value of the expropriated lots. DPWH deposited in the Clerk of Court, Regional Trial Court Branch VII of Cebu City, the partial payment of the just compensation for PNOC in the amount of P1,608.983.25. The said amount has been released to PNOC on July 23, 2010.

On September 2, 2015, PNOC informed DPWH Cebu on the availability of the Transfer Certificate of Title of PNOC with annotation of the RTC decision of the expropriated portion in favor of DPWH. Likewise, PNOC requested DPWH Regional Office, Cebu to pay PNOC the remaining balance of the just compensation. Several follow-up with the counsel of DPWH was made in August 2016.

A follow-up letter was sent by PNOC to Atty. Brando Ray P. Raya, Chief Legal of DPWH Regional Office Cebu, demanding payment of the remaining balance of the just compensation.

On DPWH reply letter dated February 7, 2017, DPWH informed PNOC that the remaining balance of the just compensation amounting to P2,014,716.75 was already deposited in RTC Branch 13, Cebu City.

Notice was sent on June 28, 2017 that the new address of Counsel for Faithope Development Corporation, Girlie Young, is 38, Lincoln Street, Cebu City.

PNOC filed a Motion for the Release in favor of PNOC the balance of the just compensation. The said motion is set for hearing on May 17, 2017.

Decision has already become final and executory with respect to movant PNOC and plaintiff interposes no objection to PNOC's Motion to Release the balance of the Just Compensation deposited in RTC.

In December 2017, a Landbank of the Philippines-Cebu Capitol Branch check was issued by Department of Public Works and Highways (DPWH) amounting to P2,014,716.75 representing the second and full payment of a 275 sqm. parcel of land expropriated by the DPWH.

The Supreme Court, Third Division, issued a Resolution dated January 17, 2018 granting the motion of the Office of the Solicitor General for an extension of thirty (30) days within which to file a consolidated reply to the separate comments on the petition for review on certiorari.

Status: The Supreme Court Third Division issued a Resolution dated April 18, 2018 DENYING the petition for review on certiorari; and ORDERS the petitioner to pay the cost of the suit.

5) **Application for Original Registration of Titles of Five Parcels of Lots located in Bauan, Batangas**
Cadastral Case (LRC Case No. N-1772)
RTC Branch VII, Batangas City

For: Application for Original Registration of Title pursuant to the provisions of the Property Registration Decree

CA G.R. No. CV-101876
Special First Division
Court of Appeals, Manila

Handling Counsel: PNOC Legal and OSG

RTC issued an order denying the Petition. PNOC filed a Motion for Reconsideration but was denied by the RTC. On December 4, 2013, PNOC filed a Notice of Appeal of the RTC decision.

On appeal to the Court of Appeals. Parties filed their respective Briefs at the Court of Appeals.

Status: Waiting for further notice/resolution from the Court of Appeals.

6) **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

The defendant is one of the illegal dwellers occupying the lot owned by PNOC located in Brgy. Salapungan, Tarlac City. PNOC gave the defendant an opportunity to purchase the lot at the market price of 2,700 per sq.m. but the defendant offered only to buy the lot he occupied for 300 per sq.m. After several negotiations and time extension, the defendant was not able to purchase the portion of the lot the defendant occupied. Hence, PNOC was constrained to demand to vacate the lot, and for failure of the defendant to vacate the premises. PNOC filed this Ejectment complaint on September 7, 2010. Judgment was issued by MTC in favor of PNOC. Defendant appealed the case to the RTC but it was denied by the court.

On March 12, 2014, Antonio Bulatao filed before the Court of Appeals a Petition for Review praying for the reversal of the decision of the RTC. On March 21, 2016, the Court of Appeals issued a decision denying Antonio Bulatao's petition and affirming the decision of the lower court in favor of PNOC.

Antonio Bulatao filed Motion for Reconsideration on April 14, 2016. On June 27, 2016, PNOC filed its Comment on the Motion for Reconsideration. On October 6, 2016, the Court of Appeals issued a resolution denying for lack of merit the Motion for Reconsideration filed by Antonio Bulatao.

Antonio Bulatao filed a Petition for Review on Certiorari before the Supreme Court. A copy of the said Petition was received by the OSG on December 8, 2016.

Status: The Third Division of the Supreme Court issued a copy of the Entry of Judgment dated November 24, 2017 certifying that on January 30, 2017 a resolution rendered in the above-entitled case in effect denying the Petition for Review on Certiorari filed by Antonio Bulatao and that the same has, on June 21, 2017 become final and executory and was recorded in the Book of Entries of Judgments.

7) 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 per square meter while in Civil Case No. 3670-0, just compensation is valued at P85 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 Court of Appeals. On November 21, 2016, PNOC received copy of the Notice to File Appellant's Brief from the Court of Appeals.

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.

Status: PNOC filed Appellants Brief on April 4, 2017.

8) 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 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: Proceeding held in abeyance.

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

For: Expropriation

Handling Counsel: OSG

On November 14, 2014, the court issued an order granting the Motion to Discharge Commissioner Clinton Nuevo as member of the Board of Commissioners and directed the parties to submit nominee to substitute Board Commissioner Nuevo.

On March 6, 2015, PNOC filed manifestation and motion nominating the Provincial Assessor of Leyte or any of its representatives to be the nominee.

On May 8, 2015, the RTC issued order appointing Atty. Ma. Pamela Oliver, Clerk of Court of the Office of the Clerk of Court, RTC Ormoc City, as new member of the Board Commissioner which PNOC opposed on its Opposition filed on July 13, 2015.

On May 10, 2016, PNOC received a copy of the Order of the court appointing Atty. Francis Pepito, City Administrator of Ormoc City as the new Chairman of the Board of Commissioner. On June 23, 2016, the appointment of Atty. Pepito has been confirmed by the court.

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 Commissioners. He took his oath of office on May 12, 2017.

Status: The RTC issued an Order dated 23 February 2018 directing the Board of Commissioners thru its Chairman Atty. Allan 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.

10) **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 sq.m. as appearing on the tax declaration, subsequent relocation surveys shows that the subject land only has an actual area of 19,296 square meters.

During the March 6, 2015 hearing, the Board Commissioner directed the parties to submit the respective Addendum to the Position Paper within 60 days from receipt of the Order if any, and thereafter the case shall be deemed submitted for resolution.

Likewise, an ocular inspection was conducted by the Board Commissioners on the subject property last May 12, 2015.

On February 29, 2016, the Board Commissioner issued a Commissioner's Report determining the amount of just compensation on the expropriated lot at P300 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 Commissioner's Report pending the resolution by the court on the pending motions particularly the resolution of the court on the correct total area expropriated.

Status: Hearing of Report was called on October 24, 2017 which Counsel for PNOC failed to attend. PNOC filed a motion for extension of time to file a comment which the Court has granted on October 25, 2017. Upon expiration of period granted to PNOC, with or without the comment, Court will resolve the issue. Thereafter, Commissioner's Report is submitted for the court's resolution.

On December 1, 2017, PNOC's several Motions for Extension were denied, after two prior similar Motions have been granted. Commissioner's Report is submitted for the court's resolution.

11) PNOC vs. Flasalie Maglasang
Civil Case No. 3276
RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

PNOC paid the just compensation plus six percent 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 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 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. For further follow-up of release of deposit per court order.

12) 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 per hectare or a total of P901,202.32.

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

1) Pay the remaining balance of the just compensation in the amount of P739,812.22;
2) Pay the Commissioners fee at P45,000 each as Honorarium Fees; and
3) 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.

13) PNOC and PNOC EDC vs. Pablita Maputi, et. al.
Civil Case No. 9787
RTC Branch 42, Dumaguete City
CA G.R CV-No. 02912
Court of Appeals, Cebu City

For: Expropriation

Handling Counsel: OSG

On February 17, 2013, the Court of Appeals issued a resolution affirming with modification the decision of the RTC. The amount of just compensation was set at P1,470,733.43 with interest at six percent per annum from November 8, 1990 until fully paid.

Pablita Maputi filed a Motion for Reconsideration and on July 2, 2015, the Court of Appeals issued resolution denying the motion for reconsideration.

On January 11, 2016, the Court of Appeals issued Resolution declaring the case to have attained its finality and Entry of Judgment was issued declaring the February 27, 2013 decision final and executory on August 23, 2015.

The records of the case have been remanded by the Court of Appeals to the RTC Branch 42, Dumaguete City for execution of the final judgment. A Motion for the Issuance of the Writ of Execution has been filed by Pablita Maputi's counsel. During the September 26, 2016 hearing of the motion for issuance of writ of execution, PNOC submitted a motion and the manifestation and motion earlier filed by OSG impleading Energy Development Corporation (EDC) as another plaintiff in this case.

On October 4, 2016, PNOC received a copy of the court order for Pablita Maputi to file its Comments on the Motions filed by PNOC. On October 17, 2016, EDC counsels from Puno and Puno Law Office entered their appearance on the case.

A Motion for Issuance of the Writ of Execution was filed by Pablita Maputi. During the hearing on March 3, 2017 of the Motion for Issuance of the Writ of Execution, PNOC manifested in court that it should be EDC, the co-plaintiff in this case, that should be held liable to pay the just compensation due to the defendants.

On March 9, 2017, the RTC issued an Order denying the motion and manifestation of PNOC counsel and ordered both parties EDC and PNOC to be liable on the judgment obligation.

PNOC filed a Motion for Reconsideration.

The RTC issued an Order dated April 21, 2017, holding in abeyance the implementation of the writ of execution until May 22, 2017, in order for both PNOC and EDC to discuss and for them to inform the Court where the Sheriff can proceed in order to implement the writ of execution. EDC also moved for an additional 30 days or until August 20, 2017 to submit the settlement agreement or to submit its Comment/Opposition to PNOC's Motion for Reconsideration. Hearing on PNOC's MR was set on August 18, 2017.

Another hearing was set on November 13, 2017 requesting RTC to rule on the Manifestation and Motion submitted by Counsel for defendants that surviving legal heirs are Pablita Maputi, Elisa Tubo and Zita Mariño and that any payment of any check to satisfy the decision of the case fixing the just compensation be made in their names. Awaiting Writ of Execution.

In the hearing on 18 December 2017, noting that name authorized to receive check must be any of the three parties, Atty. Alfredo A. Orquillas Jr. was required to submit Special Power of Attorney from either of the two obligees and was given five days from receipt of Order within which to amend his motion and compliance.
The motion for extension of time to file an amended motion and compliance was granted. The defendants are given a period until January 8, 2018 to file the said motion.

On the hearing on January 17, 2018, Atty. Banquerigo in behalf of Atty. Orquillas, Jr. manifested to the Court that he is submitting the Amended Manifestation and Motion with compliance.

Status: The RTC issued an Order stating that a writ of execution has already been issued in this case. It also noted the manifestation of the defendants that co-defendant Zita Marino (Oliverio) is appointed as attorney-in-fact of co-defendants Pablita Maputi and Eliza Tubo, authorized to receive the check in their behalf from the plaintiffs. It also reminded the Sheriff to take note of the increments in the interest in his computation.

14) **PNOC and PNOC EDC vs. Jessie Manahon Toting, et. al.**
Civil Case No. 10148
RTC Branch 40, Dumaguete City

CA G.R. CV-No. 02958
Court of Appeals, Cebu City

For: Expropriation

Handling counsel: OSG

The subject lot was determined as part of timberland and only damages was awarded by the court to the defendants in the amount of P64,192 plus 12% interest. Defendant appealed the case to the Court of Appeals but subsequently been denied by the CA. Thereafter a Motion for Reconsideration has been filed by the appellants.

On March 14, 2014, the Court of Appeals issued resolution denying the Motion for Reconsideration. Entry of Judgment was issued on April 22, 2014.

Based on the follow up made at the RTC Branch 40 on September 27, 2016, PNOC was informed that the records of the case have already been remanded by the Court of Appeals to the RTC and that the RTC has already issued Notice to the parties. Upon verification of the records, it was discovered that a copy of the Notice intended for PNOC-EDC was returned unserved due to change of address. No copy was sent to PNOC. The court personnel explained that they are waiting for the parties to move for the execution of the final judgment of the case.

Status: For execution of the final judgment. The defendant has not yet filed any motion to execute the final judgment.

15) **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:

1. 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;

2. PNOC's Urgent Motion to lift the Notice of Levy annotated on the TCTs of PNOC properties located in Tacloban City;

3. Tongonan Holdings Urgent Motion (THDC) 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% instead of six percent 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: During the clarificatory hearing last April 26, 2017, the Presiding Judge requested the parties to inform the court of the supervening events in this case that would affect the resolution of the issue subject of the Motion for Reconsideration. PNOC raised the pendency of the Petition for Review on Certiorari in the Supreme Court praying EDC's liability on the case. The presiding judge noted the manifestation and undertook to review the records and resolve the pending issues.

Defendant-Intervenor filed a Motion for Reconsideration of RTC's Omnibus Order dated May 31, 2017 (received by the clerk of Court on July 4, 2017) and prayed to hold in abeyance the turning over of the owner's copies of the TCTs and the annotating of the said Order while the following issues are still pending:

1. Whether the correct amount of interest has already been collected (principle of just compensation)

2. Due process – motions covered by the Order were not served on Defendant-Intervenor when TCTs are in its name nor was the latter present when those motions were litigated.

RTC accorded PNOC and EDC filing of their respective comment on the motion (EDC on the motion re: May 31, 2017 Order) within 10 days from receipt of the Order (August 3, 2017). Hearing was scheduled on October 6, 2017 at 8:30 am.

16) PNOC vs. Judge Apolinario Buaya, Tongonan Holdings Development Corporation (THDC) and EDC
CA G.R. No. 05247
Court of Appeals, Cebu

For: Petition for Certiorari (with Application for Temporary Restraining Order and/or Preliminary Injunction)

G.R. No. 228591
Supreme Court

For: Petition for Review on Certiorari

Handling Counsel: OSG

This is a petition for review filed by PNOC on July 26, 2010 connected with the pending expropriation case "PNOC vs. Sps. Dominador and Minerva Samson and Tongonan Holdings & Development, Civil Case No. 3392-0. The crux of the petition is for the Court of Appeals to issue a TRO to stop implementing the Alias Writ of Execution dated February 10, 2009 specifically from garnishing PNOC's funds in the Land Bank of the Philippines and prayed that EDC instead pay the judgment award. On October 26, 2010, the CA issued resolution denying the issuance of the TRO, directing EDC and THDC to file its Comments on the petition. EDC and THDC then filed their respective Comments.

On August 28, 2015, the Court of Appeals issued a decision denying the petition for Certiorari filed by PNOC. PNOC then filed a Motion for Reconsideration. On December 18, 2015, the Court of Appeals directed the respondents to file comments/opposition.

On December 13, 2016, OSG received the Court of Appeals Resolution dated November 15, 2016, denying the motion for reconsideration filed by PNOC and affirming the August 28, 2015 decision that denied the petition for certiorari.

PNOC filed a Petition for Review on Certiorari with the Supreme Court last January 27, 2017. Awaiting further notice from the Supreme Court. On August 30, 2017, the SC denied with finality OSG's Motion for Reconsideration of the Resolution dated March 27, 2017 which denied the motion for extension to file petition for review on certiorari.

Status: The Supreme Court promulgated a Decision dated June 20, 2018 stating that the Petition for Review on Certiorari is GRANTED. The Resolution dated November 24, 2011 and Resolution dated September 27,2012 of the Court of Appeals in CA-GR. CEB SP No. 02691 are REVERSED and SET ASIDE. The case is REINSTATED and REMANDED to the Court of Appeals for proper disposition.

17) **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:
Facts: Petron Corporation 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 Corporation before the Court of Appeals.

Proceeding before the CA:
The subject of the petition is the denial of the motion to inhibit the RTC Judge in hearing Civil Case No. 05-28475. PNOC is only a nominal party in the petition with no interest that may be affected or prejudiced by the outcome of the petition, being the plaintiff intervenor in the RTC case.

On January 15, 2014, the Court of Appeals issued a decision denying the Petition for Certiorari on the ground that the trial court judge did not gravely abuse his discretion in not inhibiting from the case. Petitioner Petron Corporation filed a Motion for Reconsideration however, this was denied by the Court.

Proceeding in the Supreme Court:
Petron Corporation filed a Petition for Review on Certiorari at the Supreme Court assailing the decision of the Court of Appeals. PNOC filed its comment to the petition for review siding with Petron Corporation's petition being the owner of the property leased by Petron.

Status: Awaiting resolution of the petition for review.

18) **Candelaria Dayot, et al. vs. Traders Royal Bank, PNOC, Petron Corporation and Shell**
Civil Case No. 21957
RTC Branch 26, Iloilo

CA-G.R. CV No. 01221
Court of Appeals, Cebu City
(Consolidated with CA-G.R. No. 00949)

For: Recovery of Ownership and Possession, Annulment of Documents, Cancellation of Titles and Reconveyance.

Handling Counsel: OSG

Sps. Candelaria Dayot and Edmundo Dayot filed a case against Traders Royal Bank, Petron Corporation, PNOC and Shell Chemical Company for recovery of ownership and possession, annulment of documents, cancellation of titles and reconveyance of the 17,000 square meters land owned by PNOC and damages.

On April 18, 2005 the RTC dismissed the complaint as plaintiff Dayot acted in bad faith and with malice in filing the case which they have no cause of action and ordered Candelaria Dayot to pay each defendant (TRB, Shell and PNOC) moral and temperate damages in the amount of P500,000, exemplary damages in the amount of P500,000 and attorney's fees and litigation expenses in the amount of P600,000. Candelaria Dayot appealed the case to the Court of Appeals.

On November 18, 2014, the Court of Appeals issued a decision denying the appeal of the petitioner-appellant Candelaria Dayot and affirming the RTC Order. Candelaria Dayot filed a Motion for Reconsideration.

On December 3, 2015, the Court of Appeals issued resolution denying the motion for reconsideration filed by Candelaria Dayot for lack of merit.

Status: On January 25, 2016, the Court of Appeals issued an Entry of Judgment. The decision of the RTC dismissing the complaint with award for damages in favor of TRB, Shell and PNOC has become final.

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

For: Expropriation

Handling 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.

During the August 13, 2015 pre-trial conference, the parties moved for the arbitration of the case. On September 22, 2015, the court issued Order granting the motion for mediation and/or Arbitration proceeding before the Office of the Solicitor General.

The Petition for Arbitration was filed by PNOC at the Office of the Solicitor General (OSG) on March 4, 2016. On July 29, 2016, the OSG Panel of Arbitration dismissed the petition for want of jurisdiction.

PNOC counsel from OSG filed manifestation and motion for continuation of the proceedings of the case in the RTC. The Judicial Dispute Arbitration is set on June 28, 2017 at the RTC Branch 94.

The case is set for pre-trial conference on November 23, 2017, 2:00 pm, with parties and their counsels preparing their respective trial briefs, filing it in court and serving on adverse party.

Manifestation and Motion to reset pre-trial to January 5, 2018, 2:00 pm, or soon thereafter were filed by OSG.

The Manifestation and Motion filed by OSG was NOTED by RTC Branch 4 Mariveles. The RTC having earlier reset the November 23, 2017 pre-trial of this case to March 1, 2018 at 2:00 pm, per Court Order dated November 23, 2017.

The OSG filed an Urgent Motion for Postponement dated February 26, 2018 praying that the hearing set on March 01, 2018 be reset to March 15, 2018.

Status: In a Manifestation/and Motion dated April 13, 2018,TRANSCO prayed to the RTC that the Order dated February 2, 2018 be clarified in order for TRANSCO to make the correct provisional deposit pursuant to RA 8974.

20) National Transmission Corp. vs. PNOC
Civil Case No. CEB-41203
RTC Branch 14, Cebu City

For: Expropriation

Handling Counsel: OSG

This is a complaint for expropriation filed by National Transmission Corporation (TRANSCO) against PNOC for a portion of land (560 square meters) affected by the transmission lines and located in Bo. Nasipit Cebu City, denominated as Lot No. 10922-B-1 pursuant to Transfer Certificate of Title No. 7018. TRANSCO has alleged that the said portion of lot has been in its possession since 1986.

PNOC received the copy of the complaint and the summons on June 10, 2015, and PNOC thereafter filed an Answer.

During the scheduled pre-trial conference, counsel of PNOC manifested in court that they submit the case for arbitration with the OSG to which the other counsel also agreed.

Status: On September 14, 2016, PNOC counsel received a copy of the RTC Order granting the motion that the case be submitted for Arbitration before the OSG.

21) **Navnautics Philippines, Inc. vs. PSTC and PNOC**
COA CP Case No. 2015-129
Commission on Audit (COA)

For: Money claim for payment of various supplies, equipment and instruments for the vessels and the installation, commissioning and repair of various instruments for the period 2008 to 2013 in the total amount of P3,525,459.89 plus 12 percent interest from due date until fully paid.

Navnautics Philippines, Inc. filed a case in court against PSTC and PNOC for failure of PSTC to pay the supplies and services delivered by the plaintiff on many occasions prior to the dissolution of PSTC. The parties agreed to enter into a Compromise Agreement wherein it was agreed that the complainant will file the petition for collection of sum of money due and demandable from PSTC before the COA with the support and assistance of the PSTC.

On November 25, 2014, the court approved the compromise agreement entered by the parties. Hence, Navnautics filed their claims at COA.

PSTC filed an Answer to the petition and Navnautics Phils, Inc. filed reply.

Status: On January 26, 2017, PNOC legal has been furnished by PSTC Finance Officer Marlyn Abellar of the COA decision dated December 27, 2016, dismissing the claims without prejudice to the conduct of post-audit activities on the settlement by PSTC of the money claims, to be undertaken by the Corporate Government Sector during the terminal audit of the accounts and transactions of PSTC.

22) **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 Corporation against PNOC 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.

An Order was issued for the 72-hour TRO prayed for, and a hearing was set on October 30, 2017. PNOC has likewise been given 15 days to file answer or until November 11, 2017.

Temporary Restraining Order (TRO)

Hearing on the application for issuance of TRO and/or writ of Preliminary Injunction was held on October 30, 2017.

Immediately after the hearing, Regional Trial Court Branch 278, Mandaluyong City issued an order wherein PNOC was granted five days to file its comment/opposition to Petron's application for TRO, and during this 5-day period, no TRO was in effect. On November 6, 2017, PNOC filed its comments/opposition to the TRO and/or Preliminary/Permanent Injunction as well as its comments/opposition to the formal offer of evidence. PNOC opposed on the ground that the TRO and Injunctive Relief is premature and precipitate considering that there is no clear and unequivocal statement from PNOC that the lease contracts are being terminated and in fact the PNOC Board has designated a Board Committee to negotiate with Petron during its October 20, 2017 special board meeting.

On November 7, 2017, the court issued an Order granting the TRO and enjoining PNOC for a period of 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.

Resolution and Reconveyance:

Petron is also seeking the reconveyance of the properties to it, claiming that PNOC has "substantially breached the provisions of the lease agreements on the renewal x x x" and for "unilaterally setting aside the renewal clauses x x x."

Petron's claim in the main case for the resolution and reconveyance would cover the 67 sites for the service stations (consisting of 100 lots or a total of 8.76 hectares) and 24 sites for the bulk plants (consisting of 111 lots or a total of 85.5 hectares).

PNOC filed its Answer to the Complaint on November 16, 2017. On November 27, 2017, PNOC filed its Memorandum on the Application for TRO and/or Preliminary/Permanent Injunction. Petron in turn filed its Reply (to the Answer) with a subsequent Manifestation that it is prepared to resume normal business as lessee of the property. On December 1, 2017 Petron filed a Manifestation in support of its application for Writ of Preliminary Injunction. On December 11, 2017 the Court issued an Order that Preliminary Injunction be issued to enjoin PNOC from committing any act aimed at ousting Petron of its possession of the leased properties conditioned on Petron's posting of P100,000,000 bond. PNOC filed its Rejoinder on December 29, 2017.

Preliminary Injunction:

On December 21, 2017 Petron posted a Bond in the amount of One Hundred Million Pesos (P100,000,000). RTC Branch 278, Mandaluyong City approved the same through an Order dated December 27, 2017. The said Bond will answer for the costs and damages which PNOC may sustain, by reason of the Writ of Preliminary Injunction, if and when the RTC shall finally adjudge that Petron is not entitled to it.

Mediation Proceedings:

RTC Branch 278, Mandaluyong City ordered the parties to appear before the Philippine Mediation Center (PMC) Mandaluyong City on February 5, 2018 at 10am for the conduct of the mediation proceedings.

Petron filed a Manifestation that it is not willing to enter into an amicable settlement with Defendant PNOC and desires to have the case decided after judicial proceedings. On January 12, 2017, the Court noted the Manifestation of Petron. PNOC has appointed its representatives to attend the mediation proceedings.

The Court-Annexed Mediation (CAM) having failed, the Plaintiff on a Motion to Raffle Case for Judicial Dispute Resolution (JDR) prayed to the Court that the instant case be raffled to another branch for the conduct of the JDR.

An Order dated February 20, 2018 was issued by the RTC, stating that the Raffle of the Case for JDR is scheduled on February 28, 2018 at 8:30 am.

Status: RTC issued an Order dated May 16, 2018 setting this case for JDR on July 12, 2018 at 9:30 AM.

Decentralized Energy System (DES) Cases:

1. **Bebiana Ybasan, Rafael Vincent Arellano, Maria Corazon Razon vs. PNOC EDC**
   Civil Case No. Q-02-46047
   RTC Branch 85, Quezon City

   For: Reconveyance and Damages

   This case stems when PNOC-EDC acquired the property of the plaintiff after the extrajudicial foreclosure proceeding. The subject property served as collateral of the loan agreement between the parties.

   On May 21, 2013, the court issued an order dismissing the case filed against PNOC for reconveyance of a piece of property located in Project 4, Quezon City, plus damages.

   Plaintiff appealed the case to the Court of Appeals. PNOC submitted necessary compliance to the Court of Appeals orders.

   Case submitted for resolution

The Court of Appeals sent a letter to PNOC. Enclosed with it is the records of the case CA-G.R. No. CV-101298 together with a copy of the Decision rendered in said case promulgated on July 31, 2017 and the CA Entry of Judgment dated August 23, 2017. Said records consist of the following: One (1) folder of the Original Records and One (1) folder of the Transcript of Steno Notes.

Status: RTC Branch 85 of Quezon City issued an Order dated February 14, 2018 acknowledging the receipt of the records of this case, with a copy of Decision promulgated on July 31, 2017 and Entry of Judgment dated October 2, 2017 from the Court of Appeals.

2. **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 DES Program funded by the European Union.

   Because of the negative financial condition, the Petitioner is unable to pay its creditors. Petitioner submitted in Court their proposed rehabilitation plan. PNOC submitted its Comment/Opposition on the rehabilitation plan.

   Status: Defendant offered to pay PNOC. PNOC is reviewing the proposal. Defendant also promised to give the property to PNOC via "dacion" if no payment is made by 2016.

3. **PNOC vs. Prose Trading and Construction and Engr. Abel Labarda**
   Civil Case No. 12-1074
   RTC Branch 145
   Makati City

   For: Collection of Sum of Money

   On November 7, 2012, PNOC filed this case against the defendants for failure to pay the overdue loan under the DES Program.

   PNOC's complaint could not be served on defendant as the defendant cannot be located at its given address. PNOC filed a Motion for publication of summons which the court granted. PNOC published the summons as ordered by the court, and inspite of said Publication, no answer has been filed by the defendant. A motion to declare defendants in default has been filed. The Court declared the defendant as in default and PNOC submitted its evidence *ex parte*.

On December 2, 2014, the RTC issued a decision ordering Engr. Abel E. Labarda to pay PNOC the amount of P8,805,096.75 plus interest until full payment.

Status: The RTC decision is already final and executory however, the decision against Engr. Labarda could not be served. The owner of the property mortgaged (co-borrower) is negotiating with PNOC for the settlement of the obligation.

4. **PNOC vs. Lorenzo M. Caballero, Jr., & Celso Carl M. Caballero**
   Civil Case No. 435-0
   RTC Branch 35
   Ormoc City

   For: Eminent Domain With Application For Issuance of Writ of Possession

   Status: RTC Branch 35 of Ormoc City issued an order stating that a Sheriff's Report dated November 28, 2017 has been submitted. The said Report states that there is full satisfaction of the Writ of Demolition dated May 11, 2017 issued by the Court in the instant case. The Court found the said Sheriff's Report sufficient in form and substance.

34. INFORMATION REQUIRED UNDER REVENUE REGULATIONS (RR) 15-2010 OF THE BUREAU OF INTERNAL REVENUE (BIR)

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 IFRSs, 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.

34.1 Compliance with Tax Laws

Taxes withheld and due to the Bureau of Internal Revenue for CY 2018 in the total amount of P47,347,750 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2018 amounting to P31,164,025 were remitted to the Bureau of Internal Revenue in January 2019.

34.2 The Company's taxes and licenses in 2018 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	2018
Real estate tax	11,959,075
Capital Gains Tax	0
Motor Vehicle Registration	66,340

Particulars	2018
Business taxes	799,597
Other taxes, fees and licenses	666,266
Total	**13,491,278**

35. COMPLIANCE WITH GOVERNMENT SERVICE INSURANCE (GSIS), HOME DEVELOPMENT MUTUAL FUND (HDMF) or PAG-IBIG AND PHILIPPINE HEALTH INSURANCE CORPORATION (PHILHEALTH) PREMIUM/DEDUCTIONS AND REMITTANCES

Premiums due to GSIS, Pag-IBIG and PhilHealth for CY 2018 were deducted from the salaries of PNOC personnel in the amount of P16,527,038 and remitted within the prescribed period. The premiums deducted in December 2018 in the amount of P1,494,393 were remitted in January 2019 with details as follows:

Agency	Premiums collected and remitted in 2018 (January to November 2018)	Premiums collected in December 2018 and remitted in January 2019	Total
GSIS	14,612,171	1,322,827	15,934,998
Pag-IBIG	833,613	72,482	906,095
PhilHealth	1,081,254	99,084	1,180,338
Total	**16,527,038**	**1,494,393**	**18,021,431**

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. **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.**

1.1 Paragraph 15 of PAS 1 on the Presentation of Financial Statements provides that Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair Presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

Likewise, Paragraphs 4.4(a) and 4.38 of Chapter 4 of the Conceptual Framework for Financial Reporting provides that asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. An item that meets the definition of an element should be recognized if:

a) It is probable that any future economic benefits associated with the item will flow to or from the entity; and
b) The item has a cost or value that can be measured with reliability.

Further, Paragraph 31 of International Financial Reporting Standards (IFRS) 3 provides that *the acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 Non-Current Asset Held for Sale and Discontinued Operations at fair value less costs to sell in accordance with paragraphs 15-18 of that IFRS.*

Furthermore, The Conceptual Framework for Financial Reporting Chapter 3: Qualitative Characteristics of Financial Information includes:

Faithful Representation. The financial information in the financial reports should represent what it purports to represent. Meaning, it should show what really are present and what really happened, as the case may be.

There are three characteristics of faithful representation:

1. Completeness (adequate or full disclosure of all necessary information),
2. Neutrality (fairness and without bias), and
3. Free from error (no inaccuracies and omissions)

Moreover, the Matching Principle of accounting directs a company to report an expense on its income statement in the period in which the related revenues are earned.

1.2 Review of transactions disclosed the following information:

a. On February 3, 2017, the PNOC Board of Directors held a meeting, wherein they approved and accepted the transfer/turn-over to PNOC of the administration and operation of the ESB in Mabini, Batangas, as well as the oil and coal trading operations of PNOC EC.

b. PNOC EC Board Resolution No. 2-1 S' 2017 dated February 20, 2017 approved the transition and turn-over of PNOC EC ESB operations to PNOC, including the oil and coal trading operations.

c. On January 4, 2018, the President and Chief Executive Officer of PNOC issued a letter addressed to the President of PNOC EC informing the latter that it is formalizing the agreement that effective January 1, 2018 PNOC will take over the operations of ESB, as such PNOC will handle the control and supervision of the ESB operations, including the field operations and corporate support services rendered from the head office (except for the processing/documentation of transactions made prior to the cut-off date i.e. December 31, 2017).

d. On June 18, 2018, representatives from PNOC and PNOC EC completed the conduct of a joint inventory taking of all ESB assets as of December 31, 2017 to be transferred to PNOC. Details are as follows:

No.	Classification	Per PNOC EC Book Value 12/31/2017	Fair Market Value 12/31/2017
1	Buildings	23,281,563.53	88,785,000
2	Other Land Improvements	26,130,111.18	48,620,000
3	Machineries and Equipment	2,913,764.19	7,328,500
4	Transportation Equipment	466,490.10	1,580,000
5	Furniture and Office Equipment	997,410.63	1,304,750
	TOTAL	**53,789,339.63**	**147,618,250**

As presented above, the fair market value of the assets as of December 31, 2017 amounted to P147,618,250.00 as per appraisal report conducted by CALFIL under CFAMAI File No. 18-G103-135 dated February 26, 2018.

e. Revenue in the amount of P141,271, 814.12 was recognized in the books of the Company, representing collections from ESB operations for the period January 1, 2018 to December 31, 2018.

f. Subsequent events revealed that out of the book value of P53,789,339.63, there are assets for exclusion in the transfer such as unserviceable/dilapidated properties amounting to P234,193.18, thereby the net book value of the assets transferred amounted to P53,555,146.45.

1.3 Verification of transactions relative to the ESB operations as of December 31, 2018 revealed that the assets that were transferred/turned over by PNOC EC to PNOC were not recognized in the books of PNOC, details as follows:

a. Assets accounts, consisting of five classifications as enumerated above, were not recognized in the books of the Company as of December 31, 2018.
b. Expenses pertaining to the depreciation of the assets were likewise not recognized.
c. Matching principles of accounting was not observed.
d. The income of PNOC is overstated by the amount of depreciation expenses not recognized in the books pertaining to the use of the assets of ESB.
e. No written agreement or documents to support the details of the approval and acceptance on the part of PNOC of the takeover as well as the amount to be paid by PNOC with respect to the assets of ESB.

1.4 Thus, affecting the fair presentation of balances of pertinent accounts in the financial statements 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.

1.5 We recommended Management to:

a. Facilitate/negotiate with PNOC EC to finalize the agreement on the transfer of assets.

b. 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.

c. Recognize depreciation expense pertaining to the ESB assets in compliance with the Matching Principle of accounting.

1.6 Management commented that the reason for the non-recognition of assets is that the parties are still negotiating for the terms of the transfer.

Management commented that they cannot accept the appraisal report as basis for recognition of assets in PNOC's books for the reason that the status and condition of the properties of ESB showed that many are dilapidated and are nearing the end of their useful life which to their assessment would not have commanded such value as contained in the appraisal report.

Management also compared the book value and fair market value as appraised by PNOC EC appraiser and it showed that it is beyond reason and justification to pay for a higher value for assets at the time of turn over to PNOC. Management said that the book value more accurately reflects the value for the said assets over that of the aforecited appraisal commissioned by PNOC-EC.

Management also invoked Section 76 of PD No. 1445 (Government Auditing Code of the Philippines) on the transfer between government agencies which allows the transfer of property between government agencies of assets that are no longer serviceable or needed by the agency to which it belongs at no cost or at an appraised value.

As to the recognition of depreciation expenses, the books of PNOC EC show that the items are already fully depreciated.

1.7 For our rejoinder on Management's comment that they cannot altogether accept the appraisal report as basis for recognition of assets in PNOC's books, we suggested that they subject the properties to appraisal and deduct whatever costs that were incurred on the rehabilitation of the assets to come up with the value at the time of turnover.

During the exit conference, Management also informed that the matter will be presented to the Board of Directors to arrive at agreeable terms on the cost of assets to be turned over.

Likewise, Section 76 of PD 1445 is not applicable to the transfer of ESB assets since some assets are not unserviceable.

Finally, PNOC as a Government Business Enterprise (GBE) should still comply with IFRS 3 that PNOC as acquirer should record the turned over assets at fair value and recognize depreciation expense on the said assets.

2. **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 Philippine Accounting Standards (PAS) 1, thus, the existence, validity and collectability cannot be ascertained.**

2.1 Paragraph 15 of PAS 1 on the Presentation of Financial Statements provides that financial statements shall present fairly the financial position, financial performance and cash flow of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

2.2 PNOC bought the banked gas from the Department of Energy (DOE) 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 paid for but not yet taken by the Ilijan Power Plant of the National Power Corporation (NPC). The NPC and 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. As of December 31, 2015, the banked gas has a remaining volume of 103,994,882.94 Gigajoules.

In November 2013, PSALM has drawn a total quantity of 4.605 PJ amounting to P1,050,402,657. On October 13, 2014, PNOC received the amount of P928,480,920 (net of tax withheld of P9,378,595) from PSALM as payment for its account, leaving a balance of P112,543,142, representing the unpaid Output Value Added Tax (VAT) from PSALM as summarized below:

Total cost of banked gas		
(equivalent to 4.605 petajoules)		1,050,402,657
Less: Payments	928,480,920	
Tax withheld	9,378,595	937,859,515
Balance (representing Output VAT)		**112,543,142**

2.3 Review of Due from Government Corporation - PSALM account of PNOC disclosed a balance of P112,543,142 as of December 31, 2018. This amount pertains to the unpaid Output VAT from PSALM.

However, per confirmation letter dated March 4, 2019, PSALM disclosed that there was no payable to PNOC in the amount of P112,543,142 that was recognized in its books. PSALM claims that PNOC is the one liable for the payment of Output VAT on the sale of Banked Gas since there is no provision stated in the purchase agreement which requires PSALM, as buyer, to pay the corresponding Output VAT whenever it draws natural gas from PNOC's Banked Gas.

Several demand letters were sent by PNOC but PSALM has been contesting the charging of the Output VAT billed by PNOC for the transaction. Communications between PNOC and PSALM revealed the following information:

a. PNOC, in its letter dated September 8, 2015, requested PSALM to settle its outstanding balance amounting to P112,543,142 relative to the sale of Banked Gas, pending the result of the study conducted by PSALM's Asset Management Group (AMG).

b. PSALM, in its reply dated September 29, 2015, claims that PNOC is the one liable for the payment of Output VAT on the sale of Banked Gas since there is no provision stated in the purchase agreement which requires PSALM, as buyer, to pay the corresponding Output VAT whenever it draws natural gas from PNOC's Banked Gas.

c. On November 24, 2015, PNOC, in response to PSALM's letter dated September 29, 2015, countered that PNOC, as the seller, can shift the burden of paying the Output VAT to PSALM even in the absence of an agreement.

d. On March 21, 2016, PNOC wrote a follow up letter requesting the settlement of the Output VAT amounting to P112,543,142.

e. On March 27, 2017, PNOC sent another follow up letter requesting the settlement of the Output VAT portion which pertains to the sale of Banked Gas.

f. On April 7, 2017, PSALM informed that PNOC's letter dated March 27, 2017 was referred to the responsible department for appropriate action.

g. On July 17, 2017, PNOC endorsed to the Office of Solicitor General (OSG) the handling of the collection of Output VAT in the amount of P112,543,142 on the sale of banked gas by PNOC to PSALM for the institution of appropriate legal action, including arbitration, in order to protect PNOC's interest.

h. On September 28, 2017, PNOC sent another follow up letter requesting the settlement of the Output VAT portion which pertains to the sale of Banked Gas.

i. On October 3, 2017, PSALM informed that PNOC's letter dated September 28, 2017 was referred to the responsible department for appropriate action.

j. On April 11, 2018, PNOC requested to hold a meeting between representatives of PSALM and PNOC, along with their respective legal counsels, the Office of Government Corporate Counsel (OGCC) and the OSG to discuss the settlement of this matter.

k. On August 10, 2018, PNOC issued a follow up letter for the settlement of the unpaid Output VAT, submission of requested documents in relation to the sale of banked gas and the request for holding a meeting between PNOC and PSALM.

l. On September 6, 2018, a meeting between PNOC and PSALM was held to discuss who between PNOC and PSALM should shoulder the payment of Output VAT to BIR arising from the sale of banked gas. PNOC and PSALM came to an agreement that:

   i. PSALM will reply to the follow up letter of PNOC.
   ii. PNOC agreed to get copies of Gas Sales and Purchase Agreement (GSPA), Deed of Accession and Deferred Payment Facility Agreement from its subsidiary, PNOC Exploration Corporation (PNOC EC). On the other hand, PSALM will get clearance to give a copy of Support, Assignment and Payment Agreement (SAPA) by and between ROP (through DOE), NPC and Contractors.
   iii. Settlement of issue may require arbitration through the Department of Justice.
   iv. After securing all four (4) documents, a meeting shall be held between and among PSALM, OSG, OGCC, DOE and DOF.
   v. PSALM shall undertake their due diligence.
   vi. PNOC shall set meeting after it has secured the documents needed.

m. On September 13, 2018, PNOC sent a letter requesting copies of aforementioned documents relating to the sale of banked gas in order to help OSG achieve a more comprehensive understanding of the transaction.

n. On December 14, 2018, PNOC informed COA that on October 25, 2018, OSG was furnished with the following documents:

i. GSPA pursuant to Service Contract No. 38;
ii. Deed of Accession dated June 30, 2004; and
iii. Deferred Payment Facility Agreement dated June 30, 2004.

Further, the OSG informed PNOC's Legal Department that the documents submitted were already reviewed and they are now ready to discuss the matter with the representatives from PSALM.

As of December 31, 2018, PNOC confirmation to PSALM's payable account revealed a zero balance.

2.4 Thus, the collectability of the receivables is doubtful and affects the fair presentation of balances of the account in the financial statements, contrary to Paragraph 15 of PAS I.

2.5 We reiterated our recommendation for Management to:

a. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT.

b. Facilitate/follow-up the resolution of OSG on Ouput VAT.

2.6 Management commented that they shall abide with COA's recommendation to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT and to file appropriate charges against PSALM, if warranted.

3. 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.

3.1 Item no. 2 of both Loan Agreements between PNOC Energy Development Corporation and Natural Resources Development Corporation dated March 9, 2004 and June 11, 2004, respectively, states that *"NRDC agrees to pay the amount borrowed within a period of seven (7) years."*

3.2 NRDC, a wholly-owned and controlled government corporation attached to the Department of Environment and Natural Resources (DENR), has entered into two (2) Loan Agreements with PNOC-Energy Development Corporation (PNOC-EDC), to advance NRDC's portion of its equity investment in the capital stock of the then Natural Resources Mining and Development Corporation (NRMDC), now Philippine Mining Development Corporation (PMDC). Details are as follows:

a. The first loan agreement was executed on March 9, 2004 wherein PNOC-EDC agreed to loan an amount of P10,000,000 to NRDC, with 6% interest rate per annum, net of any tax, and payable within 7 years. The said amount was released on March 12, 2004.

b. The second loan agreement was executed on June 11, 2004 wherein PNOC-EDC agreed to loan an additional amount of P45,000,000 to NRDC. Of the agreed loan amount of P45,000,000, P10,000,000 were released on July 1, 2004 and another P10,000,000 on September 2, 2004 or a total of P20,000,000.00 only, also subject to 6% interest, net of any tax, and payable within 7 years.

On April 23, 2007, in view of the privatization of PNOC-EDC, a Deed of Assignment of Interests and Rights was executed by and between PNOC-EDC and PNOC, wherein PNOC-EDC assigned all its interest and rights in NRDC in favor of PNOC, consisting of principal loan of P30.000 million including interest of P5.437 million. Details are as follows:

Loans Receivable Payable in seven years

Loans	Released	Amount	Interest 6% as of 4/23/2007	Total
1st Loan	2/12/2004	10,000,000		
2nd Loan				
1st tranche	7/01/2004	10,000,000		
2nd tranche	9/02/2004	10,000,000		
Sub total		30,000,000	4,304,585	34,304,585
Interest from 9/30/2006 to 4/23/2007			1,132,219	
Grand Total		**30,000,000**	**5,436,804**	**35,436,804**

3.3 Review and verification of PNOC's financial records revealed that Loans Receivable from NRDC in the amount of P30,000,000, including its interest amounting to P40,089,649.48 or a total of P70,089,649.48 as of December 31, 2018, remained uncollected for more than ten years.

Management, in its effort to settle the issue with NRDC, sent various letters to coordinate with the latter. Previous communications between PNOC and NRDC revealed the following information:

a. On May 3, 2016, PNOC received dividends from PMDC representing 36 percent of PNOC's holdings from PMDC. Likewise, NRDC has 44 per cent holdings from PMDC. Relative to this, PNOC requested for the settlement of NRDC's unpaid obligation to be sourced from NRDC's share in the dividends declared by PMDC. On June 29, 2016, PNOC sent a letter addressed to the President and CEO of NRDC, informing that the debt servicing of NRDC's loan from PNOC-EDC or its assignee will be made by PMDC when it has declared dividends from profits of its mining operations. These dividends will be used to pay for NRDC's debt servicing needs.

b. On June 30, 2016, PNOC wrote the President of PMDC requesting that succeeding dividends due to NRDC be credited to PNOC as partial settlement of the loan. In his reply, PMDC President informed that before the same can be effected, NRDC has to pass a Board Resolution embodying the arrangement between PNOC and NRDC, including the assignments of NRDC future dividends to PNOC as partial settlement of its loan with PNOC.

c. On September 19, 2016, PNOC sent a letter to the OIC President and CEO of NRDC, requesting a meeting to discuss the legal requirements mentioned by PMDC in order that succeeding dividends due to NRDC will be credited to PNOC as partial settlement of NRDC's loan. However, NRDC cannot take action on PNOC's request as they were still awaiting the appointment of the new NRDC president.

d. On February 10, 2017, NRDC wrote to PNOC seeking clarification on the annual compounding of interest computation of the loan. NRDC questioned the imposition of 6 percent compounding interest on the loan because according to them, the contract did not provide for it. Further, NRDC requested that the total amount of the loan per PNOC's records be reviewed and adjusted accordingly. PNOC, in its reply dated March 24, 2017, said that the annual compounding of interest is impliedly accepted by both parties when the said loan has been recognized and recorded in their respective COA Audited Financial Statements.

e. For CY 2018, Management of PNOC sent three (3) follow up letters dated March 26, July 18 and December 12, 2018 to NRDC requesting for a meeting to resolve the issues regarding the above-mentioned loan.

As of this date, there is no concrete agreement yet between PNOC and NRDC. PNOC is still awaiting for the response of NRDC regarding its request to hold a meeting in order to resolve the issue.

3.4 Thus, the non-collection of loans receivable deprived the Agency of its resources.

3.5 We reiterated our recommendations for Management to:

a. 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.

b. File appropriate legal charges against NRDC, if necessary.

3.6 Management commented that they will exert extra effort to meet with NRDC to resolve the issues at hand and to coordinate with their legal team for appropriate charges if necessary.

4. 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 Philippine Accounting Standards (PAS) 1 on the Presentation of Financial Statements thus, affecting the fair presentation of the balances of the account in the financial statements.

4.1 Paragraph 15 of PAS on the Presentation of Financial Statements provides that financial statements shall present fairly the financial position, financial performance and cash flow of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

4.2 NRDC, in its reply to the Confirmation Letter for the Receivables of PNOC, acknowledged its liability to PNOC amounting to P58,001,095.89 with details as follows:

Particulars	Date of Loan Release	Principal	Interest	Total
1st Loan Release	3/12/2004	10,000,000	8,889,863.01	18,889,863.01
2nd Loan Release	7/1/2004	10,000,000	10,507,397.26	20,507,397.26
3rd Loan Release	9/2/2004	10,000,000	8,603,835.62	18,603,835.62
Total		**30,000,000**	**28,001,095.89**	**58,001,095.89**

4.3 Upon verification with the financial records, it was found out that the balance of Loans Receivable from NRDC appearing in the books of PNOC amounts to P70,089,649.48 hence, resulting to a difference of P12,088,553.59.

Particulars	Principal	Interest	Total
PNOC's book	30,000,000	40,089,649.48	70,089,649.48
NRDC's book	30,000,000	28,001,095.89	58,001,095.89
Difference	**0**	**12,088,553.59**	**12,088,553.59**

The accounted difference in the amount of P12,088,553.59 pertains to the computed loan interest amount. The records of PNOC and NRDC vary because they use different basis in computing the interest. NRDC uses simple interest as basis of its computation while PNOC uses compound interest formula. Evidently, the use of compound interest as the basis of computation yields a much higher amount of interest.

4.4 Thus, affecting the fair presentation of the balances of the account in the financial statements, contrary to Paragraph 15 of PAS 1 on the presentation of Financial Statements.

4.5 We reiterated our recommendation for 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.

4.6 During the exit conference, Management commented that they will coordinate with NRDC and shall make an adjustment to reflect the correct amount of Interest Receivable from NRDC.

5. 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.

5.1 Sections 3.1 and 3.3 of DBM-COA Joint Circular No. 99-6 dated November 13, 1999 provides that all documented Accounts Payables of all funds which have remained outstanding for two (2) years shall be reverted to the Cumulative Results of Operations – Unappropriated (CROU), except on-going capital outlays projects. Further, all undocumented Accounts Payable, regardless of the year they were incurred, shall immediately be reverted to the CROU.

5.2 The schedule of Other Financial Liabilities account as of December 31, 2018 included liabilities for the period 2013 to 2016 with an aggregate amount of P3,579,078.22 that remained outstanding as at year end. Details are as follows:

Year Incurred	Amount	Age
2013	899,637.63	5 years
2014	724,181.06	4 years
2015	1,323,969.17	3 years
2016	631,290.36	2 years
Total	**3,579,078.22**	

Verification of the other financial liabilities account of the Company as of December 31, 2018 disclosed that this consists of various operating transactions as follows:

a. procurement of supplies and services
b. security services
c. photocopying charges
d. mobile subscription
e. meals
f. medicine expense
g. communication
h. transportation expenses
i. repairs and maintenance of vehicles, elevators and PABX system
j. salaries, allowances and overtime pay of DBP Service Corporation

5.3 Management still recognized the above transactions as liabilities and were not reverted to Cumulative Results of Operations-Unappropriated or Retained Earnings, considering that they had been outstanding in the books for more than two years.

5.4 Thus, contrary to Sections 3.1 and 3.3 of DBM-COA Joint Circular No. 99-06 dated November 13, 1999.

5.5 We recommended Management to perform the following:

a. Review and analyze all the recorded payable accounts; and

b. 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.

5.6 Management commented that they will review and revert the Other Financial Liabilities Account from 2013 to 2016 amounting to P3,579,078.22 to Retained Earnings Accounts in April 2019 booking. Prospectively, Management informed that they will revert Other Financial Liabilities which remained outstanding for two years in compliance with DBM-COA Joint Circular No. 99-6 dated November 13, 1999.

B. Compliance Audit

6. 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, 1980 and Section 122 of PD 1445, thus, the existence, completeness and valuation cannot be ascertained and the accountabilities of employees cannot be established.

6.1 Section IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18, 1980 on Inventory of Fixed Assets of Government-Owned and Controlled Corporations and Subsidiaries provides that Physical inventory of fixed assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated herein. Inventory reports shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory <u>shall be submitted to the Auditor not later than January 31 of each year</u>.

Section V. Guidelines for Inventory-Taking

V.2 "Property Identification and Coding - Government property shall be properly labeled and identified by the Inventory Committee. Inventory labels of special materials shall contain among others the individual property number to be provided by the corporation concerned. These numbers shall be uniformly printed in India Ink, to achieve permanence and best results, and shall be posted on a prominent but secure portion of the property for easy identification.

V.3 Memorandum Receipt - An officer or employee who receives and is in actual possession or physical control of the property shall sign a Memorandum Receipt (Gen. Form No. 32) for such property and shall be accountable therefor. Such Memorandum Receipts for property in the custody of an officer or employee shall be renewed every three years.

V.4 Inventory Reports - All inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency. The reports shall be properly reconciled with accounting and inventory records."

Likewise, Section 122 of PD 1445 provides that whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.(2) Failure on the part of the officials concerned to submit the documents and reports mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements of the Commission.

6.2 In CY 2017 Annual Audit Report, it was observed that the conduct of Physical Inventory for the year was noted with deficiencies, however, verification disclosed that the following deficiencies were partially complied as follows:

a. Some asset tags are unreadable, missing or worn out while others have no tags;

b. There were no Accounting or Property and Supply Management Division (PSMD) records/schedule, such as Plant and Equipment Ledger (PEL), Inventory Sheets Form and Employee Ledger Card (ELC) to serve as basis/reference in the conduct of inventory;

c. Memorandum Receipt (MR), now Property Acknowledgement Receipts (PAR) were not renewed every after three years of issue as required; and

d. No inventory reports were prepared and certified correct by the committee in charge thereof, noted by the auditor and approved by the agency head.

For 2017 inventory, Management replied that the Property and Supply Management Division (PSMD) is in the process of crafting a Terms of Reference (TOR) for the acquisition of a new Inventory System consisting of an Inventory Software, Bar Code Scanner (for the barcode asset tag) and the Barcode Printer to replace their obsolete software and defective barcode scanner.

On September 3, 2018, the Annual Physical Inventory of Property and Equipment for the calendar year 2018 had commenced.

6.3 As of to date, the required Report of the Annual Physical Inventory of Property and Equipment for the calendar year 2018 which is due for submission not later than January 31, 2019 was not submitted to the Office of the Supervising Auditor, Commission on Audit.

6.4 Thus, contrary to Section IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18, 1988.

6.5 We reiterated our recommendations that Management completely comply with the Guidelines on Inventory-taking in accordance with COA Circular 80-124 by:

a. Preparing and gathering all the necessary Inventory Sheets, PEL and Employee Ledger Cards and other documents needed prior to the physical count;

b. ***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;***

c. ***Renewing the Memorandum Receipts (Gen. Form No. 32) now PAR every three years; and***

d. ***Requiring the submission to COA of a fully accomplished and reconciled Inventory Report.***

6.6 Management commented that:

a. PSMD is still in process of reconciliation and that they commit to submit the report within this quarter.

b. PSMD has partially complied with the discrepancies noted. Management commented that these are continuing activities undertaken by PSMD and that they were just overtaken by events due to transfer and repartitioning of offices of some departments after the retrofitting activities and also due to manpower constraint.

For 2018 Inventory, PSMD furnished COA a copy of PSMD's list of PPE's before the conduct of Inventory. Management provided a copy of PSMD's logbook to prove that they have furnished COA of the said list.

With regards to Inventory System, PSMD has already an approved requisition for the acquisition of a new system consisting of an Inventory Software, Bar Code Scanner (for the barcode asset tag) and the Barcode Printer to replace obsolete software and defective Barcode scanner. System will be processed for procurement as soon as the 2019 Revised APP is approved by the Board.

During the exit conference, Management requested that they will no longer submit the Report of Annual Physical Inventory for 2017 and 2018 so that they can focus on reconciling the 2019 Inventory Report with the Accounting Records.

6.7 For our rejoinder, we agreed with Management's request for the non-submission of the Report of Annual Physical Inventory for 2017 and 2018 provided they will submit a reconciled inventory report.

7. **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 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.**

7.1 Section 36 (a) of Republic Act (R.A.) 9710 – An Act Providing for the MCW provides that planning, budgeting, monitoring and evaluation for GAD. GAD programs addressing gender issues and concerns shall be designed and implemented based on the mandate of government agencies and local government units, Republic Act No. 7192, gender equality agenda of the government and other GAD-related legislation, policies, and commitments. The development of GAD programs shall proceed from the conduct of a gender audit of the agency or the local government unit and a gender analysis of tis policies, programs, services and the situation of its clientele; the generation and review of sex-disaggregated data; and consultation with gender/women's rights advocates and agency/women clientele. The cost of implementing GAD programs shall be the agency's or the local government unit's GAD budget which shall be at least five percent (5%) of the agency's or the local government unit's total budget appropriations.

More so, Section 37 (D), Rule VI of the IRR of RA 9710, Magna Carta of Women provides that all departments, including their attached agencies, offices, bureaus, SUCs, GOCCs, LGUs, and other government instrumentalities shall develop and maintain a GAD database containing GAD information to include gender statistics and age- and sex-disaggregated data that have been systematically produced/gathered, regularly updated to serve as inputs or bases for planning, programing, and policy formulation. The National Statistical Coordination Board (NSCB), upon the recommendation of the Inter-Agency Committee on Gender Statistics (IACGS), shall issue statistical policies on the generation of data support on gender issues and improve the system of collection and dissemination of gender statistics at the national and local levels.

7.2 Review of the GAD Plan and Budget (GPB) for the calendar year 2018 of P1,242,837.53 disclosed that it was not equivalent to at least five per cent or P63,627,250 of the corporate operating budget of P1,272,545,000.

Further, there are no existing GAD Database and GAD Monitoring Evaluation Systems that are developed for PNOC.

7.3 Verification of the Annual GAD Accomplishment Report for 2018 showed that out of the 27 GAD Projects/Activities/Programs (PAPs) for CY 2018, 12 were completed, 4 were partially executed and 11 were not implemented. Details are as follows:

	GAD Activity	Approved Budget	Actual Utilization	Variance (Over)/Under Utilization
Completed				
1.	Gender, Emergency and Disaster Awareness Seminar	123,400.00	112,180.75	11,219.25
2.	Setting up and maintenance of GAD Corner	10,000.00	0	10,000.00
3.	Creation and Maintenance of GAD Section in PNOC Website	0	0	0
4.	Basic GAD Orientation	0	18,061.00	(18,061.00)
5.	Gender and Disaster Management Training	104,600.00	101,372.45	3,227.55

	GAD Activity	Approved Budget	Actual Utilization	Variance (Over)/Under Utilization
6.	Participation of Staff and Management in the 18-day Campaign to end VAW	250,000.00	44,388.25	205,611.75
7.	Participation in the commemoration of 18-day campaign to end VAW	130,040.65	40,115.79	89,924.86
8.	Participation in Women's month Activity	67,246.88	37,412.79	29,834.09
9.	Creation of Committee on Decorum and Investigation (CODI)	2,500.00	0	2,500.00
10.	Orientation on Anti-Sexual Harassment (ASH)	53,000.00	19,846.25	33,153.75
11.	Adoption of CSC Circular on gender-fair language	0	0	0
12.	Issuance of policy adopting CSC Special Leave for Women	2,500.00	0	2,500.00
	Sub-total	**743,287.53**	**373,377.28**	**369,910.25**
Partially Executed				
1.	Information and consultation with clients	50,000.00	0	50,000.00
2.	Orientation on ASH in the Workplace for CODI Members	40,600.00	0	40,600.00
3.	Quarterly (GAD Focal Point System) GFPS meeting and 1 GAD Year End Assessment cum planning	45,200.00	7,534.71	37,665.29
4.	Setting up of M and E System on GAD	22,000.00	0	22,000.00
	Sub-total	**157,800.00**	**7,534.71**	**150,265.29**
Not Implemented				
1.	Renewal of GAD Consultancy Services	200,000.00	0	200,000.00
2.	Briefing for Management	6,000.00	0	6,000.00
3.	Issuance of Policy adopting the GAD Agenda	2,500.00	0	2,500.00
4.	Creation of GAD Communication Plan	16,500.00	0	16,500.00
5.	Gender Audit	5,500.00	0	5,500.00
6.	Enhancement of new employee orientation Module with GAD core message	37,800.00	0	37,800.00
7.	Issuance of policies on Sex Disaggregated Data (SDD) and gender audit	2,500.00	0	2,500.00
8.	Issuance of policies on the regular application of HGDG	0	0	0
9.	HGDG Assessment cum Writeshop of POW	45,200.00	0	45,200.00
10.	Review and Integration of GAD Targets in GFPS IPCR	15,750.00	0	15,750.00

	GAD Activity	Approved Budget	Actual Utilization	Variance (Over)/Under Utilization
11.	Setting of SDD for external clients	10,000.00	0	10,000.00
	Sub-total	**341,750.00**	**0**	**341,750.00**
27	**Total**	**1,242,837.53**	**380,911.99**	**861,925.54**
	Add: Attributions		**741,599.33**	**(741,599.33)**
	Grand Total	**1,242,837.53**	**1,122,511.32**	**120,326.21**

As shown above, there are eleven (11) programs, project and activities in the GAD Plan and Budget that were not implemented amounting to P341,750.00 and four (4) were partially implemented amounting to P157,800.00, also the amount of P120,326.21 were not utilized. However, we commend Management in its efforts to complete 12 out of 27 activities.

7.4 In view of the foregoing:

a. Management was able to fully utilize (exclusive of the attributions) an amount of P380,911.99 or 31% of the total budget devoted for GAD for CY 2018 leaving a balance of P861,925.54 or 69% of the GAD budget, defeating the intent of the program to pursue women's empowerment and gender equality;

b. Programs, Project and Activities in the GAD Plan and Budget were not fully implemented as planned, while some are partially implemented as of the end of the calendar year 2018;

c. GPB for CY 2018 is not compliant with Section 36 (a) of R.A. No. 9710 dated August 14, 2009; and

d. Contrary to Section 37 (D), Rule VI of the IRR of RA No. 9710, MCW.

7.5 We recommended that Management:

a. 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.

b. Require Management's heads of implementing departments/offices to ensure that GAD related activities are implemented as planned to attain the GAD objectives.

c. Attribute expenses related to GAD.

d. Facilitate the establishment of PNOC GAD Database and GAD Monitoring and Evaluation System.

7.6 Management provided a copy of PNOC's GAD Action Plan and Status of Implementation for CY 2018.

Management also committed to set up the PNOC GAD Database and GAD Monitoring and Evaluation System to start by the 2nd quarter of this year. With the reconstitution of the PNOC-GAD Focal Point System, they shall continue to hold training-workshops to capacitate the members of the GFPS and work towards the incorporation of gender perspectives in all their Programs, Projects and Activities. Thus, Management hopes to enhance their GAD Plans and Budget for the succeeding years.

8. **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 EO 248 dated May 29, 1995.**

8.1 Section 19 of EO 248 dated May 29, 1995 Prescribing Rules and Regulations and New Rates of Allowances for Official Local and Foreign Travels of Government Personnel provides that any official or employee on travel pursuant to this Order shall be allowed reimbursement of premium for accident insurance coverage, not exceeding Two Hundred Thousand Pesos (P200,000) for the duration of his official travel. Under no circumstances, however, shall premiums on insurance of personal or household effects belonging to any official or employee on official travel be charged to government funds.

Likewise, in the Travel Order No. 2018-098 issued by the Secretary of the Department of Energy, it was explicitly cited that the reimbursable premium for accident insurance, the coverage of which should not exceed Two Hundred Thousand Pesos (P200,000).

8.2 The PNOC officers and employees who are on official travel are being insured by PNOC with the Government Service Insurance System (GSIS) for their accident insurance.

8.3 Verification on the payments of insurance premiums of the official travels of various PNOC employees revealed that the forty three (43) vouchers in the amount of P78,883 pertain to the coverage for the accident insurance of P1,000,000 for the principal sum and P100,000 for medical reimbursement. Details are as follows:

INSURANCE COVERAGE OF P1,000,000/person and P100,000 Medical Reimbursement			
Payee		Reference	Amount of Premium
1	PNOC Employee	PCRV No. 18-03	1,160
2	PNOC Employee	PCRV No. 18-03	1,472
3	PNOC Employee	PCRV No. 18-04	2,320
4	PNOC Employee	PCRV No. 18-05	3,568
5	PNOC Employee	PCRV No. 18-05	1,684
6	PNOC Employee	PCRV No. 18-07	2,431
7	PNOC Employee	PCRV No. 18-08	2,053
8	PNOC Employee	PCRV No. 18-08	1,896

INSURANCE COVERAGE OF P1,000,000/person and P100,000 Medical Reimbursement			
Payee		Reference	Amount of Premium
9	PNOC Employee	PCRV No. 18-09	836
10	PNOC Employee	PCRV No. 18-09	1,896
11	PNOC Employee	PCRV No. 18-10	1,294
12	PNOC Employee	PCRV No. 18-11	4,585
13	PNOC Employee	PCRV No. 18-12	1,484
14	PNOC Employee	PCRV No. 18-12	3,081
15	PNOC Employee	PCRV No. 18-13	1,272
16	PNOC Employee	PCRV No. 18-14	1,484
17	PNOC Employee	PCRV No. 18-15	1,048
18	PNOC Employee	PCRV No. 18-16	2,332
19	PNOC Employee	PCRV No. 18-16	1,484
20	PNOC Employee	PCRV No. 18-17	1,272
21	PNOC Employee	PCRV No. 18-17	212
22	PNOC Employee	PCRV No. 18-17	848
23	PNOC Employee	PCRV No. 18-17	1,272
24	PNOC Employee	PCRV No. 18-18	1,696
25	PNOC Employee	PCRV No. 18-19	1,187
26	PNOC Employee	PCRV No. 18-19	1,484
27	PNOC Employee	PCRV No. 18-19	1,306
28	PNOC Employee	PCRV No. 18-20	2,544
29	PNOC Employee	PCRV No. 18-21	848
30	PNOC Employee	PCRV No. 18-22	2,120
31	PNOC Employee	PCRV No. 18-22	1,484
32	PNOC Employee	PCRV No. 18-22	636
33	PNOC Employee	PCRV No. 18-23	2,120
34	PNOC Employee	PCRV No. 18-23	1,272
35	PNOC Employee	PCRV No. 18-24	2,120
36	PNOC Employee	PCRV No. 18-25	3,114
37	PNOC Employee	PCRV No. 18-25	1,696
38	PNOC Employee	PCRV No. 18-26	1,853
39	PNOC Employee	PCRV No. 18-27	1,183
40	PNOC Employee	PCRV No. 18-28	3,604
41	PNOC Employee	PCRV No. 18-29	1,696
42	PNOC Employee	PCRV No. 18-29	2,756
43	PNOC Employee	PCRV No. 18-30	3,180
	TOTAL		**78,883**

8.4 Thus, PNOC's practice of insuring employees on official travels beyond the allowable insurance coverage of P200,000 is contrary to Section 19 of EO 248.

8.5 ***We recommended Management to refund immediately the amount of P78,883 to preclude the issuance of Notice of Disallowance.***

8.6 Management commented that under Civil Service Commission Memorandum Circular (CSC MC) 33, s. 1997, CSC promulgated and adopted policies to institutionalize viable programs to improve working conditions in the government. Among others is for Heads of agencies to provide accident/risk insurance to officials and employees.

Funding for such employee benefit is also provided for in the said circular which states that all heads of departments/agencies are enjoined to appropriate funds for the institutionalization of these policies and programs.

In compliance with the directive of CSC, Management provides travel accident insurance coverage with a reasonable insurance premium cost of P212 for three (3) days travel with GSIS as the insurance provider. The premium is within the limit as provided under the GSIS policy.

Management institutionalized the availment of the GSIS Group Travel Insurance (GTAI) as this arrangement was advantageous compared to the higher cost of reimbursement scheme under Executive Order 248 dated May 29, 1995. EO 248 allows employees to reimburse the amount of premium for travel accident coverage not exceeding P200,000.

Management believes that the availment of the GSIS GTAI as an employee protection is with legal basis and that the subsidized amount is minimal and reasonable. They also said that government was not disadvantaged by the availment of GTAI since the insurer is the GSIS, a Government Financial Institution.

Management appealed for Auditor's consideration. Again, they assert that no government funds were lost since the premium was paid also to another government agency.

8.7 For our rejoinder, we maintain our stand for Management to refund the premiums paid on a pro-rata basis.

9. The Annual Physical Examination (APE) benefit under the Collective Negotiation Agreement (CNA) 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 of Republic Act (RA) 9184.

9.1 Section 10 of the 2016 Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184 provides that all procurement shall be done through competitive bidding, except as provided in Rule XVI of this IRR.

9.2 PNOC granted APE benefit in the total amount of P2,020,320 to its employees for the period February 1, 2018 to January 31, 2019 under its CNA.

Records showed that the CNA of PNOC Management and PNOC Employees Association (EA) for the period December 29, 2014 to December 29, 2017 was registered under Civil Service Commission (CSC) under Certificate of Registration No. 872 issued on April 7, 2015.

Subsequently, the renewal of CNA for CY 2018-2020 between PNOC Management and PNOC EA was signed only on November 8, 2018 and notarized on November 19, 2018 or after the expiration of the CNA on December 29, 2017.

9.3 Verification disclosed that the grant of the APE benefit was done in February 2018 or within the period December 30, 2017 to November 7, 2018. Further verification revealed that the APE had not undergone public bidding taking as required under Section 10 of the 2016 IRR of Republic Act (RA) 9184, taking into consideration that the amount is more than P500,000.

9.4 Thus, the procurement of APE without undergoing public bidding is contrary to Section 10 of the 2016 IRR of Republic Act (RA) 9184.

9.5 We recommended Management to comply with Section 10 of the 2016 IRR of Republic Act (RA) 9184 in every procurement.

C. Status of Audit Suspensions, Disallowances and Charges

There were no Notices of Disallowances issued to PNOC for the Calendar Year 2018.

D. Compliance with Tax Laws

Taxes withheld and due to the Bureau of Internal Revenue (BIR) for CY 2018 in the total amount of P47,347,750 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2018 amounting to P31,164,025 were remitted to the BIR in January 2019.

E. Compliance with GSIS, Pag-IBIG and PhilHealth Deductions and Remittances

Premiums due to GSIS, Pag-IBIG and PhilHealth for January to November 2018 were deducted from the salaries of PNOC personnel in the amount of P16,527,038 and remitted within the prescribed period. The premiums deducted in December 2018 in the amount of P1,494,393 were remitted in January 2019 with details as follows:

Agency	Premiums collected and remitted in 2018 (January to November 2018)	Premiums collected in December 2018 and remitted in January 2019	Total
GSIS	14,612,171	1,322,827	15,934,998
Pag-IBIG	833,613	72,482	906,095
PhilHealth	1,081,254	99,084	1,180,338
Total	**16,527,038**	**1,494,393**	**18,021,431**

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 34 audit recommendations embodied in the prior years' Annual Audit Report, 20 were fully implemented, 13 were partially implemented and one (1) was not implemented, while three (3) of the partially implemented were reiterated in this Report. Details are shown in the following table:

Reference	Audit Observations	Recommendations	Status of Implementation
2017 AAR Observation No. 1, page 65	The Investment property accounts in the amount of P7.614 million and P49,800 were deleted/dropped from the books without supporting documents and adjustment of P6.562 million based on 2006 valuation data was reflected in the book of accounts of PNOC as of December 31, 2017, contrary to Paragraphs 20, 30 and 66 of Philippine Accounting Standards (PAS) 40 - Investment Property.	1. Provide the legal basis/supporting documents for deleting the property in Mandaue, Cebu City costing P49,800;	Fully implemented
		2. Submit a written justification and/or brief summary of actions taken by management when it encountered that the tax declaration was in the name of Looc, Mandaue, City, when there was a Deed of Transfer as per records from Bulk Properties from Petron;	Fully implemented
		3. Provide the legal basis/supporting documents for deleting the property in Bauan, Batangas costing P7,614,111.19; and	Fully implemented
		4. Submit a written justification as to why the valuation basis of the adjustments made in 2016 was based on valuation data of 2006.	Fully implemented

Reference	Audit Observations	Recommendations	Status of Implementation
2017 AAR Observation No. 2, page 67	Collection was not strictly enforced on receivables which remained outstanding for more than five years amounting P5.882 million relative to the HMO premiums/health card availed by PNOC personnel and Board of Directors in CY 2012 contrary to Section 7.1 of COA Circular 2016-005 and Section IV of COA Memorandum No. 2017-010, thus depriving the agency of resources.	5. Increase the amount of deduction from salaries of employees to shorten the payment period to a maximum of two years only; and	Fully implemented
		6. Immediately issue demand letters to resigned and separated employees.	Fully implemented
2017 AAR Observation No. 3, page 70	Cash advances totaling P1.317 million were granted to 12 officials and employees with unliquidated cash advances contrary to Section 89 of P.D. 1445, and Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997, resulting to the accumulation of unliquidated cash advances.	7. Monitor cash advances and direct the concerned official or employee to liquidate their existing cash advance before granting another cash advance; and	Fully implemented
		8. Strictly comply with the provisions of Section 89 of P.D. 1445 and Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997 on granting of cash advances.	Fully implemented
	Liquidations preceded the date of cash advances for 23 occurrences or 13 percent of the total population totaling P0.208 million contrary to Section 112 of PD 1445 thus, accuracy and reliability of the	9. Explain why the transactions are recorded in such a way that the liquidations are recorded ahead of the cash advances granted; and	Fully implemented
		10. Strictly comply with	Fully implemented

Reference	Audit Observations	Recommendations	Status of Implementation
	account is doubtful.	Section 112 of PD 1445.	
	Cash advances amounting to P0.061 million and P0.008 million were not reported in the Advance Expense Fund submitted to COA and reported but not recorded in the book of PNOC, respectively, which is contrary to Section III of PD 1445, thus, accuracy and completeness is doubtful.	11. We recommended Management to exert effort to reconcile the balances of cash advances being reported and recorded in the books.	Fully implemented
2017 AAR Observation No. 4, page 73	Non-submission of the Report of the Annual Physical Inventory of Property and Equipment is contrary to Sections IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18, 1980. More so, the conduct of inventory was not in accordance with PNOC System Procedures Manual on Inventory of Fixed Assets.	12. Strictly comply with the Guidelines on Inventory-taking in accordance with COA Circular 80-124 and PNOC System Procedures Manual by: a. Preparing and gathering all the necessary Inventory Sheets, PEL and Employee Ledger Cards and other documents needed prior to the physical count; b. 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;	Partially implemented (Reiterated in Part II.B Finding No. 6 of this Report, pages 84-86)

Reference	Audit Observations	Recommendations	Status of Implementation
		c. Renewing the Memorandum Receipts (Gen. Form No. 32) now PAR every three years; and d. Requiring the submission to COA of a fully accomplished and reconciled Inventory Report pursuant to Section 122 of PD 1445.	
2017 AAR Observation No. 5, page 76	Sufficient and relevant documents on the payment of honorarium of P5.608 million for CY 2017 to personnel assigned in PNOC's Special Project entitled "Integration of PAFC and PDMC Operations to PNOC" were not submitted contrary to DBM Budget Circular No. 2007-2 dated October 1, 2007 and COA Circular 2012-001 dated June 14, 2012, thus, the reasonableness and validity of the payment cannot be established.	13. Submit and comply with the following requirements: a. Specific time frame or definite period of completion of the project as required under Section 4.3 of DBM Circular 2007-2; b. Performance ratings of personnel used as basis for the computation of honorarium per Section 4.6 of DBM Circular 2007-2; c. Performance evaluation plan developed/formulated by project management for rating purposes of those receiving honorarium based on Section 4.7 of DBM Circular 2007-2; and d. Strictly comply with the Guidelines on the	Fully implemented

Reference	Audit Observations	Recommendations	Status of Implementation
		grant of honoraria for PNOC's Special Project per DBM Circular 2007-2.	
2017 AAR Observation No. 6, page 82	Management did not submit to the Commission on Audit all of the CY 2017 documents/reports required in preparation of the 2017 Annual Audit Reports as per letter of the Supervising Auditor dated January 22, 2018 issued pursuant to Section 41 of PD 1445, therefore, defeating the purpose of providing important financial information to the users of the financial statements.	14. Enforce strictly the submission of all required reports within the prescribed period. The concerned officials should look into the root cause of the delayed preparation and submission of the said reports and immediately take the necessary action to solve this problem.	Fully implemented
2017 AAR Observation No. 7, page 84	The Gender and Development (GAD) Accomplishment Report was not submitted contrary to Sections 3.2 (d), 4.8 and 5.2 of Joint Circular No. 2004-1 of DBM, NEDA and NCRFW, thus validation of projects could not be made. Likewise, no GAD Database and GAD Monitoring and Evaluation System was 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.	15. Strictly comply with Joint Circular No. 2004-1 to ensure that the budget, programs, projects and activities to be conducted by the agency are aligned with PCW provisions; and 16. Facilitate the establishment of PNOC GAD Database and GAD Monitoring and Evaluation System for PNOC and observe timely submission of all required reports on Gender and Development to PCW, DBM, COA and other concerned government agencies.	Partially implemented Partially implemented (Reiterated in Part II.B Finding no. 7 of this Report, pages 86-90)

Reference	Audit Observations	Recommendations	Status of Implementation
2016 AAR Observation No. 1, page 52	Sixteen land properties amounting to P459.771 million recorded under account Investment Property and five land properties amounting to P92.258 million recorded under the account Property and Equipment were not presented at their recoverable amounts of P403.956 million and P25.690 million, respectively, due to the non-recognition of impairment loss amounting to P55.815 million for Investment Property and P66.568 million for Property and Equipment, contrary to Philippine Accounting Standards (PAS) 36.	17. We recommended that Management recognize the impairment loss of P55,815,288 for the 16 land properties recorded under Investment Property and P66,567,600 for five land properties recorded under Property and Equipment in compliance with PAS 36.	Fully implemented Impairment loss was already recognized in December 2017. However, the property in Poro Point, San Fernando City, La Union was not impaired since the appraisal is not comparable to the total area during initial recognition. Per EMD, portion of the lot estimated at 1,380 sqm. are used as roadway and have been excluded in the appraisal.
2016 AAR Observation No. 2, page 54	The accuracy of PPE with net book value of P376.905 million as of December 31, 2016 could not be ascertained due to non-compliance with asset classification and capitalization policy pursuant to COA Circular No. 2015-010 re: adoption of the Revised Chart of Accounts (RCA) for Government Corporations.	18. We recommended that Management comply with COA Circular No. 2015-010 relative to the adoption of the Revised Chart of Accounts (RCA) for Government Corporations by September 30, 2017.	Fully implemented Reclassification of fixed assets below the P15,000 threshold to semi-expendable account was already made in the December 2017 Pre-closing.
2016 AAR Observation No. 3, page 56	The collectability of the year-end balance of Receivables from Power Sector Assets and Liabilities Management (PSALM) Corporation in the	19. We recommended that PNOC Management file the appropriate legal action against PSALM.	Fully implemented In October 2018, the Office of the Solicitor General (OSG) was furnished with the documents needed for

Reference	Audit Observations	Recommendations	Status of Implementation
	amount of P112.543 million was doubtful as this was not recognized and actually inexistent as payable per confirmation with PSALM Corporation.		their review of the eventual filing of case to PSALM. The documents had already been reviewed by OSG and they are ready to discuss with PSALM the matter of the claim of PNOC on the unpaid Output VAT.
2016 AAR Observation No. 4, page 57	Loans Receivable from the Natural Resources Development Corporation (NRDC) in the amount of P62.379 million had been dormant for more than eight years.	20. Come up with an agreement with NRDC on the computation of interest to arrive at the total amount of receivables; and 21. Coordinate 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.	Partially implemented Three follow up letters dated March 26, July 18 and December 12, 2018 respectively, were sent to NRDC. Partially implemented Three follow up letters dated March 26, July 18 and December 12, 2018 respectively, were sent to NRDC. (Reiterated in Part II.A Finding no. 3 of this Report, pages 79-81)
2016 AAR Observation No. 5, page 59	Disbursements incurred by PNOC-Renewables Corporation (PNOC-RC) amounting to P51.956 million for the implementation of the Barangay Electrification Project, a project entered into by and between DOE and PNOC, were not recognized as payables to PNOC-RC by PNOC, thus, understating the liability account by the same	22. We recommended that Management recognize the payables to PNOC-RC amounting to P51.956 million and settle the account as soon as possible.	Not implemented Follow up meetings with DOE representative were conducted, in coordination with PNOC-RC to settle their requirements. PNOC RC was advised to secure individual barangay certificate of installations through barangay visitation with DOE, PNOC and

Reference	Audit Observations	Recommendations	Status of Implementation
	amount.		COA. However, the unavailability of local counterpart as well as the unstable peace and order hampered the scheduling of travel.
2016 AAR Observation No. 7, page 62	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 Certificate 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 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.	23. Cause the completion of processing the titles of 67 lots to ensure the proper transfer of ownership to PNOC; 24. 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; 25. 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; 26. Maximize the use of idle lots and exert extra efforts to clear the area of	Partially implemented Partially implemented Partially implemented EMD and AD from time to time are conducting reconciliation of records found to be inconsistent. Partially implemented PNOC is conducting site inspection to

Reference	Audit Observations	Recommendations	Status of Implementation
	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.	unauthorized settlers in coordination with concerned government agencies; and	determine the development in the area to assess the best utilization of PNOC properties. PNOC in its letter to Bataan Governor dated Sept. 6, 2018, has proposed participation in the mass housing program of the province for the relocation of informal settlers on PNOC properties located in Limay and Mariveles, Bataan.
		27. 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 is conducting site inspection to determine the development in the area to assess the best utilization of PNOC properties.
2016 AAR Observation No. 8, page 84	The proposed PNOC GAD budget of P1.036 million was not equivalent to at least five percent or P72.673 million of PNOC budget appropriation of P1.453 billion and not endorsed by the Philippine Commission on Women (PCW) to the Department of Budget and Management (DBM),	28. We recommended that Management strictly comply with Joint Circular No. 2004-1 and ensure that PNOC GAD Plan and Budget is submitted to PCW for review on a timely basis for endorsement to the DBM.	Fully implemented

Reference	Audit Observations	Recommendations	Status of Implementation
	contrary to Sections 2.4 and 5.1 of Joint Circular No. 2004-1 of DBM, NEDA and PCW, respectively.		
2015 AAR Observation No. 2, page 54	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 recognized for the account Due from Subsidiaries, contrary to paragraphs 58 and 59 of PAS 39.	29. 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.
		30. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and	Partially implemented PNOC-RC committed to trace the various unreconciled items and prepare the corresponding journal vouchers.
		31. Provide allowance for impairment of receivables to present the net realizable value of Due from Subsidiaries in compliance with the provisions of PAS 39.	Fully implemented Allowance for bad debts on receivables from PSTC was provided and booked in December 2016. PNOC will continue to provide allowance for impairment.
2015 AAR Observation No. 4, page 83	The accuracy, existence and completeness of PPE with net book value of P201.281 million as of December 31, 2015	32. Establish a distinct description for each PPE classification to avoid confusion in the future;	Fully implemented

Reference	Audit Observations	Recommendations	Status of Implementation
	could not be ascertained due to non-submission of Physical Inventory Report, inconsistent asset classification, inconsistent capitalization policy, non-recognition of depreciation expense on PPE received and improper recognition of assets, contrary to existing laws, rules and regulations.	33. Implement Section 2.2.1 of COA Circular No. 2005-002 on small tangible items with estimated useful life of more than one year to be recorded as inventories upon acquisition and expense upon issuance;	Fully implemented
		34. 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.	Partially implemented No written accounting policy was submitted to COA.