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

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL OIL COMPANY

For the Years Ended December 31, 2022 and 2021

EXECUTIVE SUMMARY

A. Introduction

Background Information

1. The Philippine National Oil Company (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 world class professionals, 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.

4. The Governance Commission for GOCCs (GCG) mandated PNOC to transform from a mere holding to also an operating company in September 2014. Thus, GCG recommended the abolition of PNOC Alternative Fuels Corporation and PNOC Development and Management Corporation, which was duly approved by the Office of the President on September 8, 2014. PNOC will continue to act as holding company in relation to PNOC Exploration Corporation and PNOC Renewables Corporation while it took over the ongoing programs and assumed the functions of the abolished subsidiaries.

B. Scope and Objectives of Audit

5. The audit covered the examination, on a test basis, of the accounts and transactions of PNOC for the period January 1 to December 31, 2022, in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. Also, we conducted our audit to assess

compliance of PNOC with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

C. Financial Highlights (In Million Pesos)

The financial position and results of operations of PNOC are summarized as follows:

Financial Position

	2022	2021	Increase (Decrease)
Assets	39,931.712	36,557.539	3,374.173
Liabilities	5,323.516	3,846.631	1,476.885
Equity	34,608.196	32,710.908	1,897.288

Results of Operation

	2022	2021	Increase (Decrease)
Income			
Service and Business Income	6,307.506	713.349	5,594.157
Gains	76.495	20.300	56.195
Non-Operating Income/Gain	0.669	790.284	(789.615)
Total Income	**6,384.670**	**1,523.933**	**4,860.737**
Expenses			
Personnel Services	162.285	137.691	24.594
Maintenance and Other Operating Expenses	223.301	119.069	104.232
Financial Expenses	7.066	1.074	5.992
Direct Costs	1,475.918	23.145	1,452.773
Non-Cash Expenses	88.702	292.233	(203.531)
Total Expense	**1,957.272**	**573.212**	**1,384.060**
Profit Before Tax	**4,427.398**	**950.721**	**3,476.677**
Income Tax Expense/(Benefit)	**1,066.010**	**(141.129)**	**1,207.139**
Profit After Tax	**3,361.388**	**1,091.850**	**2,269.538**
Other Comprehensive Income (Loss) for the Period	**2.318**	**0.340**	**1.978**
Comprehensive Income	**3,363.706**	**1,092.190**	**2,271.516**

D. Auditor's Opinion

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of PNOC as at December 31, 2022 and 2021.

E. Significant Audit Observations and Recommendations

The observations together with the audit recommendations that need immediate action are presented below.

1. The balance of Accounts Payable account amounting to P132.523 million as at December 31, 2022 includes accruals amounting to P22.888 million without evidence of goods received or services rendered to PNOC, contrary to the Conceptual Framework for Financial Reporting; resulting in the overstatement of Property, Plant and Equipment (PPE), Accounts Payable, Due to Bureau of Internal Revenue (BIR), and Input Tax accounts amounting to P17.838 million, P22.888 million, P2.023 million and P2.670 million, respectively, and understatement in Retained Earnings account by P4.405 million.

   Recommendation:

   Require the Accounting Department to review and analyze the accruals as at December 31, 2022 and thereafter, effect the necessary accounting adjustments to correct the overstatement of PPE, Accounts Payable, Due to BIR and Input Tax accounts amounting to P17.838 million, P22.888 million, P2.023 million, and P2.670 million, respectively, and understatement in Retained Earnings account by P4.405 million.

2. The balance of Other Deferred Credits account amounting to P67.608 million includes transactions amounting to P43.035 million with no supporting details contrary to paragraph 15 of Philippine Accounting Standards 1, thus, faithful representation of the balance of the Other Deferred Credits account as at December 31, 2022 was not ascertained.

   Recommendation:

   Require the Accounting Department to provide details and documents of the transactions amounting to P43.035 million included under Other Deferred Credits account on or before September 30, 2023, prepare subsidiary ledgers for the Other Deferred Credits account and analyze and prepare the necessary adjusting entries, if any.

F. Summary of Total Audit Suspensions, Disallowances and Charges as of December 31, 2022

The unsettled disallowances as at December 31, 2022 amounted to P1.258 million, details of which is presented in Part II of this Report. There are no audit charges and suspensions as at December 31, 2022.

G. Status of Implementation of Prior Years' Audit Recommendations

Out of the 25 audit recommendations embodied in the previous years' Annual Audit Reports, 17 were implemented, six were not implemented and two were reiterated in this year's report. 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, 2022 and 2021, 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, 2022 and 2021, 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 audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PNOC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 32.15 to the financial statements which discloses the promulgation of Resolution by the Regional Trial Court (RTC) of Mandaluyong City on November 13, 2019 on the case of Petron Corporation vs. PNOC, which rescinded the Deeds of Conveyance for the Refinery Properties, Bulk Plant Properties and Service Station Properties dated October 29, 1993. The Resolution ordered PNOC to re-convey to Petron Corporation all the properties covered under the said Deeds of Conveyance and Petron

Corporation to pay PNOC the amount of P143 million with legal interest reckoned from October 29, 1993. Both parties appealed the decision of the RTC to the Court of Appeals who denied the appeals on December 13, 2021. A Motion for Reconsideration was filed by PNOC on February 2, 2022 through the Office of Government Corporate Counsel. In a Resolution dated October 6, 2022, the Court of Appeals denied the motions for reconsideration of both PNOC and Petron. PNOC filed its Appeal by filing a verified petition for review on certiorari on December 5, 2022, while Petron filed a Manifestation that they will no longer file an appeal. Our opinion is not modified in respect of this matter.

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 the 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.

- 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 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 observations, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 33 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue, and is not a required part of the basic financial statements. Such information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

JONATHAN B. JAVIER
OIC - Supervising Auditor

June 16, 2023

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Philippine National Oil Company is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, 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 Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholder or members.

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

ALESSANDRO O. SALES
PNOC Alternate Chairman of the Board

06-16-2023
Date Signed

RONALD C. CHUA
PNOC Senior Vice President for Energy Investments

Date Signed

JESUS CRISTINO P. POSADAS
PNOC President and CEO

Date Signed

SUBSCRIBED AND SWORN TO BEFORE ME this 16th **of** JUNE **2023 at Taguig City, affiants exhibited to me their respective identification cards with the details shown below as follows:**

Name	TIN
Alessandro O. Sales	106-208-128
Jesus Cristino P. Posadas	119-173-658
Ronald C. Chua	220-915-288

NOTARY PUBLIC

CARL PHILIP N. BATUCAN
Appointment No. 56 (2022-2023)
Notary Public for Taguig City
Until 31 December 2023
PNOC Bldg. VI, Energy Center, Rizal Drive
Bonifacio Global City, Taguig
Roll No. 67061
PTR No. A-5701182/Taguig City/01-12-2023
IBP No. 289325/01-17-2023
MCLE Compliance No. VII-0009702

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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, 2022 AND 2021

	NOTE	2022	2021
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	1,998,562,462	651,981,673
Investments	6	1,168,508,042	1,069,552,379
Receivables	7	955,287,038	230,092,394
Inventories	8	113,379	0
Other Current Assets	13	386,082,835	308,926,763
Total Current Assets		4,508,553,756	2,260,553,209
Non-Current Assets			
Financial Assets	6	6,108,237,701	3,515,016,264
Investments in Associates	6	90,704,289	86,633,214
Investments in Subsidiaries	6	4,859,775,056	4,859,775,056
Other Investments	6	141,549,450	141,549,450
Banked Gas Inventory	8	11,930,040,563	13,405,958,610
Investment Property	9	10,986,883,568	11,000,064,127
Property and Equipment	10	647,639,747	631,261,482
Intangible Asset	11	2,441	2,441
Deferred Tax Assets	12	658,071,140	656,471,351
Other Non-Current Assets	13	253,887	253,887
Total Non-Current Assets		35,423,157,842	34,296,985,882
Total Assets		39,931,711,598	36,557,539,091
LIABILITIES			
Current Liabilities			
Financial Liabilities	14	133,971,708	97,606,818
Inter-Agency Payables	15	395,146,333	74,638,475
Trust Liabilities	16	268,781,155	272,382,528
Other Payables	17	1,988,312,578	766,565,638
Total Current Liabilities		2,786,211,774	1,211,193,459
Non-Current Liabilities			
Deferred Credits/Unearned Income	18	162,388,477	271,919,149
Provisions	19	43,952,716	32,757,943
Deferred Tax Liabilities	20	2,330,963,117	2,330,760,617
Total Non-Current Liabilities		2,537,304,310	2,635,437,709
Total Liabilities		5,323,516,084	3,846,631,168
EQUITY			
Retained Earnings		31,491,753,745	29,596,783,654
Stockholders' Equity		3,114,595,519	3,114,595,519
Cumulative Changes in Fair Value		1,846,250	(471,250)
Total Equity		34,608,195,514	32,710,907,923
Total Liabilities and Equity		39,931,711,598	36,557,539,091

The notes on pages 10 to 76 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, 2022 and 2021

	NOTE	2022	2021
Income			
Service and Business Income	22	6,307,506,124	713,349,472
Gains	28	76,495,061	20,299,727
Non-Operating Income	28	668,621	790,283,716
Total Income		**6,384,669,806**	**1,523,932,915**
Expenses			
Personnel Services	23	(162,285,453)	(137,690,659)
Maintenance and Other Operating Expenses	24	(223,300,875)	(119,068,579)
Financial Expenses	25	(7,065,851)	(1,074,406)
Direct Costs	26	(1,475,918,048)	(23,145,016)
Non-Cash Expenses	27, 28	(88,701,566)	(292,233,534)
Total Expenses		**(1,957,271,793)**	**(573,212,194)**
Profit Before Tax		**4,427,398,013**	**950,720,721**
Income Tax Expense/(Benefit)	29	**1,066,009,901**	**(141,129,194)**
Profit After Tax		**3,361,388,112**	**1,091,849,915**
Other Comprehensive Income/(Loss) for the Period		**2,317,500**	**340,000**
Comprehensive Income		**3,363,705,612**	**1,092,189,915**

The notes on pages 10 to 76 form part of these statements.

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, 2022 and 2021

	Cumulative Changes in Fair Value of Investments	Retained Earnings/ (Deficit)	Stockholders' Equity	TOTAL
BALANCE AT JANUARY 1, 2021	(1,191,576)	29,341,576,824	3,114,595,519	32,454,980,767
CHANGES IN EQUITY FOR 2021				
Add/(Deduct):				
Comprehensive Income for the year	0	1,091,849,915	0	1,091,849,915
Dividends	0	(959,356,721)	0	(959,356,721)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	340,000	0	0	340,000
Prior year's realized forex loss on dollar account	380,326	(380,326)	0	0
Prior period adjustments	0	123,093,962	0	123,093,962
BALANCE AT DECEMBER 31, 2021	(471,250)	29,596,783,654	3,114,595,519	32,710,907,923
CHANGES IN EQUITY FOR 2022				
Add/(Deduct):				
Comprehensive Income for the year	0	3,361,388,112	0	3,361,388,112
Dividends	0	(1,681,504,953)	0	(1,681,504,953)
Other Adjustments:				
Changes in fair value of available-for-sale securities	2,317,500	0	0	2,317,500
Prior Period Adjustments	0	215,086,932	0	215,086,932
BALANCE AT DECEMBER 31, 2022	1,846,250	31,491,753,745	3,114,595,519	34,608,195,514

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of Income/Revenue	5,464,066,077	1,194,618,004
Collection of Receivables	77,304,330	268,099,177
Receipt of Inter-Agency Fund Transfer	1,322,072	0
Trust Receipts	7,180,769	13,450,752
Other Receipts	97,999,937	41,084,339
Total Cash Inflows	5,647,873,185	1,517,252,272
Cash Outflows		
Payment of Expenses	317,407,317	218,709,934
Grant of Cash Advances	0	16,500
Prepayments	4,038,905	0
Refund of Deposits	7,180,767	7,365,877
Payments of Accounts Payable	1,228,247	46,574,651
Remittance of Personnel Benefit Contributions and Mandatory Deductions	350,514,028	119,299,535
Release of Inter-Agency Fund Transfers	11,901,514	9,419,485
Other Disbursements	611,753,825	213,511,074
Total Cash Outflows	1,304,024,603	614,897,056
Adjustments	1,793,708	5,669,555
Adjusted Cash Outflows	1,305,818,311	620,566,611
Net Cash Provided by Operating Activities	4,342,054,874	896,685,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Total Cash Inflows		
Proceeds from Sale/ Disposal of Investment Property	9,865,593	0
Proceeds from Sale/Disposal of Property, Plant and Equipment	0	364,256
Receipt of Interest Earned	153,417,130	157,110,927
Receipt of Cash Dividends	1,924,230	1,924,230
Proceeds from Matured Investments	698,223,895	504,028,593
Proceeds from Sale of Other Assets	0	83,000
Total Cash Inflows	863,430,848	663,511,006
Cash Outflows		
Purchase/Construction of Property and Equipment	11,471,245	11,120,804
Purchase of Investments	3,387,700,997	811,749,424
Total Cash Outflows	3,399,172,242	822,870,228
Net Cash Used in/(Provided by) Investing Activities	(2,535,741,394)	(159,359,222)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of Cash Dividends	459,732,691	500,000,000
Total Cash Outflows	459,732,691	500,000,000
Net Cash Used In Financing Activities	(459,732,691)	(500,000,000)
INCREASE IN CASH AND CASH EQUIVALENTS	1,346,580,789	237,326,439
CASH AND CASH EQUIVALENTS, JANUARY 1	651,981,673	414,655,234
CASH AND CASH EQUIVALENTS, DECEMBER 31	1,998,562,462	651,981,673

1. GENERAL INFORMATION

PNOC *(herein referred to as PNOC or "the Company")* is a corporation established on November 9, 1973 and operates under the authority of the Presidential Decree No. 334, as amended.

Mandate

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

Oil or Petroleum Operations 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 world class professionals, PNOC is committed to:

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

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

- Maintain the highest standards of service and corporate governance.

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

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

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

The financial statements of PNOC were authorized for issue on June 16, 2023 as shown in the Statement of Management Responsibility for Financial Statements.

Changes

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

In summary, based on the guidelines set under Republic Act No. 6656 and Executive Order No. 366, series of 1988, 89 employees out of a total of 198 manpower complement (44.95 per cent) were placed in comparable positions. The remaining 109 residual positions (55.05 per cent) will be filled up through the hiring of co-terminous to the incumbent employees, employees under job order contract, contractual employees and external applicants. There were a total of 15 affected employees that had no comparable positions based on their qualifications.

PNOC started its hiring process for vacant positions in October 2019 based on the approved Reorganization Plan and its approved Competency Based Human Resource System.

By the end of 2022, the majority of the positions under the Reorganized Table of Organization have been filled-up by 126 out of 198 positions using the PNOC Competency-Based Human Resources System.

PNOC is a holder of three International Organization for Standardization (ISO) Certifications, with its Head Office being ISO-certified for its Quality Management System (ISO 19001), while its two operating departments, the Energy Supply Base Department and the Park Management Department, each ISO IMS (Integrated Management Systems) Certified (ISO 19001, ISO 45001 and ISO 14001).

Projects

1.1 *Batangas Liquefied Natural Gas (LNG) Hub*

Description:

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

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

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

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

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

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

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

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

No major accomplishments at present. Nonetheless, PNOC continues to monitor developments in the industry as well in the policy formulation towards promotion of natural gas industry. The Company remains open to any possible investment opportunities whether on its own or in partnership with private players in the LNG industry.

1.2 *Monetization of the PNOC Banked Gas*

Description:

PNOC's asset, called "banked gas", refers to the accumulated unused natural gas which was already paid for under the take-or-pay scheme of the Ilijan Gas Sales and Purchase Agreement (GSPA) equivalent to 108.60 Petajoules (PJ). This was bought by PNOC from the Department of Energy in September 2009.

In 2013, the Power Sector Assets and Liabilities Management Corporation (PSALM) withdrew 4.605 PJ from the banked gas. Another portion equivalent to 6.324 PJ was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2016 for its Tabango Refinery. After PNOC signed of GSPA with PSPC the aforesaid volume, the total remaining uncontracted banked gas was then equivalent to 97.671 PJ.

PSPC started withdrawing banked gas from PNOC under the 2016 GSPA on June 1, 2018 (start date), which is supposed to run until the expiration of said GSPA on February 23, 2024 (end date). However, in November 2020, PSPC proposed for an early termination of the GSPA in view of the permanent shutdown of the PSPC's Tabangao Refinery due to the impact of the COVID-19 pandemic. The terms for the proposed early mutual termination was approved by PNOC Board on May 17, 2021. The termination contract was signed on July 23, 2021, this was after receiving favorable review of said document by the Office of the Government Corporate Counsel (OGCC).

From June 1, 2018 up to prior termination of the contract in July 2021, PSPC paid for a total quantity of 3.107 PJ (i.e. including actual withdrawals of 2.716 PJ and annual deficiencies of 0.391 PJ). Upon termination of the GSPA, PSPC paid for the total outstanding volume of banked gas equivalent to 3.217 PJ, which were reverted to PNOC's banked gas inventory along with the paid deficiencies of 0.391 PJ. Hence, at the end of PSPC's GSPA termination, the remaining banked gas totaled to 101.278 PJ (i.e. 97.670 PJ + 3.217 PJ + 0.391 PJ).

From 2020 to 2021, PNOC has exerted significant effort to secure new GSPAs with other potential buyers to optimize monetization of the banked gas. On December 24, 2021, PNOC has successfully closed new GSPAs with First NatGas Power Corporation (FNPC) and Prime Meridian Powergen Corporation (PMPC) for the San Gabriel and Avion Power Plants, respectively for a total contracted banked gas volume of 31.019 PJ. This is following the approval by the PNOC Board and the OGCC of said new GSPAs on November 11, 2021 and December 20, 2021, respectively. Acknowledgements to supply and transport natural gas to FNPC and PMPC were also secured from the DOE on November 22, 2021.

Furthermore, on June 23, 2022, PNOC signed a GSPA with South Premiere Power Corporation (SPPC) for the Ilijan Power Plant, after receiving the approval of the PNOC Board on May 31, 2022 and the concurrence of the OGCC on June 9, 2022. The total contracted banked gas stipulated in the signed GSPA was the remaining banked gas volume amounting to 70.260 PJ.

Actual delivery of banked gas to FNPC and PMPC commenced on December 28, 2021 and December 26, 2021, respectively. At the end of Contract Year 2022, actual cumulative delivery of banked gas to FNPC and PMPC totaled to 11.084 PJ. Meanwhile, banked gas delivery to SPPC has not yet commenced as PNOC continues to heed the directive of the DOE and PNOC Board for the company to undertake a whole-of-government approach considering the government's interest in Malampaya and the PNOC banked gas.

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

Description:

The National Strategic Petroleum Reserve (SPR) is a development of strategic oil stockpile to ensure long-term stability and security of oil supply in the country, especially in times of geopolitical events, calamities or emergencies which induce global oil supply disruptions. In 2019, the DOE mandated the PNOC through Memorandum Order (MO) 2019-11-0001 to conduct a feasibility study on the establishment and operation of the National SPR Program and thereafter an implementation plan based on the result of the said study.

The target activities for the National SPR Program for 2022 entail the hiring of a Project Transaction Advisor within the 4th Quarter of 2022 and the completion of a Feasibility Study within nine (9) months. However, during the regular meeting of the PNOC Board of Directors on October 21, 2022, the PNOC Management reported and the PNOC Board of Directors took note of the directive of DOE to suspend all activities relevant to the development and pursuance of the SPR and Targeted Fuel Relief Program (TFRP) initiatives. This suspension is in line with the policy and financial viability review that is yet to be conducted by the DOE in consideration that the oil industry is considered a sunset industry.

1.4 *Targeted Fuel Relief Program (TFRP)*

The TFRP is a proposed government response program which aims to aid the most vulnerable fuel consuming sectors of our economy during periods of fuel supply disruption and/or high volatility in prices through importation and distribution of discounted fuel. Initial beneficiaries would be the public utility jeepney drivers and operators, being the most affected sector. In the medium- to long-term, the program may also supply the requirements of government, particularly of the Armed Forces of the Philippines and government-owned power plants and vital government installations to ensure uninterrupted delivery of critical services.

The Pre-Feasibility study on the TFRP was completed and PNOC Board approved the same on February 26, 2021.

On March 24, 2022, the PNOC Board approved the TFRP as an urgent program for immediate implementation. Under the accelerated program, PNOC will procure diesel and distribute/sell to the public utility jeepney drivers as the primary beneficiaries of the program at a much lower price than the prevailing retail prices. The diesel supply and necessary services to carry out activities in the value chain of the program will be procured through a competitive selection process.

Coordination activities with internal and external stakeholders were conducted to determine the necessary moving parts in earnest effort to immediately implement the program.

The terms of references for the procurement of supply and related services required to implement the program's value chain were also prepared/drafted in-house and completed in April 2022.

Also, because of the TFRP's approval as an immediate/urgent program of PNOC, updating the detailed study and developing an implementation plan was done in October 2022.

However, PNOC's pursuit on the TFRP, similar to the SPR, was suspended in light of the directive from the DOE and the PNOC Board as it will also be subjected to a policy and financial viability review by the DOE in consideration that the oil industry is a sunset industry.

1.5 *Energy Supply Base (ESB) Operations*

The PNOC ESB is a 19.2-hectare property located in Mabini, Batangas. Primarily operated to provide logistical support to onshore and offshore exploration activities as well as to other energy activities, ESB 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) granted in October 1996 by the Philippine Ports Authority (PPA). It is the only Energy Supply Base in the country.

PNOC's vision for ESB is to provide world-class energy supply base port facilities, and offer services compliant with International Standards. In line with its vision, the ESB Port Development detailed feasibility study, environmental impact assessment and detailed engineering design were completed on December 15, 2020 and approved by the PNOC Board on February 26, 2021.

The original target was to award the project in 2021 to a contractor to undertake the construction of Phases 1 and 2 of the project, covering the Marginal Wharf and Platform. The company completed the bidding, short of award in October 2021.

On October 20, 2021, after the BAC has recommended the award to a winning bidder, the PNOC Board exercised its right under Section 41 of the IRR of RA No. 9184 not to award the project due to changes in economic conditions. However, as the contract covers only a partial phase of the project, PNOC has been completing the permits and as at the end of 2022. PNOC intends to present again to the new PNOC Board of Directors once all permits have been secured.

ESB has secured the Environmental Compliance Certificate on February 16, 2022 including the Provincial Sanggunian and Provincial Governor's endorsements. It has signed the Memorandum of Understanding (MOU) with Philippine Reclamation Authority (PRA) for the reclamation of 3.772 hectares component of the proposed project on April 13, 2022. The PNOC Board has also approved the Marine Vessel Refueling Facility (bunkering) in ESB on May 16, 2022.

On June 24, 2021, ESB obtained its ISO 9001:2015 and ISO 45001:2018 certifications for its Quality Management System and Occupational Safety and Health

System, covering the operation and administration of the ESB and port facilities, from SOCOTEC Certification International.

1.6 *Industrial Park Operations*

The PNOC Industrial Park (PIP) is a 530-hectare property, of which 180 hectares is within the fenced area, located at Limay and Mariveles, Bataan. The PIP continuously provides basic services to its locators. The services include the provision of raw and firewater, power supply, and jetty services to the locators.

As the holder of the Programmatic Environmental Compliance Certificate, the only one of its kind in the Philippines granted by the Department of Environment and Natural Resources (DENR), the PIP Administration enforces strict compliance to health, safety, and environmental protocols, establishing its Health, Safety, Security and Environmental (HSSE) Program.

Currently, PNOC is undertaking negotiations with companies for the possible development of a circular manufacturing facility and LNG power plant.

PNOC continues to undertake the operation and efficient management and improvement of the PIP and its jetty facilities while continuing to ensure environmental monitoring and compliance to DENR regulations.

On October 19, 2022, the PIP obtained its ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certifications for its Quality Management System, and Occupational Safety and Health System and Environmental Management System, covering the PIP and facility operations and maintenance, from SOCOTEC Certification International.

All functions and programs of PIP were transferred to PNOC as the successor-in-interest of PAFC as a result of the ordered abolition of the latter through a Memorandum from the Executive Secretary dated September 8, 2014. PNOC assumes all rights and obligations.

1.7 *Real Property Projects*

PNOC has a total of 370 lots of varying sizes, many in prime locations with an approximate total area of 573.44 hectares. Petron Corporation is a major lessee while PNOC also hosts other government agencies such as the DOE, PRA, Cybercrime Investigation Coordinating Center and Land Bank of the Philippines. The remaining lots are leased to other private entities and administered by the Asset Management Department (AMD).

1.8 *Other Properties*

PNOC continued the best use/optimization or disposal of PNOC real estate properties. This year, PNOC was able to dispose through sale nine (9) PNOC properties located in Bulacan, Tarlac, Laguna and Batangas.

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). The Company likewise adhered to COA Circular No. 2017-004 dated December 13, 2017, which lays down the guidelines on the preparation of financial statements and other financial reports and implementation of the PFRS by Government Corporations classified as Commercial Public Sector Entities, previously known as Government Business Enterprises.

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 ***Basis of Accounting***

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

3.2 *Financial Instruments*

a. Financial assets

i. Classification and measurement

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

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

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

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

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

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

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

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

PNOC's financial assets include cash and cash equivalents, trade and other trade receivables and quoted and unquoted financial instruments. PNOC has no derivative financial instrument as at December 31, 2022.

ii. Subsequent measurement

PNOC measures a financial asset at either fair value or amortized cost on the basis of both:

a. the entity's business model for managing the financial assets; and

b. the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

PNOC's financial assets are measured at amortized cost, except for Financial Assets-Available for Sale which is measured at fair value.

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:

a) the contractual rights to the cash flows from the financial asset expire; and

b) PNOC transfers contractual rights to receive cash flows of the financial assets and retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients that meets the following conditions:

- There is no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in PAS 7) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and the interest earned on such investments is passed to the eventual recipients.

iv. Impairment of financial assets

PNOC shall apply the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss shall be recognized in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

At each reporting date, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. PNOC shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument determined to have low credit risk at the reporting date. The entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

b. Financial liabilities

i. Initial recognition

PNOC shall recognize a financial liability if the following conditions are met:

a) an entity becomes party to a contractual obligation; and

b) it is likely that the outflow of economic resources will be required to settle the obligation.

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

ii. Subsequent measurement

Subsequent measurement for financial liabilities also depends on their classification under PFRS 9 Financial Instruments, as follows:

a) Financial liabilities at amortized cost

Financial liabilities at amortized cost are those that are held to pay contractual cash flows. Subsequent measurement of these liabilities is at amortized cost using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability, or, when appropriate, a shorter period.

At each reporting date, the carrying amount of financial liabilities is adjusted for the amortization of the discount or premium to maturity. If there is objective evidence of impairment, such as significant financial difficulty of the debtor, the liability is increased by the amount of the expected credit losses.

b) Financial liabilities at fair value

Financial Liabilities at Fair Value through Profit or Loss (FVPL) are those that an entity holds for trading or designated at fair value through profit or loss. Subsequent measurement of these liabilities is at their fair value, with changes recognized through profit or loss in the statement of comprehensive income in the period in which they arise.

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

3.4 *Inventories*

The cost of banked gas inventory is based on acquisition cost or net realizable value, whichever is lower.

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 is measured using the cost model and are depreciated over their estimated useful life as follows:

Property classification	Estimated useful life (in years)
Building and Improvements	30
Fencing	5

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

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

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

3.6 *Property, Plant and Equipment*

a. Recognition

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

The characteristics of PPE are as follows:

i. tangible items;

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

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

An item of PPE is recognized as an asset if:

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

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

iii. the cost is at least P50,000.

b. Measurement at recognition

An item recognized as PPE is measured at cost.

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

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

Cost includes the following:

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

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

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

c. **Measurement after recognition**

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

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

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

d. **Depreciation**

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

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

i. **Initial recognition of depreciation**

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

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

ii. Depreciation method

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

iii. Estimated useful life

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

Property classification	Estimated useful life (in years)
Land improvements	10
Building and improvements	30
Machinery and equipment	5
Communication equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5
Information technology equipment	5
Computer software	3

iv. Residual value

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

e. Impairment

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

Derecognition

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

3.7 *Leases*

a. PNOC as a lessor

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 systematic basis in accordance with the provision of the lease contracts between PNOC and its lessees. This will determine the accurate income for lease payments for the period. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policies for Property, Plant 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. **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 is 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.

f. **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 2022, no asset and revenue were recognized by the Company for gifts and donations.

g. **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.

h. **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.

i. **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 2022, PNOC has no transaction relating to transfer of assets with other government entities.

3.12 *Revenue from Exchange Transactions*

a. **Sales Revenue – Banked Gas**

Revenue is measured at the current exchange rate of the consideration receivable at the time of invoice.

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 systematic basis in accordance with the provision of the lease contracts between PNOC and its lessees 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, 2022, 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.

3.18 *Adoption of New and Amended PFRS*

The following amendments in PFRS are effective in 2022:

a. Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds before Intended Use — This amends the standard to prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

b. Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, Onerous Contracts - Cost of Fulfilling a Contract — The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

c. Amendments to PFRS 9, *Financial Instruments*, Fees in the '10 per cent' test for derecognition of financial liabilities — The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

d. Amendments to PFRS 16, *Leases*, Lease Incentives - The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how to lease incentives are illustrated in that example.

Effective for annual periods beginning on or after January 1, 2023:

a. Amendments to PAS 1, *Presentation of Financial Statements*, Classification of Liabilities as Current or Non-Current — The amendments affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability, income, or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

b. Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative* - Accounting Policies - The amendments aim to help entities provide accounting policy disclosures that are more useful by (i) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and (ii) adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

c. Amendments to PAS 8, *Definition of Accounting Estimates* - The amendments introduced a definition of accounting estimates are, "monetary amounts in financial statements that are subject to measurement uncertainty" and to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

d. Amendments to PAS 12, Income taxes, Deferred Tax related to Assets and Liabilities from a Single Transaction — The main change is an exemption from the initial recognition exemption provided in PAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Effective for annual periods beginning on or after January 1, 2023:

a. Amendment to PFRS 17, Initial Application of PFRS 17, and PFRS 9 — *Comparative Information* — The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on the initial application of PFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of PFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of PFRS 9. The overlay can be applied by entities that have already applied PFRS 9 or will apply it when they apply PFRS 17.

Deferred effectivity:

a. Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* — The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company.

4. PRIOR PERIOD ADJUSTMENTS

Particulars	As at December 31, 2022
Rent/lease income earned in prior years	5,684,842
Adjustment to implement increase of capitalized threshold per COA Circular 2022-004	1,405,383
Unrealized gain/loss in fair value adjustment	22,500
Dropping-off of Badoc Properties	5,276
Disposal of PPE from prior years	7,243
Adjustment on Accounts Receivable	(398,787)
Adjustment on Other Payables	(878,680)
Adjustment on Amortization of Treasury Bonds	(1,276,944)
Dropping-off of cancelled projects	(1,437,563)
Adjustment on Barangay Electrification Project	(6,153,519)

Particulars	As at December 31, 2022
Adjustment on depreciation expense on Building Improvements	(14,744,215)
Adjustment on Other Deferred Credits	(197,322,468)
Total Prior Period Adjustments	**(215,086,932)**

5. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2022	As at December 31, 2021
Cash-Collecting Officers	155,238	321,534
Cash in Bank-Local Currency	41,602,045	12,859,394
Cash in Bank-Foreign Currency	666,058,833	2,287,906
Cash Equivalents	1,290,746,346	636,512,839
Total Cash and Cash Equivalents	**1,998,562,462**	**651,981,673**

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 and Development Bank of the Philippines.

Cash Equivalents consists of money market placements in Time Deposit – Local and Foreign Currency which is made for a period of 15 days – 56 days and earn interest at 0.05 – 1.60 per cent for local currency and 1.50-1.56 per cent for foreign currency.

6. INVESTMENTS

6.1 Financial Assets

Particulars	As at December 31, 2022	As at December 31, 2021
Total Current Financial Assets	954,508,042	509,552,379
Total Non-Current Financial Assets	6,108,237,701	3,515,016,264
Total	**7,062,745,743**	**4,024,568,643**

a. Reconciliation of the Current Investment in Treasury Bills

Particulars	As at December 31, 2022	As at December 31, 2021
Beginning Balance as at January 1	**509,552,379**	**1,012,860,646**
Additional investments made	969,070,208	516,445,881
Less: Investment sold/collected	(524,114,545)	(1,019,754,148)
Balance as at December 31	**954,508,042**	**509,552,379**

This account refers to *Investment in Treasury Bills* which consists of investment in Treasury Bills which are made for varying periods of more than 90 days but less than 1 year and earn interest at 1.41 – 5.15 per cent deposit rates.

b. Reconciliation of the Financial Assets at Amortized Cost and Fair Value through Other Comprehensive Income (FVOCI)

Particulars	Financial Assets at Amortized Cost	Financial Assets at FVOCI	Total
Beginning Balance as at January 1, 2022	**3,512,016,264**	**3,000,000**	**3,515,016,264**
Additional investments made	2,821,108,458	0	2,821,108,458
Fair value increase (decrease)	0	2,700,000	2,700,000
Less: Investments sold / collected	(230,587,021)	0	(230,587,021)
Balance as at December 31, 2022	**6,102,537,701**	**5,700,000**	**6,108,237,701**

Particulars	Financial Assets – at Amortized Cost	Financial Assets at FVOCI	Total
Beginning Balance as at January 1, 2021	**3,260,266,839**	**2,600,000**	**3,262,866,839**
Additional investments made	4,123,129,500	0	4,123,129,500
Fair value increase (decrease)	0	400,000	400,000
Less: Investments sold / collected	(3,871,380,075)	0	(3,871,380,075)
Balance as at December 31, 2021	**3,512,016,264**	**3,000,000**	**3,515,016,264**

Financial Assets at Amortized Cost consist of investments in treasury bonds with a term 73 days to 25 years from value date and interest rates ranging from 2.22 to 5.23 per cent.

Financial Assets at FVOCI 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 amounting to P1,700,000 represent shareholdings of the Company in various entities which are neither qualified to be investment in a subsidiary, associate or jointly controlled entity and are valued at cost. Management believes that there are no indications that these investments are impaired.

6.2 Investments in Associates

Particulars	Percentage of Ownership	As at December 31, 2022	As at December 31, 2021
Acquisition Cost:			
Gulf Oil Philippines, Inc. (GOPI)	35	86,633,214	54,978,000
Equity in Net Earnings of Investees:			
Equity in net earnings for the year		5,995,305	1,245,537
Net adjustment on prior years' earnings and dividends		0	32,333,907
Dividends received for the year		(1,924,230)	(1,924,230)
Balance at end of year		**90,704,289**	**86,633,214**

PNOC owns a 35 per cent stake in GOPI and holds two (2) seats in its board of directors. PNOC attends regular board meetings and can participate and lobby on specific matters. GOPI prepares its annual financial reports using a fiscal year ending March 31. The recognition of its share in profit/revenue is computed on a systematic basis considering the proportionate number of months ending December 31.

6.3 Investments in Subsidiaries

Particulars	Percentage of Ownership	As at December 31, 2022	As at December 31, 2021
Investment in operating subsidiaries			
PNOC Alternative Fuels Corporation (PAFC)	100.00	2,400,000,000	2,400,000,000
PNOC Exploration Corporation (PNOC EC)	99.79	2,019,188,332	2,019,188,332
PNOC Renewables Corporation (PNOC RC)	100.00	374,972,000	374,972,000
PNOC Development and Management Corporation (PDMC)	98.08	65,614,724	65,614,724
Total Investment in operating subsidiaries		**4,859,775,056**	**4,859,775,056**
Investment in non-operating subsidiaries			
PNOC Coal Corporation (PCC)	100.00	427,067,950	427,067,950
PNOC Shipping and Transport Corporation (PSTC)	100.00	190,000,000	190,000,000
PNOC Oil Carriers, Inc.	100.00	101,615,343	101,615,343
PNOC Tankers Corporation	100.00	50,000,000	50,000,000
Total Investment in non-operating subsidiaries		**768,683,293**	**768,683,293**
Less: *Allowance for impairment of non-operating subsidiaries*		**(768,683,293)**	**(768,683,293)**

Particulars	Percentage of Ownership	As at December 31, 2022	As at December 31, 2021
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 Order Nos. 2014-26 and 2014-25 on the implementation of the abolition of PAFC and PDMC, respectively. The transition and turnover plan for PAFC and PDMC were submitted to the GCG in 2015 and the going concerns of PAFC and PDMC were continued and transitioned into PNOC in 2016 and has undergone integration in PNOC's operations starting 2017 in accordance with the Plan.

PSTC

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

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

PCC

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

PNOC Oil Carriers, Inc. / PNOC Tankers Corporation

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

6.4 Other Investments

Particulars	As at December 31, 2022	As at December 31, 2021
Total Investments in Time Deposit	214,000,000	560,000,000
Total Non-Current Other Investments	141,549,450	141,549,450
Total	**355,549,450**	**701,549,450**

Investment in Time Deposits are made for varying periods of more than 90 days but less than 1 year and earn interest at 0.50 – 4.50 per cent deposit rates.

Reconciliation of Other Investments – Non-Current

Particulars	As at December 31, 2022	As at December 31, 2021
Investment in Stocks		
PLDT Preferred Shares	96,100	96,100
Total Investment in Stocks	**96,100**	**96,100**
Other Investments		
Goodyear Philippines - (11 per cent - 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)
Philippine Mining Development Corp. (PMDC) (36 per cent - Percentage of Ownership)	45,000,000	45,000,000
Total Other Investments	**141,453,350**	**141,453,350**
Total	**141,549,450**	**141,549,450**

In 2021, the investment in PMDC (previously presented under Investment in Associates) were reclassified to Other Investments – Non-Current in accordance with *PAS 28, par. 8 on Investment in Associates*. PNOC does not exercise significant influence due to PMDC being a government-owned and controlled corporation directly remitting dividends to the National Government pursuant to the Revised

Implementing Rules and Regulations of Republic Act No. 7656 or the Government-Owned or -Controlled Corporation Dividend Law dated January 26, 2016.

7. RECEIVABLES

Particulars	As at December 31, 2022	As at December 31, 2021
Total Current Receivables (net)	955,287,038	230,092,394
Total	**955,287,038**	**230,092,394**

7.1 Aging/Analysis of Receivable

As at December 31, 2022

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	733,717,927	733,717,927	0	0	0
Interests Receivable	2,668,595	2,668,595	0	0	0
Loans Receivable	63,462,664	0	0	0	63,462,664
Lease Receivable	176,988,404	176,988,404	0	0	0
Inter-Agency Receivables	1,723,609,975	0	0	0	1,723,609,975
Other Receivables	57,550,419	2,437,586	0	0	55,112,833
Less: *Allowance for Impairment*	(1,802,710,946)	0	0	0	(1,802,710,946)
Total	**955,287,038**	**915,812,512**	**0**	**0**	**39,474,526**

7.2 Loans and Accounts Receivables

Accounts	2022			2021		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable	733,717,927	0	733,717,927	68,315,726	0	68,315,726
Interests Receivable	2,668,595	0	2,668,595	1,061,313	0	1,061,313
Loans Receivable	63,462,664	0	63,462,664	61,606,027	0	61,606,027
Allowance for Impairment	(29,091,085)	0	(29,091,085)	(28,426,817)	0	(28,426,817)
Total	**770,758,101**	**0**	**770,758,101**	**102,556,249**	**0**	**102,556,249**

7.3 Lease Receivables

Accounts	As at December 31, 2022	As at December 31, 2021
Total Current Operating Lease Receivables	176,988,405	176,051,250
Allowance for Impairment - Lease Receivables	(102,940,509)	(97,310,086)
Total	**74,047,896**	**78,741,164**

The total future minimum lease receivables of PNOC under non-cancellable operating lease contracts with its lessees as required by PFRS 16 are as follows:

	As at December 31, 2022	As at December 31, 2021
Not later than one year	77,550,722	84,458,681
Later than one year but not later than five years	252,888,521	268,672,074
Later than five years	975,923,553	788,450,221
Total	**1,306,362,796**	**1,141,580,976**

7.4 Inter-Agency Receivables

Accounts	As at December 31, 2022	As at December 31, 2021
Due from Government Corporations	112,543,142	112,543,142
Due from Subsidiaries	1,611,066,833	1,599,165,319
Less: *Allowance for Impairment-Due from Government Corporations*	(112,543,142)	(112,543,142)
Allowance for Impairment-Due from Subsidiaries	(1,553,540,876)	(1,553,540,876)
Total	**57,525,957**	**45,624,443**

No impairment loss is recognized on various Due from Non-operating Subsidiaries since the offsetting amount results in a net liability position.

7.5 Other Receivables

Accounts	As at December 31, 2022	As at December 31, 2021
Due from Officers and Employees	2,967,000	3,761,922
Other Receivables	54,583,418	1,556,661
Less: Allowance for Impairment-Due from Officers and Employees	(709,434)	(672,046)
Allowance for Impairment-Other Receivables	(3,885,900)	(1,475,999)
Total	**52,955,084**	**3,170,538**

Increase in Other Receivables pertains to Barangay Electrification Project amounting to P48,817,920.72 which was previously recorded in Other Assets.

8. INVENTORY

8.1. CONSTRUCTION MATERIALS INVENTORY

This pertains to the cost of materials to be used for the fabrication of charging station of electric vehicles in Energy Supply Base, Mabini, Batangas.

8.2. BANKED GAS INVENTORY

Accounts	As at December 31, 2022	As at December 31, 2021
Inventory Held for Sale		
Carrying Amount, January 1	13,405,958,610	13,429,634,014
Sold during the year	(1,475,918,047)	(23,145,016)
Adjustment	0	(530,388)
Total Carrying Amount	**11,930,040,563**	**13,405,958,610**

PNOC's asset, called "banked gas", refers to the accumulated unused natural gas which was already paid for under the take-or-pay scheme of the Ilijan Gas Sales and Purchase Agreement (GSPA) equivalent to 108.60 Petajoules (PJ). This was bought by PNOC from the Department of Energy in September 2009.

In 2013, the Power Sector Assets and Liabilities Management Corporation (PSALM) withdrew 4.605 PJ from the banked gas. Another portion equivalent to 6.324 PJ was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2016 for its Tabango Refinery. After PNOC's signing of GSPA with PSPC for aforesaid volume, the total remaining uncontracted banked gas was then equivalent to 97.671 PJ.

PSPC started withdrawing banked gas from PNOC under the 2016 GSPA on June 1, 2018 (start date), which is supposed to run until the expiration of said GSPA on February 23, 2024 (end date). However, in November 2020, PSPC proposed for an early termination of the GSPA in view of the permanent shutdown of the PSPC's Tabangao Refinery due to the impact of the COVID-19 pandemic. The terms for the proposed early mutual termination was approved by PNOC Board on May 17, 2021. The termination contract was signed on July 23, 2021, this was after receiving favorable review of said document by the Office of the Government Corporate Counsel (OGCC).

From June 1, 2018 up to prior termination of the contract in July 2021, PSPC paid for a total quantity of 3.107 PJ (i.e. including actual withdrawals of 2.716 PJ and annual deficiencies of 0.391 PJ). Upon termination of the GSPA, PSPC paid for the total outstanding volume of banked gas equivalent to 3.217 PJ, which were reverted to PNOC's banked gas inventory along with the paid deficiencies of 0.391 PJ. Hence, at the end of PSPC's GSPA termination, the remaining baked gas totaled to 101.278 PJ (i.e. 97.670 PJ + 3.217 PJ + 0.391 PJ).

From 2020 to 2021, PNOC has exerted significant effort to secure new GSPAs with other potential buyers to optimize monetization of the banked gas. On December 24, 2021, PNOC has successfully closed new GSPAs with First NatGas Power Corporation (FNPC) and Prime Meridian PowerGen Corporation (PMPC) for the San Gabriel and Avion Power Plants, respectively, for a total contracted banked gas volume of 31.019 PJ. This is following the approval by the PNOC Board and the OGCC of said new GSPAs on November 11, 2021 and December 20, 2021, respectively. Acknowledgements to supply and transport natural gas to FNPC and PMPC were also secured from the Department of Energy on November 22, 2021.

Furthermore, on June 23, 2022, PNOC signed a GSPA with South Premiere Power Corporation (SPPC) for the Ilijan Power Plant, after receiving the approval of the PNOC Board on May 31, 2022 and the concurrence of the OGCC on June 9, 2022. The total contracted banked gas stipulated in the signed GSPA was the remaining banked gas volume amounting to 70.260 PJ.

Actual delivery of banked gas to FNPC and PMPC commenced on December 28, 2021 and December 26, 2021, respectively. At the end of Contract Year 2022, actual cumulative delivery of banked gas to FNPC and PMPC amounted to 11.084 PJ. Meanwhile, banked gas delivery to SPPC has not yet commenced.

9. INVESTMENT PROPERTY

As at December 31, 2022

Particulars	Investment Property-Land	Investment Property-Buildings	Investment Property-Land Improvements	Total
Carrying Amount, January 1	**10,933,936,424**	**61,997,700**	**4,130,003**	**11,000,064,127**
Additions/Acquisitions	0	0	0	0
Total	**10,933,936,424**	**61,997,700**	**4,130,003**	**11,000,064,127**
Disposals	(4,626,246)	0	0	(4,626,246)
Depreciation	0	(7,932,855)	(605,950)	(8,538,805)
Adjustment to Cost	(5,277)	0	(10,231)	(15,508)
Carrying Amount, December 31	**10,929,304,901**	**54,064,845**	**3,513,822**	**10,986,883,568**
Gross Cost	10,929,304,901	167,687,665	6,726,315	11,103,718,881
Accumulated Depreciation	0	(113,622,820)	(3,212,493)	(116,835,313)
Carrying Amount, December 31	**10,929,304,901**	**54,064,845**	**3,513,822**	**10,986,883,568**

As at December 31, 2021

Particulars	Investment Property-Land	Investment Property-Buildings	Investment Property-Land Improvements	Total
Carrying Amount, January 1	**10,933,936,424**	**70,070,809**	**4,407,501**	**11,008,414,734**
Additions/Acquisitions	0	0	305,881	305,881
Total	**10,933,936,424**	**70,070,809**	**4,713,382**	**11,008,720,615**
Disposals	0	0	0	0
Depreciation	0	(7,912,076)	(583,379)	(8,495,455)
Adjustment to Cost	0	(161,033)	0	(161,033)
Carrying Amount, December 31	**10,933,936,424**	**61,997,700**	**4,130,003**	**11,000,064,127**
Gross Cost	**10,933,936,424**	167,687,665	6,736,546	11,108,360,635
Accumulated Depreciation	0	(105,689,965)	(2,606,543)	(108,296,508)
Carrying Amount, December 31	**10,933,936,424**	**61,997,700**	**4,130,003**	**11,000,064,127**

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

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

In 2022, the Company sold properties located in Batangas, Laguna, Tarlac, Bulacan, and Bataan with a total cost of P4,626,246 for a selling price of P9,865,592 resulting in a gain of P5,239,344.

The fair value of investment properties amounted to P34,605,383,909 in 2022 and 2021 were based on latest fair market value appraisal made in 2020.

Rental income earned from the investment properties amounted to P469,388,841 in 2022 and P447,451,927 in 2021.

10. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2022

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	**545,829,529**	**211,678**	**59,314,291**	**25,905,984**	**631,261,482**
Transfers	0	0	0	0	0
Additions/Acquisitions	0	0	37,456,154	11,149,815	48,605,969
Total	**545,829,529**	**211,678**	**96,770,445**	**37,055,799**	**679,867,451**
Disposals	0	0	0	(366,668)	(366,668)
Depreciation/Reversal	0	(36,463)	(16,314,660)	10,038,727	(6,312,396)
Impairment Loss	0	0	0	0	0
Adjustment	0	0	(13,254,319)	(12,294,321)	(25,548,640)

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, December 31	545,829,529	**175,215**	**67,201,466**	**34,433,537**	**647,639,747**
Gross Cost	545,829,529	455,134	449,741,104	95,622,531	1,091,648,298
Accumulated Depreciation	0	(279,919)	(382,539,638)	(61,102,752)	(443,922,309)
Accumulated Impairment Loss	0	0	0	(86,242)	(86,242)
Carrying Amount, December 31	**545,829,529**	**175,215**	**67,201,466**	**34,433,537**	**647,639,747**

As at December 31, 2021

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	**545,829,529**	**255,948**	**86,229,520**	**30,741,975**	**663,056,972**
Transfers	0	0	0	(48,817)	(48,817)
Additions/Acquisitions	0	0	7,208,142	4,641,641	11,849,783
Total	**545,829,529**	**255,948**	**93,437,662**	**35,334,799**	**674,857,938**
Disposals	0	0	0	(8,490,597)	(8,490,597)
Depreciation/Reversal	0	(44,270)	(34,123,371)	(897,673)	(35,065,314)
Impairment Loss	0	0	0	0	0
Adjustment	0	0	0	(40,545)	(40,545)
Carrying Amount, December 31	**545,829,529**	**211,678**	**59,314,291**	**25,905,984**	**631,261,482**
Gross Cost	**545,829,529**	**455,134**	**425,539,269**	**97,133,705**	**1,068,957,637**
Accumulated Depreciation	0	(243,456)	(366,224,978)	(71,141,479)	(437,609,913)
Accumulated Impairment Loss	0	0	0	(86,242)	(86,242)
Carrying Amount, December 31	**545,829,529**	**211,678**	**59,314,291**	**25,905,984**	**631,261,482**

In 2021, additions to Buildings and Other Structures pertain mainly to the major repairs at ESB Warehouse 1 to 4 amounting to P4,705,612 and replacement of carpet tiles in Building 6 amounting to P2,114,285 while the Machinery and Equipment pertain to purchase of digital power metering P2,264,357.

In 2022, Property, Plant, and Equipment amounting to P17,653,876 were accounted as semi-expendable property due to the increase in the capitalization threshold from P15,000 to P50,000. The cancelled projects HRIS Database and Water Submersible Pump at PNOC Building 6 were dropped off from the books amounting to P820,000 and P549,107, respectively.

Fully depreciated property and equipment amounted to P61,264,231 and P59,014,743 as at December 31, 2022 and 2021, respectively.

11. INTANGIBLE ASSET

This pertains to the carrying amount of Adobe Create Cloud Software.

12. DEFERRED TAX ASSETS

As at December 31, 2022

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2022	**656,268,851**	**202,500**	**656,471,351**
Credited to profit or loss for the year			
Adjustment:			
Related to valuation of club shares and		(202,500)	(202,500)
Deferred Tax Asset on Unearned Rental	(383,206)		(383,206)
Deferred Tax Asset on Allowance for Impairment Loss	2,185,495		2,185,495
Total	**658,071,140**	**0**	**658,071,140**

As at December 31, 2021

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2021	**715,060,905**	**240,000**	**715,300,905**
Charged to other comprehensive income for the year	0	(37,500)	(37,500)
Credited to profit or loss for the year	57,782,665	0	57,782,665
Adjustment:			
Related to CREATE Law	(119,697,237)	0	(119,697,237)
Related to Understated Beginning Balance amounting to P3,122,518	3,122,518	0	3,122,518
Total	**656,268,851**	**202,500**	**656,471,351**

In 2021, deferred tax assets were adjusted to conform with the new corporate income tax rate of 25 per cent.

13. OTHER ASSETS

Particulars	2022 Current	2022 Non-Current	2022 Total	2021 Current	2021 Non-Current	2021 Total
Advances	0	0	0	0	0	0
Prepayments	152,913,724	0	152,913,724	32,936,037	0	32,936,037
Deposits	233,169,111	0	233,169,111	225,988,344	0	225,988,344
Other Assets	0	253,887	253,887	50,002,382	253,887	50,256,269
Total	**386,082,835**	**253,887**	**386,336,722**	**308,926,763**	**253,887**	**309,180,650**

Prepayments account includes Withholding Tax at Source amounting to P145,217,412 received from payors to be applied as tax credit in the Annual Income Tax Return for the Year 2022. The increase in Withholding Tax at Source is consistent with the increase in revenue.

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

Decrease in Other Assets pertains to Barangay Electrification Project amounting to P48,817,920.72 which was reclassified to Other Receivables.

14. FINANCIAL LIABILITIES

Particulars	As at December 31, 2022	As at December 31, 2021
Accounts Payable	132,522,898	91,714,745
Due to Officers and Employees	1,448,810	5,892,073
Total	**133,971,708**	**97,606,818**

Increase in Accounts Payable pertains to increase in Accrued Liabilities for the Year 2022 amounting to P41,534,943.

The decrease in Due to Officers and Employees pertains to the final pay to a separated employee in 2020 amounting to P4,083,066 which was paid on October 21, 2022.

15. INTER-AGENCY PAYABLES

Particulars	As at December 31, 2022	As at December 31, 2021
Due to Subsidiaries	77,198,364	67,173,293
Due to BIR	8,529,403	5,234,252
Due to GSIS	2,381,496	2,006,926
Due to PhilHealth	364,397	177,190
Due to Pag-IBIG	55,807	46,814
Due to Others	1,580,127	0
Income Tax Payable	305,036,739	0
Total	**395,146,333**	**74,638,475**

Increase in Income Tax Payable of P305,036,739 pertains to PNOC's Income Tax for the 4th Quarter of Year 2022.

16. TRUST LIABILITIES

Particulars	As at December 31, 2022	As at December 31, 2021
Trust Liabilities	230,543,642	223,362,872
Guaranty/Security Deposits Payable	38,237,513	49,019,656
Total	**268,781,155**	**272,382,528**

Trust liabilities pertain to the Decentralized Energy System Project Fund.

Guaranty/Security Deposits Payable pertains to cash received as stipulated in the lease contracts entered with various lessees.

17. OTHER PAYABLES

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

Particulars	As at December 31, 2022	As at December 31, 2021
Dividends Payable	1,979,802,467	758,030,203
Other Payables	8,510,111	8,535,435
Total	**1,988,312,578**	**766,565,638**

Dividends Payable pertains to the declared cash dividend to the National Government based on the Company's net earnings in compliance with the revised 2016 Implementing Rules and Regulations of Republic Act (RA) No. 7656 issued by the Department of Finance. The law requires GOCCs to remit at least 50 per cent of net earnings to the National Government. Net earnings subjected to dividends amounted to P1,681,504,953 for the year 2022.

18. DEFERRED CREDITS/UNEARNED INCOME

Particulars	As at December 31, 2022	As at December 31, 2021
Unearned Revenue/Income-Investment Property	3,204,936	4,737,760
Other Deferred Credits	67,607,634	248,972,029
Output tax	91,575,907	18,209,360
Total	**162,388,477**	**271,919,149**

The decrease in *Unearned Revenue/Income-Investment Property* amounting to P1,532,824 is due to the recognition of rental income.

Other Deferred Credits are non-current items which include accounts set-up for accrued receivables for various intercompany charges by PNOC to its dissolved subsidiaries. The decrease pertains to prior period adjustments amounting to P197,322,468 offset by the payment received from National Transmission Corporation for the initial deposit of P24,573,000 for the just compensation on Bataan Expropriated.

The increase in Output Tax is consistent with the increase in revenues.

19. PROVISIONS

Particulars	As at December 31, 2022	As at December 31, 2021
Leave Benefits Payable	43,952,716	32,757,943
Total	**43,952,716**	**32,757,943**

20. DEFERRED TAX LIABILITIES

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Total
January 1, 2022	**2,330,734,367**	**26,250**	**2,330,760,617**
Adjustments:			
Related to valuation of club shares	0	202,500	202,500
December 31, 2022	**2,330,734,367**	**228,750**	**2,330,963,117**

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Total
January 1, 2021	2,753,536,726	3,750	2,753,540,476
Charged to other comprehensive income for the year	0	22,500	22,500
Adjustments:			
Related to CREATE Law – NVRC	(7,224,086)	0	(7,224,086)
Related to CREATE Law – 2021 DTL Ending Balance	(458,922,788)	0	(458,922,788)
Related to Understated Beginning Balance	43,344,515	0	43,344,515
December 31, 2021	**2,330,734,367**	**26,250**	**2,330,760,617**

In 2021, deferred tax liabilities were adjusted to conform to the new corporate income tax rate of 25 per cent.

21. EQUITY

a. Capital Stock

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

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

b. Retained Earnings

In compliance with RA No. 7656, PNOC declared a total cash dividend of P1,681,504,953 for 2022 net earnings due to the National Government.

PNOC declared a total cash dividend of P959,356,721 for 2021 net earnings.

22. SERVICE AND BUSINESS INCOME

Particulars	2022	2021
Sales Revenue – Banked gas	5,583,224,332	64,600,095
Rent/Lease Income	469,388,841	447,451,927
Interest Income	156,824,410	131,204,122
Other Business Income – ESB	72,974,354	68,653,863
Other Business Income – PIP	17,596,282	0

Particulars	2022	2021
Share in Profit/Revenue of Affiliate/Associate	5,995,305	1,245,537
Fines and Penalties-Business Income	1,502,600	193,928
Total	**6,307,506,124**	**713,349,472**

On December 24, 2021, PNOC has successfully closed new GSPAs with First NatGas Power Corporation (FNPC) and Prime Meridian PowerGen Corporation (PMPC) for the San Gabriel and Avion Power Plants, respectively for a total contracted banked gas volume of 31.019 PJ. This is following the approval by the PNOC Board and the OGCC of said new GSPAs on November 11, 2021 and December 20, 2021, respectively, thus, the increase of revenue from banked gas sales.

In 2022, revenues from PNOC Industrial Park (PIP) on berthing, fire water, raw water, and administration dues were recorded in PNOC books.

23. PERSONNEL SERVICES

Particulars	2022	2021
Salaries and Wages	95,435,699	85,555,239
Other Compensation	33,561,000	35,164,104
Personnel Benefit Contributions	12,809,393	11,458,586
Other Personnel Benefits	20,479,361	5,512,730
Total	**162,285,453**	**137,690,659**

23.1. Salaries and Wages

Particulars	2022	2021
Salaries and Wages-Regular	95,435,699	85,555,239
Total	**95,435,699**	**85,555,239**

As approved by the Governance Commission for GOCCs (GCG) through GCG Memorandum Order No. 2018-05 on July 26, 2018, there was an increase in new approved plantilla positions comprised of a total of 198 positions. The new organizational structure and staffing pattern and the transformation of PNOC from a holding company to an operating company took effect upon dissolution of the subsidiaries which included PNOC Alternative Fuels Corporation. As cited in the GCG Memorandum Order, funding requirements for regular positions shall be included in Corporate Operating Budget of PNOC hence, personnel service expenses of additional employees hired and were assigned to PNOC Industrial Park (PIP) were recorded in PNOC books.

On October 1, 2021, President Rodrigo R. Duterte signed the Executive Order No. 150 entitled Approving the Compensation and Position Classification System (CPCS) and Index of Occupational Services, Position Titles, and Job Grades for

GOCCs (IOS-G) Framework, Repealing Executive Order No. 203 (S. 2016), and for Other Purposes. The CPCS and IOS-G Framework shall apply to all GOCCs, unless excluded from the coverage of Republic Act No. 10149, otherwise known as the GOCC Governance Act of 2011. EO No. 150 took effect on October 5, 2021.

GCG authorized PNOC to implement the CPCS through its letter dated January 31, 2022. PNOC's Board issued a Secretary' Certificate dated March 25, 2022, approving the implementation effective October 5, 2021 of the CPCS and adopting the Category 1 Salary Structure.

23.2. Other Compensation

Particulars	2022	2021
Other Bonuses and Allowances	11,247,908	13,964,065
Year End Bonus	8,480,551	7,251,235
Overtime and Night Pay	3,307,776	2,591,458
Personnel Economic Relief Allowance (PERA)	2,949,340	3,125,096
Representation Allowance (RA)	2,458,347	2,531,125
Directors' and Committee Members' Fees	1,569,000	1,770,000
Transportation Allowance (TA)	1,599,477	1,663,125
Clothing/Uniform Allowance	729,328	792,000
Cash Gift	613,773	661,500
Honoraria	550,500	186,500
Longevity Pay	55,000	40,000
Hazard Pay	0	588,000
Total	**33,561,000**	**35,164,104**

Other Bonuses and Allowances includes Mid-year Bonus, Productivity Enhancement Incentives, Performance-Based Bonus and Service Recognition Incentives.

23.3. Personnel Benefit Contributions

Particulars	2022	2021
Retirement and Life Insurance Premiums	10,857,583	10,093,606
PhilHealth Contributions	1,661,478	1,053,580
Pag-IBIG Contributions	146,966	155,700
Employees Compensation Insurance Premiums	143,366	155,700
Total	**12,809,393**	**11,458,586**

23.4. Other Personnel Benefits

Particulars	2022	2021
Terminal Leave Benefits	17,529,244	5,512,730
Other Personnel Benefits	2,950,117	0
Total	**20,479,361**	**5,512,730**

Other Personnel Benefits includes Accrued Expense on Terminal Leave Benefits amounting to P12,016,514 and Collective Negotiation Agreements benefits amounting to P2,950,117.

The increase in Terminal Leave Benefits is consistent with the increase in salary set-forth by the CPCS for the GOCCs per EO No. 150.

24. MAINTENANCE AND OTHER OPERATING EXPENSES

Particulars	2022	2021
General Services	66,884,257	49,800,124
Taxes, Insurance Premiums and Other Fees	56,306,290	19,605,796
Utility Expenses	32,572,930	10,004,655
Repairs and Maintenance	15,703,197	6,126,033
Professional Services	13,911,147	8,676,507
Supplies and Materials Expenses	12,914,831	6,871,396
Communication Expenses	4,935,730	4,591,140
Training and Scholarship Expenses	1,815,136	1,013,946
Travelling Expenses	990,754	428,980
Confidential, Intelligence and Extraordinary Expenses	54,300	0
Other Maintenance and Operating Expenses	17,212,303	11,950,002
Total	**223,300,875**	**119,068,579**

Other Maintenance and Operating Expenses include expenses incurred in relation to advertising, printing and publication, representation, membership dues to organization, major events and convention, and other expenses.

24.1. General Services

Particulars	2022	2021
Security Services	40,636,585	27,028,657
Other General Services	14,941,923	14,197,007
Janitorial Services	11,305,749	8,574,460
Total	**66,884,257**	**49,800,124**

Security Services include PIP's expenses for the year 2022 amounting to P16,297,556.

24.2. Taxes, Insurance Premiums and Other Fees

Particulars	2022	2021
Taxes, Duties and Licenses	50,237,580	14,295,632
Insurance Expenses	5,786,958	5,023,488
Fidelity Bond Premiums	281,752	286,676
Total	**56,306,290**	**19,605,796**

Taxes, Duties and Licenses include PIP's Real Property Taxes for the year 2022 amounting to P35,952,153.

24.3. Utility Expenses

Particulars	2022	2021
Electricity Expenses	30,771,355	8,642,044
Water Expenses	1,595,998	1,165,717
Other Utility Expenses	205,577	196,894
Total	**32,572,930**	**10,004,655**

Electricity Expenses include PIP's expenses for the year 2022 amounting to P22,306,266.

24.4. Repairs and Maintenance

Particulars	2022	2021
Repairs and Maintenance-Buildings and Other Structures	14,262,540	4,659,067
Repairs and Maintenance-Transportation Equipment	1,192,757	1,218,390
Repairs and Maintenance-Machinery and Equipment	202,032	153,807
Repairs and Maintenance-Furniture and Fixtures	45,588	94,769
Repair and Maintenance – Land Improvements	280	0
Total	**15,703,197**	**6,126,033**

Repairs and Maintenance in Buildings and Other Structures includes exterior and interior repainting, waterproofing, various repair activities and window glass cleaning of buildings and other structures.

24.5. Professional Services

Particulars	2022	2021
Auditing Services	6,381,330	3,418,404
Other Professional Services	7,295,024	5,069,603
Legal Services	225,000	22,500
Consultancy Services	9,793	166,000
Total	**13,911,147**	**8,676,507**

Auditing Services includes PDMC's and PAFC's expenses for the year 2022.

24.6. Supplies and Materials Expenses

Particulars	2022	2021
Fuel, Oil and Lubricants Expenses	4,663,719	2,331,995
Semi-Expendable Machinery and Equipment Expenses	2,818,087	139,884
Office Supplies Expenses	1,829,981	582,044
Semi-Expendable Furniture, Fixtures and Books Expenses	755,968	10,970
Medical, Dental and Laboratory Supplies	411,890	607,258
Accountable Forms Expenses	182,573	272,187
Non-Accountable Forms Expenses	34,660	71,302
Other Supplies and Materials Expenses	2,217,953	2,855,756
Total	**12,914,831**	**6,871,396**

Since the beginning of 2022, fuel prices increased and continually increases daily. The uncontrollable oil price hike resulted in a substantial increase in fuel, oil, and lubricants expense.

The Company acquired various commonly-used supplies and computer supplies including PIP's expenses.

The Company also acquired 19 pcs of Laptop Computers during the year that resulted in a significant increase in semi-expendable machinery and equipment expenses.

24.7. Communication Expenses

Particulars	2022	2021
Telephone Expenses	2,819,405	2,965,751
Internet Subscription Expenses	1,928,557	1,457,894
Cable, Satellite, Telegraph and Radio Expenses	97,245	95,106

Particulars	2022	2021
Postage and Courier Services	90,523	72,389
Total	**4,935,730**	**4,591,140**

24.8. Training and Scholarship Expenses

Particulars	2022	2021
Training Expenses	1,815,136	1,013,946
Total	**1,815,136**	**1,013,946**

24.9. Traveling Expenses

Particulars	2022	2021
Traveling Expenses-Local	990,754	428,980
Total	**990,754**	**428,980**

24.10. Confidential, Intelligence and Extraordinary Expenses

Particulars	2022	2021
Confidential, Intelligence and Extraordinary Expenses	54,300	0
Total	**54,300**	**0**

24.11. Other Maintenance and Operating Expenses

Particulars	2022	2021
Representation Expenses	3,528,239	3,006,684
Major Events and Convention	3,169,557	1,555,674
Membership Dues and Contributions to Organizations	1,383,779	400,836
Printing and Publication Expenses	312,904	55,348
Advertising Expenses	469,094	195,431
Subscription Expenses	228,560	549,966
Other Maintenance and Operating Expenses	8,120,170	6,186,063
Total	**17,212,303**	**11,950,002**

PNOC had been actively practicing its Corporate Social Responsibility (CSR) that aims to improve the community and environment. In 2022, PNOC conducted various CSR Projects such as blood donation program, tree planting activity, coastal clean-up activities, among others.

PNOC conducted the 2022 Board Strategic Planning Session and Board Transition Planning Session in The Country Club at Tagaytay Highlands amounting to P800,241 for the two activities. This resulted to an increase in major events and convention expenses.

25. FINANCIAL EXPENSES

Particulars	2022	2021
Management Supervision/Trusteeship Fees	7,023,941	971,150
Bank Charges	41,910	103,256
Total	**7,065,851**	**1,074,406**

PNOC pays Shell Philippines Exploration B.V. (SPEX) for the administration and management fee on the extraction of banked gas for $10,000 per month. In 2021, SPEX bills PNOC for only 3 months of administration and management fee. During the year, PNOC had monthly sales of banked gas for the whole year, thus the increase in management supervision/trusteeship fees.

26. DIRECT COSTS

Particulars	2022	2021
Cost of Sales of banked gas	1,475,918,048	23,145,016
Total Direct Costs	**1,475,918,048**	**23,145,016**

In 2021, PNOC extracted 178,552 Gigajoules (GJ) of banked gas. The significant increase in cost of sales of banked gas is due to the extraction of 11,130,882 GJ of banked gas during 2022.

27. NON-CASH EXPENSES

27.1. Depreciation

Particulars	2022	2021
Depreciation-Buildings and Other	31,779,474	34,106,965
Depreciation-Investment Property	8,538,805	8,516,234
Depreciation-Machinery and Equipment	4,928,814	4,909,754
Depreciation-Furniture, Fixtures and Books	660,016	2,976,898
Depreciation-Transportation Equipment	1,560,266	1,242,692
Depreciation-Land Improvements	36,463	44,269
Total	**47,503,838**	**51,796,812**

27.2. Impairment Loss

PNOC recognized impairment loss on receivables and due from non-operating subsidiaries amounting to P8,741,980 in 2022 and P240,428,090 in 2021. These receivables have been outstanding for ranging from two to more than five years as at year-end.

28. NON-OPERATING INCOME, GAINS AND LOSSES

28.1. GAINS

Particulars	2022	2021
Gain on Foreign Exchange (FOREX)	71,255,717	19,480,588
Gain on Sale of Property, Plant and Equipment	0	819,139
Gain on Sale of Investment Property	5,239,344	0
Total	**76,495,061**	**20,299,727**

The significant increase in gain on foreign exchange is consistent with the increase in banked gas sales in dollar due to difference in exchange rate in invoice date and payment date

28.2. OTHER NON-OPERATING INCOME

Particulars	2022	2021
Miscellaneous Income	668,621	790,283,716
Total	**668,621**	**790,283,716**

28.3. NON-OPERATING LOSSES

Particulars	2022	2021
Loss on FOREX	31,444,945	8,632
Other Losses	1,010,803	0
Total	**32,455,748**	**8,632**

The significant increase in loss on foreign exchange is consistent with the increase in banked gas sales in dollar due to difference in exchange rate in invoice date and payment date.

29. INCOME TAX EXPENSE/(BENEFIT)

Particulars	2022	2021
Current Income Tax	1,067,812,190	263,103,106
Deferred Income Tax (Benefit)	(1,802,289)	(404,232,300)
Total	**1,066,009,901**	**(141,129,194)**

30. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS (DEFICIT)

Particulars	2022	2021
Profit after Tax	3,361,388,112	1,092,189,915
Non-cash Income/Expenses:		
Depreciation	47,503,838	51,796,812
Gain on sale of investment property	(5,239,345)	0
Gain on sale of property, plant and equipment	0	(819,139)
Other non-cash income	0	(23,073,345)
Other non-cash expenses	9,752,784	240,436,722
Income credited to investing activities	(162,819,715)	(133,620,566)
Increase in Current Liabilities*	421,641,941	481,792,226
Decrease in Current Assets*	1,475,804,669	521,590,940
Decrease in Current Liabilities*	(3,626,695)	(747,049,370)
Increase in Current Assets*	(802,350,715)	(586,558,534)
Net Cash Flows from Operating Activities	**4,342,054,874**	**896,685,661**

*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 (Board) and the Members of the Management Committee.

Board of Directors

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

Members of the Board are as follows:

Position	Name	Coverage
Ex-Officio Chairman	Raphael Perpetuo M. Lotilla	July 26-December 31, 2022
Ex-Officio Chairman	Alfonso G. Cusi	January 1-June 30, 2022
Member, President and CEO	Jesus Cristino P. Posadas	February 22-December 31, 2022
Member	Rex V. Tantiongco	January 1-August 17, 2022
Member	Adolf P. Borje	January 1-December 31, 2022

Position	Name	Coverage
Member	Romeo V. Poquiz	January 1-December 31, 2022
Member	Michael Ted R. Macapagal	February 10-December 31, 2022
Member	John Martin Francis J. Arenas	February 10-December 31, 2022
Member	Joel R. Caminade	March 9-December 31, 2022
Member	Celestina Ma. Jude P. De La Serna	March 9-December 31, 2022

Term of Office

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

Senior Management

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

The Company's executive officers are as follows:

Position	Name
President and CEO (February 15-December 31, 2022)	Jesus Cristino P. Posadas
OIC-President and CEO (January 1-February 14, 2022)	Atty. Graciela M. Barleta
Senior Vice President (VP) for Energy Business	
Senior VP for Finance and Administrative Services	Evangeline B. Albaytar
Senior Vice President for Energy Investments	Atty. Ronald C. Chua
Manager, Administrative Services Department	Lino Gerardo G. Calaor
Manager, Accounting Department	Aoron R. Viuya
Manager, Treasury Department	Jennifer R. Racho
Manager, Asset Management Department	Atty. Efren A. Legaspi
Administrator, PNOC Energy Supply Base	Engr. Carlito B. Pena
Manager, Park Management Department	Edwin G. Celzo
OIC-Manager, Strategy Management Office	Alma B. Taganas
Manager, Internal Audit Office	Gina E. Manalo
Manager, Office of the General Counsel	Atty. Antonio G. Buenviaje
Manager, Business Research and Development; and OIC-Manager, Property Management Department	Ma. Rowena C. Raymundo

31.2. Key Management Personnel Compensation

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

Particulars	Aggregate Remuneration
Salaries and Wages	17,771,326
Other Compensation	6,539,959
Total	**24,311,285**

32. CONTINGENCIES

32.1 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: Office of the Solicitor General (OSG)

This is a petition filed in June 2008 by members of the party list representatives and other Congressman to have the Joint Marine Seismic Undertaking (JMSU) among China National Offshore Oil Corporation (CNOOC), PNOC and Petro Vietnam, to be declared unconstitutional and void for violation of Section 17, Article XII of the Constitution and to enjoin the parties from further implementation of the agreement.

Status: The Supreme Court recently declared the JMSU unconstitutional as carried by news. PNOC or OSG have not received copy of the decision.

32.2 Voltaire Rovira vs. PNOC, Civil Case No. 5947, Regional Trial Court (RTC) Branch 5, Iligan City

For: Specific Performance and Damages

Handling Counsel: OSG

On January 14, 2014, PNOC received copy of the RTC decision dated November 18, 2013, ordering plaintiff Voltaire Rovira to pay PNOC the remaining balance of the Vehicle Acquisition Plan (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 amount of damages and the payment of interest 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 an Appeal.

Status: The Court denied the Appeal for failure of the petitioner to comply with the mandatory requirement under Rule 45 of the Rules of Court. The Judgement became final and executory on June 19, 2019. Rovira however filed a Motion for Reconsideration, Second Motion for Reconsideration and Motion to Recall Entry of Judgment which was also denied by the Supreme Court on December 11, 2019. Waiting for the issuance of the Writ of Execution.

32.3 Keppel Philippines Holdings, Inc. (KPHI) (substituted by LS Shipping Management Corporation) vs. PNOC/PDEC, Civil Case No. 7364, RTC Branch 84, Batangas City

For: Specific Performance

Handling Counsel: OSG

On August 6, 1976, Luzon Stevedoring Corporation (LUZTEVECO) leased to Keppel Philippines Shipyard Inc. parcels of lands located in Barangay San Miguel, Bauan, Batangas for 25 years with option to buy for a total price of P4.09 million, if Keppel is qualified to own land under the laws of the Philippines at the end of 25th year. The lease is automatically renewed for another 25 years if Keppel is not yet qualified to own land. The case involves 6 lots with total area of 104,992 sqm.

The said properties were transferred from LUZTEVECO to PNOC Marine Corporation and then to PNOC Dockyard and Engineering Corporation which is now the PNOC Renewables Corporation.

In September 2003, Keppel filed a case for specific performance for the sale of the property. PNOC filed its opposition but the RTC ruled on January 12, 2006 in favor of Keppel. PNOC appealed the ruling and on July 25, 2016, the Supreme Court upheld the ruling of the lower court and remanded the case to RTC for the determination of Keppel's equity ownership.

On September 24, 2018, the RTC Branch 84, Batangas City denied KPHI Motion for Issuance of Writ of Execution ruling that the latter failed to meet the Filipino equity ownership and directed the Clerk of Court to release and return the consigned amount.

Status: On June 4, 2021, KPHI sold their rights over the parcel of lands in Bauan to LS Shipping Management Corporation, who claims to be a wholly-owned Filipino Company and motioned the Court that it be substituted by LS Shipping which is now the real party in interest.

On June 7, 2021, Poblador Bautista and Reyes entered their appearance on behalf of LS Shipping and filed a Motion for New Trial based on newly discovered evidence. Their claim is that LS Shipping is 100 per cent Filipino owned and is therefore a Philippine corporation qualified to own land and that when KPHI transferred the subject properties to LS Shipping it cured or rendered valid any supposed defects in KPHI's rights to the subject properties.

The Court required PNOC to file its comments on August 13, 2021. OSG filed its Comments on behalf of PNOC against the Motion for Substitution of Plaintiff and New Trial. Then on August 24, 2021, PNOC received a letter from the OSG dated August 23, 2021 withdrawing as PNOC Counsel in this case invoking its role as People's Tribune.

On the same day, OSG filed Manifestations dated August 23, 2021 to RTC Branch 8 of Batangas wherein OSG manifested to give PNOC 30 days to file comments or to adopt the initial comments filed by OSG.

As such, PNOC referred the case to the OGCC and the latter filed the corresponding entry of Appearance and Comments. Petition for Certiorari questioning the grant of the new Trial and substitution of parties is pending with the Court of Appeals. In the meantime, the New Trial proceeded and the plaintiffs have completed their presentation of evidence. PNOC is discussing with OGCC on the succeeding steps.

32.4 Application for Original Registration of Titles of Five Parcels of Lots located in Bauan, Batangas, Cadastral Case (LRC Case No. N-1772), RTC Branch 8, Batangas City, CA G.R. No. CV-101876, Special First Division, Court of Appeals, Manila

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

Handling Counsel: OSG

The Application for Registration was denied by the RTC due to non-availability of some documentary requirements. The decision of the RTC was affirmed by the Court of Appeals.

Status: PNOC will refile the case through the Office of the General Counsel (OGC). Case build up is ongoing.

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

For: Expropriation
Handling Counsel: OSG

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

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

On December 05, 2016, PNOC filed a Compliance notifying the court that there was no other case on file involving the same parties and issues. PNOC also filed its brief.

Status: In an Order dated April 12, 2022, the Court of Appeals affirmed the RTC decision.

32.6 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: Awaiting further orders from the trial court.

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

For: Expropriation

Handling Counsel: OSG

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

The RTC issued an Order dated February 23, 2018 directing the Board of Commissioners thru its Chairman 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.

Status: Ocular inspection for the determination of the area being occupied by the PNOC Energy Development Corporation was conducted last November 2022. Waiting for the submission of the Commissioners Report.

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

For: Expropriation

Handling Counsel: OSG

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

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

On July 26, 2016, PNOC filed a manifestation and motion to hold in abeyance the time within which PNOC would file its Comments on the 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.

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

Status: On June 28, 2022, the Court rendered a decision fixing the amount of just compensation at P300.00 per square meter or P9,913,200 plus legal interest of 6 per cent from the date of the filing of the complaint until full payment. On August 8, 2022, PNOC thru OSG filed a Motion for Reconsideration citing excessive and unjustified determination of just compensation. In a hearing conducted on November 2022, the Motion was submitted for resolution of the Court.

32.9 **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 per cent interest. Thereafter, the court issued an order of the full settlement of the case last July 2, 2013.

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

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

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

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

Status: Waiting for PNB reply. A follow-up has been made last April 25 & 26, 2017, at the PNB Ormoc City. For further follow-up of release of deposit per court order.

32.10 **PNOC vs. Sps. Celso 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:

a. Pay the remaining balance of the just compensation in the amount of P739,812.22;

b. Pay the Commissioners fee at 45,000.00 each as Honorarium Fees; and

c. Reimburse the Commissioners the amount of P15,000 for the expenses they incurred in the performance of their duties.

Status: Waiting for execution of judgement.

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

Handling Counsel: OSG

For: Expropriation

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:

a. PNOC's Motion for Reconsideration on the order of the court lifting the order of Garnishment of EDC's account and dismissing all claims of PNOC against EDC;

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

c. THDC's Urgent Motion seeking the issuance of an order directing the sheriff to re-compute the judgment award in its favor and demand the difference from PNOC. PNOC filed its opposition on this Motion on February 7, 2013.

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

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

Status: On September 17, 2019, the OSG received a Notice of Change of Address dated September 2, 2019 filed by defendant-intervenors counsel. Awaiting further orders from the trial court.

32.12 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

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.

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

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

Status: On October 1, 2018, the OSG filed its comment thereto. Awaiting resolution from the RTC.

32.13 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 petition 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.

The parties agreed and conducted an ocular inspection to determine the amount of deposit that TransCo shall make.

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

The Court issued an Order to TransCo to deposit the amount of P3,000/sqm for the roadside lots, P1,500/sqm for near road lots and P500/sqm for the inner lot.

Status: On December 20, 2021, the Court ordered the release of the initial deposit of TransCo amounting to P24,573,000.00 to PNOC which was deposited on July 14, 2022. The issue of the determination of just compensation is still pending.

32.14 National Transmission Corporation 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 agreed as well.

Status: Pre-Trial was conducted. The parties will explore avenues to settle the case. In December 2022 hearing, the Court dismissed the case citing the recent decision of the Supreme Court that for cases involving government entities, jurisdiction lies with the Department of Justice, OSG or OGCC.

32.15 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

Handling Counsel: Office of Government Corporate Counsel (OGCC)

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.

Status: On November 13, 2019, RTC Branch 278 of Mandaluyong City promulgated a resolution with the following dispositive portion:

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

Status: Both parties appealed the decision of the RTC and filed their respective Appellant and Appellee's Briefs. On December 13, 2021, the Court of Appeals denied the appeals of PNOC and Petron.

PNOC filed its Motion for Reconsideration dated January 31, 2022 on February 2, 2022. Petron, on the other hand, filed its Motion for Reconsideration on February 7, 2022.

On May 10, 2022, the OGCC received the Resolution of the Court of Appeals (CA) dated April 19, 2022, directing it to file a Comment on Petron's Motion for Reconsideration. PNOC then filed its Comment/Opposition on May 20, 2022.

In a Resolution dated October 6, 2022, the Court of Appeals finding no cogent reason to disturb its assailed decision, denied the motions for reconsideration of both PNOC and Petron. With respect to PNOC, the CA held that:

- The summary judgment rendered by the lower court was ultimately justified as there was no more need for a full-blown trial as the parties had already presented their respective arguments and pieces of evidence in support of the said arguments.

- Contrary to the claim of PNOC, the tenor of the letters was not a mere request for the nullification of the questioned provisions nor was it pursuant to an ongoing negotiation. It was actually an ultimatum with the expressed intent to terminate the lease in case the ultimatum was not met. In other words, there was actually no room for negotiation since in order for Petron to get the lease agreements renewed, the only option left to it is to nullify the questioned provisions.

- As reflected in the Deeds of Conveyances, Petron has adequately and convincingly shown that one of the factors/considerations for the conveyance of the subject properties was the lease-back and long-term use thereof by Petron. Clearly, the lease-back agreement was a material consideration and condition for the conveyance of the subject landholdings by way of dividends.

- All the subject deeds of conveyance and lease agreements should not be taken in isolation from each other as they were all part of a single arrangement.

- Under Article 1191 of the Civil Code, the power to rescind obligations is implied in reciprocal ones. The subject Deeds of Conveyance and Lease Agreements involve reciprocal obligations.

- The Deeds of Conveyance and Lease Agreements involve reciprocal obligations.

Regarding Petron's argument in its Motion for Reconsideration that PNOC should also be ordered to return the lease rentals it paid as a result of the order of mutual restitution, the CA ruled that in exchange for the payment of rentals, Petron received benefits in the form of use or enjoyment of the leased Properties. If PNOC is obliged to return the rental payments it received, Petron must also be obliged to return the benefits it received consisting of its use and enjoyment of the subject Properties. Naturally and logically, the monetary equivalent of such use and enjoyment is the rental amounts received by PNOC.

PNOC and Petron both filed a Notice of Appeal. PNOC filed its Appeal by filing a verified petition for review on certiorari on December 5, 2022, while Petron filed a Manifestation that they will no longer file an appeal.

32.16 In the matter of the Petition for Declaration of State of Suspension of Payments, GO UNIQUE Products, Inc. Petitioner vs. PNOC, BIR, DOST, SSS, DBP, PHIC (Creditors-Oppositors), SR Proceeding No. 27-V-08, RTC Branch 75, Valenzuela City

Handling Counsel: Office of the General Counsel (OGC)

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

Because of the negative financial condition, the Petitioner are 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 but requested waiver of penalties. PNOC cannot waive penalties and the defendant stated that they will go back to Court to ask for the waiver or tempering of interests and penalties. GO Unique will now be liquidated and the Court was already presented with the list of possible liquidators. In a hearing last July, the creditors present, including PNOC interposed no objections on the proposed list of liquidators.

32.17 Energy Oil and Gas Holdings Inc. vs. PNOC et. al., R-MKT-18-05265-CV, Branch 132, Makati City

For: Specific Performance and Damages

Handling Counsel: OSG

In December 10, 2020, Judge Rommel O. Baybay of Regional Trial Court 132 of Makati City issued a Resolution denying the motion of Energy Oil and Gas Holdings, Inc. for Summary Judgement. The said Resolution was received by the Office of Solicitor General only on January 27, 2021.

The Court denied the Motion stating that there are issues to be determined as provided in the pre-trial order as follows:

1. Whether or not the MOA dated 19 June 2014 was merely a reservation for the plaintiff to be allowed to enter the property and have exclusive rights over the property for a period of one year;
2. Whether or not there is a binding lease agreement;
3. The nature of the P38,639,025.00;
4. The participation of the individual defendants; and
5. Who among the parties are liable for damages and attorneys.

Status: Plaintiff terminated its presentation of evidence and formally offered their evidence. PNOC has presented its first two witnesses and will present its last witness on February 3, 2023.

32.18 Indigenous Cultural Communities/Indigenous Peoples represented by Jose Romel Agustin Maurio vs. Japan International Cooperation Agency, National Power Corporation, Philippine National Oil Company, Central Bank of the Philippines, Civil Case No. 21-03761, RTC 58, Makati City

Handling Counsel: OGC

This is a civil case for damages filed by a certain Jose Romel Agustin Maurio (supposedly representing a group of ICCs/IPs) against defendants invoking the provisions of Republic Act No. 8371 or the "Indigenous Peoples Rights Act".

PNOC received the Summons on December 07, 2021. PNOC sought for time to file Answer by filing the corresponding Motion for Extension therefor. PNOC's Verified Answer was filed on 08 February 2022.

The Court dismissed the case last July 2022 for lack of merit. However, in November 2022, PNOC received a copy of a Petition for Certiorarti filed the petitioners of this case.

33. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS (RR) NO. 15-2010 OF THE BUREAU OF INTERNAL REVENUE (BIR)

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

32.19 Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2022 in the total amount of P1,236,539,673 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2022 amounting to P89,743,774 were remitted to the BIR in January 2023.

32.20 The Company's taxes and licenses in 2022 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	2022
Real Estate Tax	42,636,144
Business Taxes	1,668,580
Capital Gains Tax	690,420
Motor Vehicle Registration	67,382
Other Taxes, Fees and Licenses	5,175,054
Total	**50,237,580**

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial

1. The balance of Accounts Payable account amounting to P132.523 million as at December 31, 2022 includes accruals amounting to P22.888 million without evidence of goods received or services rendered to PNOC, contrary to the Conceptual Framework for Financial Reporting (Conceptual Framework); resulting in the overstatement of Property, Plant and Equipment (PPE), Accounts Payable, Due to Bureau of Internal Revenue (BIR) and Input Tax accounts amounting to P17.838 million, P22.888 million, P2.023 million and P2.670 million, respectively, and understatement in Retained Earnings account by P4.405 million.

1.1. Paragraph 4.3, 4.26 and 4.69 of the Conceptual Framework provides description of the following elements of the financial statements:

> *4.3 An asset is a present economic resource* ***controlled by the entity*** *as a result of past events.*
>
> *4.26 A liability is a* ***present obligation of the entity to transfer an economic resource*** *as a result of past events.*
>
> *4.69 Expenses are* ***decreases in assets****, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.* (Emphasis Ours)

1.2. The corporate operating budget (COB) of PNOC is approved through legislative action and is included in the yearly appropriations in the General Appropriations Act (GAA)[1]. As part of the year-end transactions, PNOC accrues various liabilities. As at December 31, 2022, PNOC has accrued liabilities amounting to P93.298 million, hence, the recognition of assets and expenses at year-end.

1.3. Verification of documents disclosed accruals amounting to P22.888 million based only on the contract, Purchase Order (PO), Notice of Award (NOA) or Notice to Proceed (NTP). These were not supported with documents as evidence of goods received or services rendered, such as Service Invoice for services rendered, Delivery Receipt for goods delivered or Certification of Inspection and Acceptance for projects completed. The following were the basis for the accruals made at year end:

Description	Supporting Document	Amount
2 UNITS PASSENGER ELEVATOR	Contract dated December 1, 2022	8,426,250.00
DESKTOP COMPUTERS	PO dated December 28, 2022	2,608,357.15
SURVEYS OF PAFC PROPERTIES	NOA dated December 27, 2022	2,152,340.00
INTERIOR REPAINTING	NOA dated December 13, 2022	1,752,064.88
REPAINTING OF ADMIN BLDG AT THE ENERGY SUPPLY BASE	NOA dated December 19, 2022	1,713,684.56

[1] Republic Act No. 7638 requires annual COB of PNOC to be submitted to Congress for approval.

Description	Supporting Document	Amount
STAFFHOUSE CONFERENCE REPAIR	Contract dated December 1, 2022	1,357,562.66
MOTOR CIRCUIT BOOSTER PUMP	NOA dated December 27, 2022	974,872.54
ROOF SLAB WATER PROOFING	NOA dated December 12, 2022	882,007.50
REPAIR AT HIGHLAND PROPERTY	NOA dated December 20, 2022	854,314.15
PROP RELOC & STRCTURL SURVEY	NOA dated December 2, 2022	807,507.00
APPRAISAL OF PROPERTIES	NOA dated November 11, 2022 and NTP dated December 19, 2022	630,857.15
2022 CHRISTMAS TOKEN	PO dated December 23, 2022	149,488.39
BRAND NEW ELECTRIC SCOOTER	PO dated December 23, 2022	141,945.35
PIP HAULING OF HAZARDOUS WASTE	NOA dated December 27, 2022	115,500.00
CORPORATE TOKEN	PO dated December 21, 2022	75,714.28
REPLACEMENT OF GLASS PANEL	PO dated December 21, 2022	57,732.15
BRAND NEW ELECTRIC VEHICLE	PO dated December 19, 2022	55,977.60
TONER FOR HP LASERJET PRINTER	PO dated December 28, 2022	53,338.82
TONER FOR KYOCERA PRINTER	PO dated December 28, 2022	21,564.37
MATERIALS FOR GARBAGE BIN RACK	PO dated December 21, 2022	21,529.35
EMERGENCY EXIT LIGHT	PO dated December 14, 2022	18,550.00
VARIOUS INKS FOR PRINTER	PO dated December 28, 2022	9,393.30
CALIBRATE ALCOHOL BREATH ANALY	PO dated December 14, 2022	4,410.00
REPAIR OF PRINTER	PO dated December 12, 2022	3,468.75
TOTAL		**22,888,429.95**

1.4. Management commented that liabilities are accrued when the obligation is incurred, which happens when contracts or POs are signed. They argued that from a legal point of view, obligations arise from the stipulation of the parties as evidenced by the contract, and compliance with the contract in good faith is expected. They added that by recognizing the liabilities in the books, the company ensures that its financial statements accurately reflect its true financial position. Failure to recognize these obligations could result in the absence of a funding source for payment, as they may not be included in the budget for the succeeding year. Management also stated that using funds from the current year for such expenses could be considered a criminal offense, as the expenditure is not included in the approved budget for the current year.

1.5. However, the accrual of liability for goods not yet delivered and services not yet rendered to PNOC is not consistent with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework. The recognition of liability amounting to P22.888 million without evidence of goods received or services rendered to PNOC resulted in the overstatement of PPE, Accounts Payable, Due to BIR and Input Tax accounts amounting to P17.838 million, P22.888 million, P2.023 million, and P2.670 million, respectively, and understatement in Retained Earnings account by P4.405 million.

1.6. **We recommended that PNOC Management require the Accounting Department to review and analyze the accruals as at December 31, 2022 and thereafter, effect the necessary accounting adjustments to correct the overstatement of PPE, Accounts Payable, Due to BIR and Input Tax accounts amounting to P17.838 million, P22.888 million, P2.023 million, and P2.670 million, respectively, and understatement in Retained Earnings account by P4.405 million.**

2. **The balance of Other Deferred Credits account amounting to P67.608 million includes transactions amounting to P43.035 million with no supporting details contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1, thus, faithful representation of the balance of the Other Deferred Credits account as at December 31, 2022 was not ascertained.**

2.1. Paragraph 15 of PAS 1 *Presentation of Financial Statements*, on the Fair Presentation and Compliance with Philippine Financial Reporting Standards 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.

2.2. In the Calendar Year (CY) 2021 Annual Audit Report, the issue on the absence of sufficient details and supporting documents of the various intercompany charges amounting to P240.357 million from dissolved subsidiaries of PNOC, recognized under Other Deferred Credits account, was raised. It was also pointed out that subsidiary ledgers to provide the breakdown of these charges were not maintained. The Audit Team then recommended the analysis of each transaction recorded under the account and effect the necessary adjustments, if any, and maintain subsidiary ledgers for monitoring purposes.

2.3. As at December 31, 2022, the balance of Other Deferred Credits account of P67.608 million included transactions amounting to P43.035 million with still no supporting details. Subsidiary ledgers for these were also not maintained.

2.4. Inquiry with concerned personnel of the Accounting Department revealed that they have not completed collating the details as the amount represents various old intercompany transactions.

2.5. During the exit conference and meetings subsequent thereto, the Accounting Department informed the Audit Team that they will provide the supporting details and adjust the books of accounts on or before September 30, 2023.

2.6. The absence of supporting details of the amount of P43.035 million recognized under the Other Deferred Credits account precluded the Audit Team from verifying and examining the effects of transactions, other events and conditions surrounding the account, hence, any necessary adjustments to the balance of the account as at December 31, 2022 were not determined.

2.7. **We recommended and PNOC Management agreed to require the Accounting Department to:**

a. Provide details and documents of the transactions amounting to P43.035 million included under Other Deferred Credits account on or before September 30, 2023;

b. Prepare subsidiary ledgers for the Other Deferred Credits account; and

c. Analyze and prepare the necessary adjusting entries, if any.

3. **The balance of Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) amounting to P4.300 million as at December 31, 2022 includes Investment in Evercrest Golf Club & Resort Inc. (Evercrest) valued at cost amounting to P1.600 million, with no allowance for credit losses despite objective evidence that the asset is impaired, contrary to paragraph 5.5.1 of Philippine Financial Reporting Standard (PFRS) 9 - *Financial Instruments*, resulting in the overstatement of Financial Asset at FVOCI account and understatement of Unrealized Loss from Changes in Fair Value account, by P1.600 million.**

3.1. Paragraph 5.5.1 of PFRS 9 *Financial Instruments* provides that:

> *An entity shall recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).*

3.2. Also, Note 3.2 (iv) to the Financial Statements provides that PNOC shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

3.3. Review of accounting records on Financial Assets at FVOCI showed that as at December 31, 2022, PNOC has an Investment in Evercrest Golf Club & Resort Inc. with a cost of P1,600,000.00. Due to collection cases and processes with the sale of the property of Evercrest, transfers of ownership thereon ensued. PNOC was already made aware of the impending disposal of Evercrest in 2011. It was the opinion, as determined in 2011 by of its former Legal Department, that it would not affect the rights of PNOC as member-shareholder in Evercrest. As at December 31, 2022, PNOC valued said investment at cost.

3.4. The continued valuation at cost for the investment in Evercrest is contrary to PFRS 9. Based on the publication of the GolfPH, resource information for golfers, Evercrest is presently closed and records of PNOC disclosed that its latest annual due paid to Evercrest was in 2010. Also, based on the latest publication of club shares per GG & A, utilized by PNOC in the valuation of other club shares, Evercrest is not included in its database for club-issuing shares. Per inquiry with GG & A, the last transaction PNOC with Evercrest was in 2005.

3.5. Interview with the Accounting Department revealed that they did not receive any update on the status of PNOC's right as member-shareholder.

3.6. Based on the present conditions, PNOC is not certain that it can recover or enjoy rewards from its investment in Evercrest, hence, the non-recognition of allowance for credit losses is contrary to PFRS 9. This resulted in the overstatement of Financial Asset at FVOCI account by P1.600 million and understatement of Unrealized Loss from Changes in Fair Value account by the same amount as at December 31, 2022.

3.7. **We recommended and PNOC Management agreed to require the Accounting Department to recognize allowance for credit losses for the Investment in Evercrest amounting to P1.600 million presented under Financial Assets at FVOCI in the financial statements as at December 31, 2022.**

B. Non-financial

The 2020-2025 Gender and Development (GAD) Agenda of PNOC was not yet formulated, contrary to Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2018-04 dated September 19, 2018, hence, it has no strategic framework and plan for gender mainstreaming and achieving women empowerment and gender equality. Also, GAD Budget was below the required of at least five per cent of the total COB contrary to Section 36 (a) of Republic Act (RA) No. 9710.

Section 3 of PCW MC No. 2018-04 dated September 19, 2018 laid down the general guidelines for the preparation of the GAD Agenda, to wit:

3.1. The GAD Agenda is the agency's strategic framework and plan on gender mainstreaming and achieving women's empowerment and gender equality. It shall:

3.1.1. serve as basis in identifying programs, activities, and projects to be undertaken to achieve the GAD goals and outcomes;

3.1.2. provide the monitoring and evaluation (M&E) framework for assessing GAD results and outcomes that shall be the basis for strengthening the mainstreaming of a GAD perspective in the agency's operations and programs; and

3.1.3. be formulated in a participatory, consultative and inclusive process. It shall consider the results from consultations with women target beneficiaries as well women's groups/organizations working on the sector and other concerned stakeholders, and the identified gaps resulting from gender analysis.

Further, Section 8 of the same PCW MC provides that the GAD Agenda shall be submitted by agencies to PCW for the purpose of monitoring, evaluation, reporting of gender equality and women's empowerment results and as necessary, provision of technical assistance on its implementation.

In the audit of GAD for CY 2022, it was noted that PNOC has not yet formulated its GAD Agenda for 2020-2025. There are no documents showing initial steps in the preparation of the GAD Strategic Framework and GAD Strategic Plan.

In the previous years' Annual Audit Reports, the non-compliance of the GAD Budget with the required five per cent of the total COB, causing the non-endorsement of the CY 2021 GAD Plan and Budget (GPB) by the PCW was raised. The lack of fully established Sex-Disaggregated Data (SDD) was also pointed out. The Audit Team then recommended that Management come up with a list of programs, activities and projects of PNOC which cost could be attributed to GAD, to meet the required GAD Budget of at least five per cent of the COB to be endorsed by PCW, and complete the GAD database for the GAD issues in PNOC.

For CY 2022, the prepared GPB has reflected amounts and activities but has no relevant information establishing the alignment of the programs and activities to the gender issue/s in PNOC. The GAD Budget for CY 2022 reflected in the GPB is only P1.511 million or only 1.15 per cent of the required GAD Budget of at least five per cent of the total approved COB for the year is which is P65.823 million, contrary to Section 36 (a) of RA No. 9710.

The existing projects and programs of PNOC were not attributed to the GAD Budget. Similarly, the CY 2022 GPB was not endorsed by PCW since it was below the required budget. The GAD database only provided statistics on sex, age, employment status, job grade and vulnerabilities (Senior Citizen or Persons with Disability) and common health problems, hence, not providing all vital information such as training needs, civil status, knowledge about GAD or roles in the household or community, to aid the gender analysis of PNOC.

The PNOC GAD Focal Point System (GFPS) is currently in the process of capacity building its GFPS/GAD focal persons in the areas of GAD Planning, Gender Mainstreaming Evaluation Framework and Harmonized GAD Guidelines to ensure a harmonized understanding of basic GAD and gender-responsive programs and projects, and gain competence in the use of gender analysis tools. The PNOC GFPS has made plans this 2023 for the creation of a 2024-2025 GAD Agenda with the help of a consultant.

Due to the non-formulation of GAD Agenda, PNOC has no strategic framework and plan for gender mainstreaming and achieving women empowerment and gender equality and has no basis in identifying programs, activities, and projects to be undertaken to achieve the GAD goals and outcomes. Also, the non-compliance with the required GAD budget for CY 2022 of at least five per cent of the approved COB is contrary to relevant PCW issuances and the General Appropriations Act.

We recommended and PNOC Management agreed to require GAD Focal Point System to:

a. Participate in the capacity-building programs of PCW or GAD practitioners in the preparation of the GAD Agenda and in the attribution of programs and projects to the GAD Budget;

b. Prepare the 2024-2025 GAD Agenda to comply with the requirements of PCW MC No. 2018-04;

c. Prepare the annual GPB of at least five per cent of the total COB and submit it to PCW for endorsement; and

d. Include in the existing GAD database other vital information such as training needs, civil status, knowledge about GAD or roles in the household or community as bases in the identification of gender issues and formulation of gender-responsive programs and policies.

Compliance with Tax Laws

Taxes withheld in CY 2022 in the total amount of P1.237 billion were remitted to the Bureau of Internal Revenue (BIR) within the prescribed period. The taxes withheld for the month of December 2022 amounting to P89.744 million were remitted to the BIR in January 2022.

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

Premiums due to GSIS, Pag-IBIG and PhilHealth for CY 2022 in the amount of P23.246 million were deducted from the salaries of PNOC personnel and remitted within the prescribed period:

Agency	Premiums collected and remitted from January to November 2022	Premiums collected in December 2022 and remitted in January 2023	Total
GSIS	17,959,839	1,631,195	19,591,034
Pag-IBIG	286,782	26,162	312,944
PhilHealth	3,058,127	283,446	3,341,573
Total	**21,304,748**	**1,940,803**	**23,245,551**

Insurance of Property

PNOC has also been compliant with RA No. 656 in insuring its properties with the GSIS.

Status of Audit Suspensions, Disallowances and Charges

As at year-end, total disallowances amounted to P1,258,066.83. This represents Excess Reimbursable Expenses of the Board of Directors with pending Petition for Review with the COA Commission Proper. There are no audit charges and suspensions as at December 31, 2022.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 25 audit recommendations embodied in the previous years' Annual Audit Reports, 17 were implemented, six were not implemented and two were reiterated in Part II of the report. Details are shown in the following table:

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
2021 AAR Observation No. 1, pages 65-66	The reliability and validity of Other Deferred Credits account with a balance of P248.972 million could not be established due to absence of sufficient details and supporting documents, contrary to paragraph 1.17 of the Conceptual Framework, paragraph 15 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2020-002 dated January 28, 2020, relative to the recognition of various intercompany charges to PNOC subsidiaries amounting to P240.357 million.	1. Analyze the various Intercompany charges amounting to P240.357 million and take up the necessary adjusting entries; and Maintain Subsidiary Ledger for the monitoring and analysis of Other Deferred Credits Account to establish its reliability and validity.	Reiterated in Observation No. 2, Part II – A of this Report.
2021 AAR Observation No. 2, pages 67-68	The reliability of the Property, Plant and Equipment (PPE) – Machinery and Equipment account with carrying amount of P25.905 million as of December 31, 2021 was not established due to the inclusion of unlocated items costing P7.642 million and disposed properties costing P0.607 million which were not adjusted as of year-end, while the costs of properties in the Accounting records differ from those reflected in the Report on the Physical Count of PPE (RPCPPE) with variance of P0.518 million, contrary to	2. Require the Accounting Department and Property Management Department to derecognize the disposed properties based on the documents relative to disposal, and verify if the non-existing/unlocated PPE were already disposed with supporting IIRUP or transferred with supporting Property Transfer Report, for recording in the	Implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	paragraph 15 of PAS 1, and Sections 6.3 and 7.1 of COA Circular No. 2020-006.	books of PNOC, in compliance with Section 7.1 of COA Circular No. 2020-006. Thereafter, effect the necessary adjustments; and 3. Require the Accounting Department to review and analyze the difference between the costs of PPE – Machinery and Equipment per books/financial statements and per RPCPPE.	 Implemented
2021 AAR Observation No. 3, pages 68-70	The reliability and validity of the Lease/Other Receivable, Inter-Agency Receivable and Accounts Receivable accounts totaling P9.594 million could not be established due to unreconciled variances between the balances per books of accounts and confirmation replies of some business partners/clients of PNOC, contrary to paragraphs 2.12, 2.13 and 2.30 of the Conceptual Framework.	4. Require the Accounting Department to analyze each of the transactions recorded and to reconcile with the business partners/clients to identify the cause/s of the variances between book balance and confirmed balances, for preparation of adjustments, if any, to establish reliability and validity of the account.	Implemented
2021 AAR Observation No. 4, pages 70-73	Due to the limited corporate powers of PNOC under its charter, the Decentralized Energy Systems (DES) Project Fund remained idle, hence, not effectively utilized	5. Require the Office of the Senior Vice President for Energy Investments to request guidance from DOE on the	Implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	for lending activities as required under the Financing Agreement dated February 6, 1987, by and between the Government of the Republic of the Philippines and the Commission of the European Communities for the promotion of the use of renewable energy technologies and in assisting the Philippine Government in providing sustainable and indigenous energy resources for the country.	implementation of DES Project Fund, with due consideration of the provisions on consultation and amendment of the Financing Agreement. Also, consider recommending to DOE the participation of PNOC RC in the said project, being the government's arm in the promotion and development of renewable energy sector in the country.	
2021 AAR Observation No. 5, pages 68-70	The withheld taxes for 2021 amounting to P260,740.13 have remained unutilized as tax credit against income tax or tax refund due to lack of BIR Form No. 2307 to be obtained from the lessee-payors by PNOC as lessor-payee, contrary to BIR Revenue Regulations (RR) No. 2-98, as amended. Moreover, withheld taxes for 2020 and prior years without BIR Form No. 2307 amounting to P303,164.35 have remained unpaid for completion of payment by respective lessees as at year-end contrary to the governing contracts of lease, and thus, could no longer be utilized either as tax credit or tax refund.	6. Require the Accounting Department to assign personnel to demand submission of BIR Form No. 2307 from the lessee-payors to support the use of withheld taxes amounting to P260,740.13, and the eventual monitoring of submission by lessees of BIR Form No. 2307, within 20 days from the close of the quarter pursuant to BIR RR No. 2-98, as amended; and	Implemented
		7. Instruct the Treasury Department to demand payment	Implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
		from lessees who fail to pay the P303,164.35 and to regularly send Statements of Account to lessees.	
2021 AAR Observation No. 6, pages 68-70	Several deficiencies were noted in the accuracy, completeness and presentation of the accounts arising from lease, income taxes and withholding taxes transactions, contrary to the Conceptual Framework, PAS 1, PFRS 16, accounting policy of PNOC for lease, PAS 12 and COA Circular No. 2020-002.	8. Require the Accounting Department to prospectively, record the i) income from lease payments account in the proper accounts and/or period; and ii) transactions involving income taxes and withholding taxes in the appropriate accounts, in accordance with the Conceptual Framework, PAS 1, PFRS 16, accounting policy of PNOC for lease, PAS 12 and COA Circular No. 2020-002.	Implemented
2021 AAR Observation No. 7, page 77	The Gender and Development (GAD) Plan and Budget (GPB) for Calendar Year (CY) 2021 amounting to P3.130 million or 0.51 per cent of the approved Corporate Operating Budget (COB), was below the required of at least five per cent pursuant to Section 36 (a) of Republic Act (RA) No. 9710; thereby, preventing review and	9. Require the Strategy Management Office and other offices/departments to come up with the list of programs, activities and projects of PNOC which cost could be attributed to GAD, to meet the required of at least	Reiterated in Part II – B of this Report.

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	endorsement by Philippine Commission on Women (PCW) which will determine whether PNOC Programs, Activities, and Projects (PAPs) for CY 2021 are gender responsive and cost efficient and effective for its implementation with the funds attributed to it, in conjunction with PCW Memorandum Circular No. 2020-05 covering effects of non-compliance with required GAD budget.	five per cent of the total COB, to merit the review and endorsement of succeeding GPBs by PCW.	
2020 AAR Observation No. 2, pages 68-70	No formal agreement was arrived at since 2018 regarding the valuation of the assets transferred/turned over to PNOC relative to the operations of the Energy Supply Base (ESB) previously owned and operated by PNOC Exploration Corporation (PNOC EC), hence the properties being used and controlled by PNOC are not recorded in its books despite generating revenues from such use, thereby affecting the faithful representation of the effects of transactions in its financial statements.	10. Elevate the matter to the Board of Directors of PNOC to come up with a formal agreement with the Management of PNOC EC which will be mutually beneficial to both corporations, in order to determine the proper valuation of the properties to be recognized in the books of PNOC.	Not implemented PNOC is assessing whether it can meet the proposed full payment in January 2024.
2019 AAR Observation No. 2, pages 61-64	The procurements of various Information and Communication Technology (ICT) projects costing P3.254 million for Calendar Year (CY) 2019 were not supported with an approved Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent	11. Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.	Implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	of the total ICT projects were not bought from the DBM-Procurement Service (PS), thus, contrary to Section 4.4 of the Department of Budget and Management (DBM) Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.		
2019 AAR Observation No. 4, pages 66-67	The grant of monetary award under the Civil Service Commission (CSC)-approved Program for Awards and Incentives for Service Excellence (PRAISE) for PNOC as implemented under its Service Award Policy Guidelines is computed based on number of years rendered in the agency, thus, contrary to Section 6 of CSC Memorandum Circular (MC) No. 1, Series of 2001.	12. Revisit the PNOC Service Award Policy Guidelines to conform to the standards in the CSC-approved PRAISE or CSC MC No.1, particularly on the giving of monetary awards.	Implemented
2019 AAR Observation No. 5, pages 67-70	The Gender and Development Plan and Budget (GPB) for CY 2019 amounting to P1.080 million or 0.22 per cent of the approved Corporate Operating Budget for CY 2019, was below the required five per cent set forth under Section 32 of the General Provisions of the GAA for the Fiscal Year 2019. In addition, the lack of GAD Database delayed the establishment of a system for monitoring and evaluation purposes of GAD	13. Prioritize the completion and operation of the long overdue GAD Database and submit the written communication/s with the PCW, for the changes made on the planned activities, and the response if any, to the Office of the Supervising Auditor, for evaluation	Implemented

Reference	Audit Observations	Audit Recommendations	Status/ Action Taken
	issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission on Women (PCW) prior to undertaking of activities other than those indicated in the PCW-endorsed GPBs was contrary to Section 4.4 and 9.2, respectively, of PCW-NEDA-DBM Joint Circular No. 2012-01.		
2018 AAR Observation No. 1, pages 73-76	The non-recognition of assets and depreciation expenses relative to the Energy Supply Base (ESB) operations and properties turned over by PNOC Exploration Corporation (PNOC EC) to PNOC with a fair market value of P147.618 million is contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1, Chapters 4.4(a), 4.38 and Chapter 3 of the Conceptual Framework, Paragraph 31 of IFRS 3 and the Matching Principle of accounting, thus, affecting the fair presentation of balances of pertinent accounts in the financial statements.	14. Recognize the assets of ESB at Fair Market Value in compliance with IFRS 3, paragraph 31, Conceptual Framework Chapter 4.4(1) and 4.38 and PAS 1.	Not implemented Amount not yet determined or agreed upon.
2018 AAR Observation No. 2, pages 76-79	The balance of Due from Government Corporations - PSALM account in the amount of P112.543 million as against the confirmed zero balance affected the fair presentation of balances of pertinent accounts in the financial statements contrary to Paragraph 15 of PAS 1,	15. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT.	Implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	thus, the existence, validity and collectability cannot be ascertained.		
2018 AAR Observation No. 3, pages 79-81	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.	16. File appropriate legal charges against NRDC, if necessary.	Implemented
2018 AAR Observation No. 6, pages 84-86	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.	17. Renew the Memorandum Receipts (MR or Gen. Form No. 32) now Property Acknowledgement Receipt, every three years.	Implemented
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 the	18. Recognize the payables to PNOC RC amounting to P51.956 million and settle the account as soon as possible.	Not implemented Local Government Unit (LGU) Certification has already been secured and DOE has issued

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	Department of Energy (DOE) and PNOC, were not recognized as payables to PNOC RC by PNOC, thus, understating the liability account by the same amount.		a Certificate of Acceptance. Other issues such as Warranty Bonds are being settled with the Legal Department of the DOE. PNOC submitted additional documents and is waiting for DOE's approval.
2016 AAR Observation No. 7, pages 62-83	Investment Property as of December 31, 2016 amounting to P1.689 billion consisted of 23 lots with an area of 718,056 sq.m. with Transfer Certificates of Titles (TCTs) but not in the name of PNOC, and of 44 lots amounting to P100.041 million with an area of 241,741 sq.m. without TCTs in the name of PNOC. Also, discrepancies existed between the records being maintained by the Estate Management Department (EMD) and Accounting Department (AD) on: a) for the 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.	19. Cause the completion of processing the titles of 67 lots to ensure the proper transfer of ownership to PNOC;	Not implemented Three out of 23 lots were disposed already. PNOC finds the completion of the processing of titles, and registration of untitled lots a long-term process for the subject lots considering the following: a) lack/absence of primary documents (deed) to support the requirements in the registration/ titling or even in the transfer of title in PNOC's name; b) necessity to resolve issues that still require judicial process

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	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.	20. 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;	like adverse claims and lack of technical descriptions; Not implemented Four out of 44 lots were disposed while 18 were dropped in the books. PNOC finds the completion of the processing of titles, and registration of untitled lots a long- term process for the subject lots considering the following: a) lack/absence of primary documents (deed) to support the requirements in the registration/ titling or even in the transfer of title in PNOC's name; b) necessity to resolve issues that still requires judicial process like adverse claims and lack of technical descriptions; c) unregistrable lots – part of

Reference	Audit Observations	Audit Recommendations	Status/ Action Taken
			the public domain; d) could not be located; and e) some other issues that barred PNOC from having the said lots transferred/ titled/registered in its name.
		21. 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;	Implemented
		22. Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies; and	Not implemented PNOC continues to accept and process the application for lease of PNOC idle lots whether it is a short or long-term lease. To date, there are 73 lot that remained idle. On the issue of informal settlers, PNOC has sought the assistance of the LGU, Municipal Social Housing Finance

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
			Corporation and the Department of Human Settlements and Urban Development. Also, PNOC continues its efforts to clear its properties of informal settlers. Demand Letters to vacate were served to them.
		23. 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.	Implemented
2015 AAR Observation No. 2, pages 54-57	Found existing for reciprocal accounts between *Due from Subsidiaries* per PNOC books and *Due to PNOC* per subsidiaries' records was a variance of P4.684 million involving various reconciling items which remained unresolved for more than one to 13 years. Also, no Allowance for Impairment was recognized for the account *Due from Subsidiaries*, contrary to paragraphs 58 and 59 of PAS 39.	24. Coordinate with the Finance Managers/ Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items;	Implemented
		25. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements.	Implemented