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, 2020 and 2019

EXECUTIVE SUMMARY

A. Introduction

Background Information

1. 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 that same month. PNOC will continue to act as holding company in relation to PNOC Exploration Corporation and PNOC Renewables Corporation while it took over the ongoing programs and assumed the functions of the abolished subsidiaries.

B. Objectives and Scope of Audit

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

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

6. The audit covered the examination on a test basis of the accounts and financial transactions of PNOC for the period January 1 to December 31, 2020 in accordance with ISSAI. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of PNOC to prescribed laws, rules and regulations.

C. Financial Highlights (In Million Pesos)

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

Financial Position

	2020	2019	Increase (Decrease)
Assets	36,530.751	40,832.585	(4,301.834)
Liabilities	4,075.770	3,965.734	110.036
Equity	32,454.981	36,866.851	(4,411.870)

Results of Operation

	2020	2019	Increase (Decrease)
Income			
Service and Business Income	989.414	1,354.205	(364.791)
Gains	51.187	4.945	46.242
Non-Operating Income/Gain	151.663	4.483	147.180
Total Income	**1,192.264**	**1,363.633**	**(171.369)**
Expenses			
Personnel Expenses	136.027	105.907	30.120
Maintenance and Other Operating Expenses	133.163	157.809	(24.646)
Financial Expenses	8.157	8.789	(0.632)
Direct Cost	106.956	152.837	(45.881)
Non-Cash Expenses	126.547	51.052	75.495
Total Expense	**510.850**	**476.394**	**34.456**
Profit Before Tax	**681.414**	**887.239**	**(205.825)**
Income Tax Expense	**(156.948)**	**(172.880)**	**15.932**
Profit After Tax	**524.466**	**714.359**	**(189.893)**
Other Comprehensive Loss for the Period	**(0.530)**	**(0.223)**	**(0.307)**
Comprehensive Income	**523.936**	**714.136**	**(190.200)**

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, 2020 and 2019 as stated in the Independent Auditor's Report in Part I.

E. Significant Audit Observations and Recommendations

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

1. The Investment in Associates account is not properly measured and/or presented in the financial statements due to: i) understatement by at least P30.522 million resulting from valuation at cost of the investment in Gulf Oil Philippines, Inc. (GOPI) instead of equity method and lack of disclosure on the method used to account for the said investment, contrary to Philippine Accounting Standard (PAS) 28 and PAS 27, and ii) presentation of investments in Philippine Mining and Development Corporation (PMDC), a government corporation, without significant influence under the same account contrary to COA Circular No. 2020-002 prescribing the adoption of the Updated Revised Chart of Accounts (RCA).

   Recommendations:

   <u>Investment in GOPI</u>

   a) *Apply equity method of accounting, and accordingly:*

      - *Request the preparation of the latest financial statements of GOPI as of the same date used by PNOC, or calendar year ending December 31, 2020 and every year thereafter, for the share in net income for CY 2020 and future years, in accordance with paragraphs 33-34 of PAS 28;*

      - *Record the adjusting entries for the share in net income to correct the understatement in Investment in Associates account by at least P30.522 million as of December 31, 2020, and corresponding understatement in retained earnings and income for the respective periods;*

      - *Analyze the cash dividends received from GOPI in prior years including accounting entries and adjust related accounts to correct misstatements in the FS of PNOC; and*

      - *Disclose in the Notes to FS the description of the method used to account for the investment.*

Investment in PMDC

b) *Reclassify the presentation in the FS from Investment in Associates to Investment in Stocks account pursuant to the RCA.*

2. 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 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.

   Recommendation:

   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.

F. Summary of Total Disallowances, Suspensions and Charges as of December 31, 2020

There was no Notice of Suspension, Notice of Disallowance and/or Notice of Charge issued to PNOC for the CY 2020.

G. Status of Implementation of Prior Years' Recommendations

Out of the 23 audit recommendations embodied in the prior years' Annual Audit Report, two were fully implemented, 19 were partially implemented and two were not implemented. Details are shown 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, 2020 and 2019, 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, 2020 and 2019, and its financial performance and its cash flows, for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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 ISSAI 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 ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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 34 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 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 30, 2021

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

FOR FINANCIAL STATEMENTS

The Management of the Philippine National Oil Company is responsible for the preparation of the financial statements as at December 31, 2020 and 2019, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

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

Republic of the Philippines
DEPARTMENT OF ENERGY
DOE-AGC-21003890

ALFONSO G. CUSI
PNOC Chairman of the Board

JUN 29 2021
Date Signed

EVANGELINE B. ALBAYTAR
PNOC Senior Vice President for Finance and Administrative Services

Date Signed

ADM REUBEN S LISTA (RET)
PNOC President and CEO

Date Signed

SUBSCRIBED AND SWORN TO BEFORE ME this 30th of JUNE 2021 at Taguig City, affiants exhibited to me their respective identification cards with the details shown below as follows:

Name	TIN
Alfonso G. Cusi	130-661-594
Reuben S. Lista	137-725-162
Evangeline B. Albaytar	103-562-980

NOTARY PUBLIC

Doc. No. 209
Page No. 43
Book No. I
Series of 2021

CARL PHILIP N. BATUCAN
Appointment No. 70 (2020-2021)
Notary Public for Taguig City
Until 31 December 2021
PNOC Bldg. VI, Energy Center, Rizal Drive
Bonifacio Global City, Taguig City
Roll No. 67061
PTR No. A-5063178;01/04/2021; Taguig City
IBP No. 141231; 01/04/2021
MCLE Compliance No. VI-0022420

PHILIPPINE NATIONAL OIL COMPANY
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020 AND 2019

	NOTE	2020	2019 (As restated)
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	414,655,234	307,369,693
Financial Assets	7.1	1,012,860,647	1,558,023,580
Receivables	8	588,244,063	565,653,935
Other Current Assets	13	319,207,527	395,295,955
Total Current Assets		2,334,967,471	2,826,343,163
Non-Current Assets			
Financial Assets	7.1	3,262,866,839	6,970,750,000
Investments in Associates	7.2	99,978,000	99,978,000
Investments in Subsidiaries	7.3	4,859,775,056	4,859,775,056
Other Investments	7.4	96,632,450	96,632,450
Receivables	8	59,862,662	58,057,732
Banked Gas Inventory	9	13,429,634,014	13,536,589,980
Investment Property	10	11,353,176,856	11,358,039,066
Property, Plant and Equipment	11	318,294,850	330,114,536
Deferred Tax Assets	12	715,300,905	696,030,195
Other Non-Current Assets	13	261,590	275,191
Total Non-Current Assets		34,195,783,222	38,006,242,206
Total Assets		36,530,750,693	40,832,585,369
LIABILITIES			
Current Liabilities			
Financial Liabilities	14	156,184,959	101,214,883
Inter-Agency Payables	15	98,193,997	35,289,360
Trust Liabilities	16	258,931,776	226,782,307
Other Payables	17	299,158,471	357,451,847
Total Current Liabilities		812,469,203	720,738,397
Non-Current Liabilities			
Deferred Credits/Unearned Income	18	475,283,469	459,075,657
Provisions	19	34,476,778	32,357,328
Deferred Tax Liabilities	20	2,753,540,476	2,753,562,976
Total Non-Current Liabilities		3,263,300,723	3,244,995,961
Total Liabilities		4,075,769,926	3,965,734,358
EQUITY			
Retained Earnings	21b	29,341,576,824	33,753,249,327
Stockholders' Equity	21a	3,114,595,519	3,114,595,519
Cumulative Changes in Fair Value		(1,191,576)	(993,835)
Total Equity		32,454,980,767	36,866,851,011
Total Liabilities and Equity		36,530,750,693	40,832,585,369

The notes on pages 10 to 61 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

	NOTE	2020	2019
Income			
Service and Business Income	22	989,413,905	1,354,204,634
Gains	28.1	51,186,679	4,944,515
Non-Operating Income	28.2	151,663,156	4,483,496
Total Income		**1,192,263,740**	**1,363,632,645**
Expenses			
Personnel Services	23	(136,026,685)	(105,906,933)
Maintenance and Other Operating Expenses	24	(133,163,229)	(157,808,601)
Financial Expenses	25	(8,157,069)	(8,789,153)
Direct Costs	26	(106,955,966)	(152,836,905)
Non-Cash Expenses	27,28.3	(126,546,609)	(51,052,293)
Total Expenses		**(510,849,558)**	**(476,393,885)**
Profit Before Tax		**681,414,182**	**887,238,760**
Income Tax Expense	29	**(156,947,976)**	**(172,879,516)**
Profit After Tax		**524,466,206**	**714,359,244**
Other Comprehensive Loss for the Period		**(530,326)**	**(222,585)**
Comprehensive Income		**523,935,880**	**714,136,659**

The notes on pages 10 to 61 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

	Cumulative Changes in Fair Value	Retained Earnings/ (Deficit)	Contributed Capital	TOTAL
BALANCE AT JANUARY 1, 2019	(3,216,416)	33,057,296,108	3,114,595,519	36,168,675,211
ADJUSTMENTS:				
Add/(Deduct):				
Adjustment to deferred tax assets	0	350,061,217	0	350,061,217
RESTATED BALANCE AT JANUARY 1, 2019	(3,216,416)	33,407,357,325	3,114,595,519	36,518,736,428
CHANGES IN EQUITY FOR 2019				
Add/(Deduct):				
Comprehensive Income for the year	0	714,359,244	0	714,359,244
Dividends	0	(356,719,259)	0	(356,719,259)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	(222,585)	0	0	(222,585)
Adjustment on interest receivable	0	(13,888,552)	0	(13,888,552)
Impairment loss	0	(4,132,472)	0	(4,132,472)
Reversal of guaranty/security deposits payable	0	4,993,377	0	4,993,377
Reversal of accrued liabilities and expenses	0	1,279,664	0	1,279,664
Net realized forex loss on dollar account	2,445,166	0	0	2,445,166
BALANCE AT DECEMBER 31, 2019	(993,835)	33,753,249,327	3,114,595,519	36,866,851,011
CHANGES IN EQUITY FOR 2020				
Add/(Deduct):				
Comprehensive Income for the year	0	524,466,206	0	524,466,206
Dividends	0	(4,941,942,777)	0	(4,941,942,777)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	(150,000)	0	0	(150,000)
Adjustment on other deferred credits	0	5,807,979	0	5,807,979
Adjustment on prior other expenses	0	328,674	0	328,674
Prior year's realized forex loss on dollar account	332,585	(332,585)	0	0
Unrealized forex loss on dolllar account	(380,326)	0	0	(380,326)
BALANCE AT DECEMBER 31, 2020	(1,191,576)	29,341,576,824	3,114,595,519	32,454,980,767

The notes on pages 10 to 61 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of Income/Revenue	639,138,157	984,792,965
Collection of Receivables	232,111,337	150,987,188
Receipt of Inter-Agency Fund Transfer	8,646,415	0
Trust Receipts	32,149,469	19,959,425
Other Receipts	198,114,043	3,218,743
Total Cash Inflows	1,110,159,421	1,158,958,321
Cash Outflows		
Payment of Expenses	241,773,734	229,452,333
Grant of Cash Advances	13,500	302,000
Prepayments	3,962,375	30,926,093
Refund of Deposits	8,718,329	22,964,485
Payments of Accounts Payable	49,680,087	9,322,724
Remittance of Personnel Benefit Contributions and Mandatory Deductions	36,198,885	67,530,779
Release of Inter-Agency Fund Transfers	1,566,909	53,821,265
Other Disbursements	158,047,628	226,299,485
Total Cash Outflows	499,961,447	640,619,164
Adjustments	1,907,620	1,897,157
Adjusted Cash Outflows	501,869,067	642,516,321
Net Cash Provided by Operating Activities	608,290,354	516,442,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Inflows		
Proceeds from Sale/ Disposal of Investment Property	8,525,584	5,504,900
Receipt of Interest Earned	244,964,130	282,506,667
Receipt of Cash Dividends	1,925,332	2,474,010
Proceeds from Matured Investments	5,881,254,541	3,577,317,211
Total Cash Inflows	6,136,669,587	3,867,802,788
Cash Outflows		
Purchase/Construction of Investment Property	3,368,940	397,356
Purchase/Construction of Property and Equipment	5,368,947	5,098,211
Purchase of Investments	1,628,556,187	3,826,045,177
Total Cash Outflows	1,637,294,074	3,831,540,744
Net Cash Provided by Investing Activities	4,499,375,513	36,262,044
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of Cash Dividends	5,000,000,000	306,504,872
Total Cash Outflows	5,000,000,000	306,504,872
Net Cash Used in Financing Activities	(5,000,000,000)	(306,504,872)
INCREASE IN CASH AND CASH EQUIVALENTS	107,665,867	246,199,172
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(380,326)	(332,585)
CASH AND CASH EQUIVALENTS, JANUARY 1	307,369,693	61,503,106
CASH AND CASH EQUIVALENTS, DECEMBER 31	414,655,234	307,369,693

The notes on pages 10 to 61 form part of these statements.

Philippine National Oil Company
Notes to Financial Statements

1. GENERAL INFORMATION

The financial statements of Philippine National Oil Company *(herein referred to as PNOC or "the Company")* was authorized for issue on June 29, 2021 as shown in the Statement of Management Responsibility for Financial Statements signed by Secretary of Energy, Alfonso G. Cusi, PNOC Chairman of the Board of Directors, Adm. Reuben S. Lista (Ret), PNOC President and Chief Executive Officer, and Ms. Evangeline B. Albaytar, PNOC Senior Vice President for Finance and Administrative Services.

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

Mandate

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

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

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

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

Vision

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

Mission

Through the efforts and initiative of 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 and PNOC Renewables Corporation while it took over the ongoing programs and assumed the functions of the abolished subsidiaries, PAFC and PDMC.

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

Changes

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

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

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

By the end of 2020, the majority of the positions under the Reorganized Table of Organization have been filled-up by 124 out of the 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 steadily taken action towards the performance and attainment of the DOE's mandate, that is, for PNOC to spearhead the development of energy infrastructure for Liquefied Natural Gas (LNG). To attain this vision and direction, the project, known as the "PNOC Liquefied Natural Gas (LNG) Hub Project," was conceptualized.

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

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

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

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

In the notes to PNOC's CY 2019 Financial Statement on its envisioned LNG Hub Project, PNOC reported that on 28 February 2019, it entered into an MOU with Tanglawan Philippine LNG Inc. (i.e. CNOOC Gas and Power Group Co., Ltd., and PHOENIX Petroleum Philippines) to discuss potential cooperation on the LNG Hub Project. However, when Tanglawan's project was put on hold in view of the Udenna Corporation's (i.e. Phoenix's mother company) acquisition of the 45% stake in the Malampaya natural gas consortium, the discussion has also been shelved. PNOC's MOU and NDA with Tanglawan has expired on 28 February 2020.

Aside from Tanglawan Philippine LNG Inc., PNOC also entered into an MOU and NDA with Lloyds Energy on 24 June 2019 to explore cooperative ways for the development of LNG facilities and natural gas power generation plants and other related activities in various properties of PNOC. However, no definitive agreements pursuant to the MOU have been reached until the expiration of its validity on 24 June 2020.

Even though no definitive agreements have been reached with Tanglawan or Lloyds Energy, PNOC remains open and continues to explore new areas of mutually beneficial cooperation and lucrative business opportunities that may arise in the future between potential partners in the area of LNG.

1.2 *Monetization of the PNOC Banked Gas*

Description:

PNOC's assets, called "banked gas", refer 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 108.6 Petajoules (PJ). This was bought by PNOC from the Department of Energy in September 2009.

Currently, the remaining volume of banked gas is equivalent to 97.67 PJ since the Power Sector Assets and Liabilities Management Corporation (PSALM) withdrew 4.61 PJ in 2013 for the Ilijan power plant and another portion equivalent to 6.324 PJ was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2014 for its Tabango Refinery.

After PNOC signed the GSPA with PSPC in 2016 for the sale of a portion of banked gas equivalent to 6.324 PJ, PSPC started withdrawing banked gas from PNOC starting 2018. The total volume which has already been paid for by PSPC out of the total contracted quantity of 6.324 PJ over the contract period from 2018 to 2024 is 3.107 PJ. Out of the 3.107 PJ already paid for, 2.716 PJ is the volume of banked gas actually withdrawn from PNOC inventory by PSPC from 2018 up to January 2021. The difference is due to the 2019 annual deficiency of 0.008 PJ and 2020 annual deficiency of 0.383 PJ.

Due to the latest development in PSPC's shutdown of its Tabango Refinery in May 2020, there have been minimal withdrawals.

In November 2020, PSPC proposed for an early termination of the existing GSPA with PNOC. PMD has completed its evaluation of PSPC's proposal and this was presented to the Risk Committee last December 17, 2020 for endorsement to the PNOC Board for approval.

Meanwhile, PNOC has ongoing discussions with another party who signified interest to buy the remaining banked gas. A Memorandum of Understanding and a Non-Disclosure Agreement was proposed to familiarize the discussion and to facilitate exchange of information between the parties.

Moreover, PNOC continues to conduct evaluation of other banked gas offers received.

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

Description:

Strategic Petroleum Reserves (SPR) are large stockpiles of crude oil and/or petroleum products stored in facilities located around the country and possibly overseas.

In order to undertake a program that will mitigate the vulnerability of the country from the threat of oil supply and price disruptions, the DOE has mandated PNOC through DOE MO 2019-11-0001 to conduct a feasibility study and formulate an implementation plan for the establishment and operation of the National SPR.

The National SPR is conducted to be an extensive undertaking aimed to provide an oil stockpile, either crude oil, finished petroleum products, or both, equivalent to 90 days or more of the country's domestic oil requirements.

The target activities for the National SPR Program for 2020 entail the hiring of a Project Transaction Advisor. However, PNOC's engagement in the hiring process has been postponed due to the ongoing COVID-19 pandemic which caused the imposition of lockdown policies in the country. The program is expected to take place in 2021.

In light of the effects of the COVID-19 pandemic and global health crisis which resulted to a significant drop in fuel demand and thus, substantial reduction in world fuel prices, the DOE has directed PNOC to assist in the drafting of a Department Circular or policy related to government fuel stockpiling. PNOC was tasked to conduct related studies on the establishment of the Interim Oil Stockpiling Program (IOSP). This was seen as a preliminary initiative relative to the wider and more comprehensive, capital-intensive National SPR Program.

In conjunction with these objectives, PNOC has also crafted a Targeted Fuel Relief Mechanism (TFRM) program intended as response mechanism of the government to mitigate the impact of fuel price volatility usually caused by global emergency situations or even mere speculations resulting from such situations. The program intends to provide fuel assistance to marginalized fuel-consuming sectors which are or may be affected in emergency or crisis situations.

The preparation of the in-house study for the IOSP is ongoing; on the other hand, the pre-feasibility study for the TFRM program has been presented to the Risk Committee last December 17, 2020 for endorsement to the PNOC Board for approval.

1.4 *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.

The conduct of a Detailed Feasibility Study (DFS) for the development of its port facilities and eventual full implementation of the ESB Master Development Plan was commissioned by Management in 2019. For the current year, the DFS was finalized and reviewed by Management for presentation to and approval by the PNOC Board.

Recently, the ESB department obtained its ISO IMS Certifications for its Quality Management System (ISO 19001) and Occupational Safety and Health Systems (ISO 45001).

1.5 *Industrial Park (Park) Operations*

The PNOC Industrial Park is a 530-hectare property of which 180 hectares is within a fenced area located in Limay and Mariveles, Bataan. The PNOC continuously provides basic services to its Park locators. The services include the provision of raw and fire water, power supply, and jetty services. The upgrade and rehabilitation of the Park facilities have been ongoing.

As the holder of the Programmatic Environment Compliance Certificate granted by the Department of Environment and Natural Resources, the Park administration enforces strict compliance to health, safety and environmental protocols, establishing its Health, Safety, Security and Environmental (HSSE) Program.

The Park is ISO-certified for its Quality Management Systems (ISO 19001), Occupational Safety and Health Systems (ISO 45001) and Environmental Management Systems (ISO 14001).

The operations in the PNOC Industrial Park are being managed by PNOC but transactions involving the park are not recorded in the books of PNOC since separate books of account is still being maintained for PAFC due to its ongoing dissolution.

1.6 *Real Property Projects*

PNOC has a total of 384 lots of varying sizes in prime locations with an approximate total area of 590.34 hectares. Petron Corporation is a major lessee together with other government agencies such as DOE and the Philippine Economic Zone Authority (PEZA). PEZA occupied the following locations in the PNOC Compound before its moving-out by the end of 2020: (a) Building 3 - 2nd and 3rd floors until November 27, 2020; (b) Building 4A – 1st to 3rd floors until December 28, 2020; (c) Building 4B – ground floor until November 10, 2020; and (d) Building 5 – 5th floor until November 10, 2020. The remaining lots are leased to other private entities and administered by the Asset Management Department.

A substantial revenue stream for PNOC is the rental income generated from the lease of its real estate properties. During the current year, PNOC was able to turn an idle property into another revenue-generating asset by signing a long term lease contract for its Sta. Mesa property with Wealth Horizon Development Corporation. The lease contract was signed between the parties on December 3, 2020.

In addition, PNOC executed a new lease contract with the First Philippine Industrial Corporation. The existing contract with DOE was also renewed during the year.

1.7 *Other Properties*

PNOC continued to undertake the sale of PDMC's El Pueblo and Costa Verde assets and the lease of properties located in Rosario, Cavite to PEZA.

For the period January to December 2020, deeds of absolute sale were signed by PDMC and the buyers for the sale of 12 Costa Verde lots.

Two (2) Transfer Certificates of Title were released to the beneficiaries of the Socialized Housing Project.

PNOC manages the PDMC properties but related transactions are not recorded in the books of PNOC since separate books of account is still being maintained for PDMC due to its ongoing dissolution.

1.8 *Programs to Address the COVID-19 Pandemic*

In response to the call of President Rodrigo R. Duterte following the imposition of Enhanced Community Quarantine (ECQ) in the entire Luzon and other islands, PNOC remitted a total of five billion pesos to the National Treasury. This is to help fund the program of the National Government under the "Bayanihan to Heal as One Act" (Republic Act No. 11469).

The parent company's board of directors approved the recommendation of the management under its President and CEO to remit five billion pesos of its accumulated retained earnings during a special board meeting held.

Moreover, PNOC undertook programs to reduce the threat of the COVID-19 pandemic. The company implemented the PNOC Health, Safety and Food Aid Project under the PNOC CSR-GAD Program. The program, which was compliant to the GCG and COA rules, spanned from May to July 2020.

The following measures were undertaken during its implementation:

1. Provision of rice subsidies to provinces of Batangas and Bataan through their respective local government units in Mabini and Mariveles, respectively, and to affected PNOC service providers.

2. Provision of surgical masks to the Provincial Health Facilities of Batangas and Bataan and Taguig-Pateros District Hospital, PNP Mabini and Bataan and PNOC service providers.

3. Provision of vitamins to BGC front liners and Energy Center, ESB and Park service providers.

4. Provision of rice subsidies to SOS Children's Village located in PNOC areas of operation.

5. Provision of food packs to medical front liners in three selected government hospitals in the Taguig area.

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

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

The accounting policies have been consistently applied throughout the year presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statements of Cash Flows are prepared using the direct method.

The financial statements are presented in Philippine Peso (P), which is also the 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 recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

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

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

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

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

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

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

PNOC's financial assets include cash and cash equivalents, trade and other trade receivables and quoted and unquoted financial instruments. PNOC has no derivative financial instrument as at December 31, 2020.

ii. Derecognition

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

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

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

iii. Impairment of financial assets

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

Evidence of impairment may include the following indicators:

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

2. Default or delinquency in interest or principal payments;

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

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

1) Financial assets carried at amortized cost

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

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

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

2) Fair value through other comprehensive income

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

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

b. Financial liabilities

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

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

i. Derecognition

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

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

c. Offsetting of financial instruments

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

d. Fair value of financial instruments

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

3.3 *Cash and Cash Equivalents*

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

3.4 *Inventories*

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

3.5 *Investment Property*

Investment property is 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
Building and Improvements	25
Fencing	5

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

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

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

3.6 *Property, Plant and Equipment*

a. Recognition

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

The characteristics of PPE are as follows:

i. tangible items;

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

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

An item of PPE is recognized as an asset if:

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

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

iii. the cost is at least P15,000.

b. Measurement at recognition

An item recognized as PPE is measured at cost.

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

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

Cost includes the following:

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

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

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

c. Measurement after recognition

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

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

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

d. Depreciation

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

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

i. **Initial recognition of depreciation**

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

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th 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
Land improvements	10
Building and improvements	25
Machinery and equipment	5
Communication equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5
Information technology equipment	3

iv. **Residual value**

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

e. **Impairment**

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

f. **Derecognition**

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

3.7 *Leases*

a. PNOC as a lessor

i. Operating lease

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

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

Rent received from an operating lease is recognized as income on a 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 and Equipment are applied to similar assets leased by the entity.

3.8 *Provisions, Contingent Liabilities and Contingent Assets*

a. Provisions

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

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

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

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

b. Contingent Liabilities

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

c. **Contingent Assets**

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

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

3.9 *Changes in Accounting Policies and Estimates*

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

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

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

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

3.10 *Foreign Currency Transactions*

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

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

3.11 *Revenue from Non-exchange Transactions*

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

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

i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

ii. The fair value of the asset can be measured reliably.

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

b. Recognition of revenue from non-exchange transactions

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

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

c. Measurement of revenue from non-exchange transactions

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

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

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

e. Taxes

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

In 2020, revenue amounting to P21,491 was recognized by the Company from taxes and related fines and penalties.

f. Fees and fines not related to taxes

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

Other non-exchange revenue 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.

g. Gifts and donations

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

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

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

In 2020, no asset and revenue were recognized by the Company for gifts and donations.

h. Transfers

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

i. Services in-kind

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

j. **Transfers from other government entities**

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

In 2020, 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 fair value of the consideration received or receivable.

b. **Interest income**

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

c. **Dividends**

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

d. **Rental income**

Rental income arising from operating leases on investment property is accounted for on a 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, 2020, PNOC has no existing loans.

3.16 *Employee Benefits*

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

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

3.17 *Measurement Uncertainty*

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

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

4. CHANGES IN ACCOUNTING POLICIES

PNOC adopted the following new accounting policies:

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

As at December 31, 2020, PNOC adopted the conversion of accounts and account codes to the Revised Chart of Accounts in compliance with COA Circular No. 2020-02, "*Adoption of the Updated Revised Chart of Accounts for Government Corporations (2019)*", dated January 28, 2020.

4.2 *Preparation of Financial Statements and Other Financial Reports*

Also, as at December 31, 2017, PNOC implemented COA Circular No. 2017-004, "*Guidelines on the Preparation of Financial Statements and Other Financial Reports and Implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises*", dated December 13, 2017.

These accounting changes have an impact on PNOC's presentation of financial statements and related books of accounts.

5. PRIOR PERIOD ADJUSTMENTS

The Retained Earnings (RE) of the 2019 financial statements was restated due to the effect of the prior period adjustment. The adjustment was mainly due to the inadequate provision for deferred taxes on Allowance for Impairment on Inter-Agency Receivables. As a result, an adjustment was made against the Retained Earnings account amounting to P350.06 million to recognize additional Deferred Tax Asset (DTA) on Allowance for Impairment of Inter-Agency Receivables.

6. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2020	As at December 31, 2019
Cash-Collecting Officers	498,198	2,001
Cash in Bank-Local Currency	17,451,234	6,695,590
Cash in Bank-Foreign Currency	1,469,743	758,151
Cash Equivalents	395,236,059	299,913,951
Total Cash and Cash Equivalents	**414,655,234**	**307,369,693**

Cash in Bank – Local and Foreign Currency 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 31 days – 61 days and earn interest at 1.07 – 4.25 percent for local currency and 1.05 – 1.30 percent for foreign currency.

7. INVESTMENTS

7.1 Financial Assets

Particulars	As at December 31, 2020	As at December 31, 2019
Total Current Financial Assets	1,012,860,647	1,558,023,580
Total Non-Current Financial Assets	3,262,866,839	6,970,750,000
Total	**4,275,727,486**	**8,528,773,580**

a. Reconciliation of the Current Financial Assets

Particulars	As at December 31, 2020	As at December 31, 2019
Beginning Balance as at January 1, 2020	**1,558,023,580**	**1,626,944,534**
Additional investments made	0	1,930,738,291
Less: Investment sold / collected	(545,162,933)	(1,999,659,245)
Balance as at December 31, 2020	**1,012,860,647**	**1,558,023,580**

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

b. Reconciliation of the Non-Current Financial Assets

Particulars	Financial Assets – at Amortized Cost	Financial Assets at FVOCI	Total
Beginning Balance as at January 1, 2020	**6,968,000,000**	**2,750,000**	**6,970,750,000**
Additional investments made	624,750,995	0	624,750,995
Fair value increase (decrease)	0	(150,000)	(150,000)
Less: Investments sold / collected	(4,332,484,156)	0	(4,332,484,156)
Balance as at December 31, 2020	**3,260,266,839**	**2,600,000**	**3,262,866,839**

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

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

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

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

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

7.2 Investments in Associates

Particulars	Percentage of Ownership	As at December 31, 2020	As at December 31, 2019
Gulf Oil Philippines, Inc.	35	54,978,000	54,978,000
Philippine Mining Development Corp.	36	45,000,000	45,000,000
Total		**99,978,000**	**99,978,000**

Notwithstanding the percentage of ownership, PNOC does not exercise significant influence in either GOPI or PMDC. Hence, in the absence of significant influence these investments are recorded at cost.

7.3 Investments in Subsidiaries

Particulars	Percentage of Ownership	As at December 31, 2020	As at December 31, 2019
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		**768,683,293**	**768,683,293**
Less: *Allowance for impairment of non-operating subsidiaries*		(768,683,293)	(768,683,293)
Total Investment in non-operating subsidiaries		**0**	**0**
Total Investment in Subsidiaries		**4,859,775,056**	**4,859,775,056**

PAFC and PDMC

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

PSTC

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

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

PCC

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

PNOC Oil Carriers, Inc. / PNOC Tankers Corporation

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

7.4 Other Investments

Particulars	As at December 31, 2020	As at December 31, 2019
Total Non-Current Financial Assets	96,632,450	96,632,450
Total	**96,632,450**	**96,632,450**

Reconciliation of Other Investments – Non-Current

Particulars	As at December 31, 2020	As at December 31, 2019
Investment in Stocks		
PLDT Preferred Shares	179,100	179,100
Total Investment in Stocks	**179,100**	**179,100**
Other Investments		
Goodyear Philippines		
(11% - Percentage of Ownership)	96,453,350	96,453,350
Talisay Bioenergy Inc.	57,685,382	57,685,382
Allowance for Impairment-		
Talisay Bioenergy Inc.	(57,685,382)	(57,685,382)
Total Other Investments	**96,453,350**	**96,453,350**
Total	**96,632,450**	**96,632,450**

8. RECEIVABLES

Particulars	As at December 31, 2020	As at December 31, 2019
Total Current Receivables	588,244,063	565,653,935
Total Non-Current Receivables	59,862,662	58,057,732
Total	**648,106,725**	**623,711,667**

8.1 Aging/Analysis of Receivable

As at December 31, 2020

Accounts	Total	Not past due	Past due < 30 days	Past due 30-60 days	Past due > 60 days
Accounts Receivable	200,969,776	199,167,288	22,289	60,582	1,719,617
Interests Receivable	28,718,503	28,718,503	0	0	0
Lease Receivable	204,640,608	6,333,617	124,104	21,741	198,161,146
Inter-Agency Receivables	1,703,539,346	91,394,425	0	0	1,612,144,921
Other Receivables	5,127,412	1,950,560	2,146,765	0	1,030,087
Less: *Allowance for Impairment*	(1,554,751,582)	0	0	0	(1,554,751,582)
Total	**588,244,063**	**327,564,393**	**2,293,158**	**82,323**	**258,304,189**

8.2 Loans and Receivables

Accounts	2020			2019		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable	200,969,776	59,862,662	260,832,438	80,248,413	58,057,732	138,306,145
Interests Receivable	28,718,503	0	28,718,503	102,092,583	0	102,092,583
Total	**229,688,279**	**59,862,662**	**289,550,941**	**182,340,996**	**58,057,732**	**240,398,728**

In 2020, PNOC recognized accounts receivable from PSPC equivalent to the annual deficiency for the year according to the GSPA.

Decrease in Interests Receivable is attributable to the lower interest income after the redemption of investments in treasury bills and bonds to fund the dividends remitted to National Government in 2020.

8.3 Lease Receivables

Accounts	As at December 31, 2020	As at December 31, 2019
Total Current Operating Lease Receivables	38,572,056	40,555,856
Total Noncurrent Operating Lease Receivables	166,068,552	159,225,394
Total	**204,640,608**	**199,781,250**

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

	As at December 31, 2020	As at December 31, 2019
Not later than one year	85,678,147	97,713,548
Later than one year but not later than five years	303,853,643	341,317,644
Later than five years	837,727,333	885,941,480
Total	**1,227,259,123**	**1,324,972,672**

8.4 Inter-Agency Receivables

Accounts	As at December 31, 2020	As at December 31, 2019
Due from Government Corporations	112,543,142	112,543,142
Due from Subsidiaries	1,590,996,204	1,555,596,078
Less: *Allowance for Impairment-Due from Subsidiaries*	(1,554,751,582)	(1,490,077,555)
Total	**148,787,764**	**178,061,665**

8.5 Other Receivables

Accounts	As at December 31, 2020	As at December 31, 2019
Due from Officers and Employees	3,504,499	4,841,582
Other Receivables	1,622,913	628,443
Total	**5,127,412**	**5,470,025**

9. BANKED GAS INVENTORY

Accounts	As at December 31, 2020	As at December 31, 2019
Inventory Held for Sale		
Carrying Amount, January 1	13,536,589,980	13,689,426,885
Sold during the year	(106,955,966)	(152,836,905)
Total Carrying Amount, December 31	**13,429,634,014**	**13,536,589,980**

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

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

PSPC has withdrawn a total of 0.753 PJ from June 1 to December 31, 2018, 1.153 PJ from January 1 to December 31, 2019 and 0.806 from January 1 to December 31, 2020. As of December 31, 2020, the banked gas has a remaining volume of 101.282 PJ amounting to P13,429,634,014.

10. INVESTMENT PROPERTY

As at December 31, 2020

Particulars	Investment Property-Land	Investment Property-Buildings	Investment Property-Land Improvements	Total
Carrying Amount, January 1	**11,275,638,168**	**78,014,052**	**4,386,846**	**11,358,039,066**
Additions/Acquisitions	3,423,508	0	0	3,423,508
Total	**11,279,061,676**	**78,014,052**	**4,386,846**	**11,361,462,574**
Disposals	(54,569)	0	0	(54,569)
Depreciation	0	(7,943,243)	(287,906)	(8,231,149)
Adjustment to Cost	0	0	0	0
Carrying Amount, December 31	**11,279,007,107**	**70,070,809**	**4,098,940**	**11,353,176,856**
Gross Cost	11,279,007,107	167,848,698	6,430,664	11,453,286,469
Accumulated Depreciation	0	(97,777,889)	(2,331,724)	(100,109,613)
Carrying Amount, December 31	**11,279,007,107**	**70,070,809**	**4,098,940**	**11,353,176,856**

As at December 31, 2019

Particulars	Investment Property-Land	Investment Property-Buildings	Investment Property-Land Improvements	Total
Carrying Amount, January 1	**11,278,683,968**	**85,544,314**	**4,695,407**	**11,368,923,689**
Additions/Acquisitions	0	397,356	0	397,356
Total	**11,278,683,968**	**85,941,670**	**4,695,407**	**11,369,321,045**
Disposals	(3,045,800)	0	0	(3,045,800)
Depreciation	0	(7,927,618)	(308,561)	(8,236,179)
Adjustment to Cost	0	0	0	0
Carrying Amount, December 31	**11,275,638,168**	**78,014,052**	**4,386,846**	**11,358,039,066**
Gross Cost	11,275,638,168	167,848,698	6,122,103	11,449,608,969
Accumulated Depreciation	0	(89,834,646)	(1,735,257)	(91,569,903)
Carrying Amount, December 31	**11,275,638,168**	**78,014,052**	**4,386,846**	**11,358,039,066**

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 2020, the Company sold property located in M'lang, Cotabato with a total cost of P54,569 for a selling price of P2,456,369 resulting in a gain of P2,401,800. The agricultural lot sold covered by RA 6657, otherwise known as the Comprehensive Agrarian Reform Program, is exempt from taxes resulting from capital gains. In 2019, the Company sold a total of 769 square meters of land located in Davao, Bulacan and Cabanatuan City for a total selling price of P3,045,800 resulting in a gain amounting to P2,459,100 (see Note 27).

The fair value of investment properties amounted to P37,157,794,099 in 2020 and P33,735,471,090 in 2019.

Rental income earned from the investment properties amounted to P376,161,504 in 2020 and P373,415,589 in 2019.

11. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2020

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	201,067,407	300,218	95,955,040	32,791,871	330,114,536
Additions/Acquisitions	0	0	22,411,134	11,166,174	33,577,308
Total	201,067,407	300,218	118,366,174	43,958,045	363,691,844
Disposals	0	0	0	(4,826,686)	(4,826,686)
Depreciation	0	(44,270)	(32,136,654)	(8,327,448)	(40,508,372)
Impairment Loss	0	0	0	0	0
Adjustment	0	0	0	(61,936)	(61,936)
Carrying Amount, December 31	201,067,407	255,948	86,229,520	30,741,975	318,294,850
Gross Cost	201,067,407	455,134	418,331,127	107,551,141	727,404,809
Accumulated Depreciation	0	(199,186)	(332,101,607)	(76,722,924)	(409,023,717)
Accumulated Impairment Loss	0	0	0	(86,242)	(86,242)
Carrying Amount, December 31	201,067,407	255,948	86,229,520	30,741,975	318,294,850

As at December 31, 2019

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Carrying Amount, January 1	201,067,407	76,456	125,282,494	12,231,721	338,658,078
Additions/Acquisitions	0	244,777	2,061,512	25,139,450	27,445,739

	Land	Land Improvements	Buildings and Other Structures	Machinery and Equipment	Total
Total	**201,067,407**	**321,233**	**127,344,006**	**37,371,171**	**366,103,817**
Disposals	0	0	0	(2,861)	(2,861)
Depreciation	0	(21,015)	(31,388,966)	(4,533,984)	(35,943,965)
Impairment Loss	0	0	0	(24,306)	(24,306)
Adjustment	0	0	0	(18,149)	(18,149)
Carrying Amount, December 31	**201,067,407**	**300,218**	**95,955,040**	**32,791,871**	**330,114,536**
Gross Cost	**201,067,407**	**455,134**	**395,919,993**	**101,211,653**	**698,654,187**
Accumulated Depreciation	0	(154,916)	(299,964,953)	(68,395,476)	(368,515,345)
Accumulated Impairment Loss	0	0	0	(24,306)	(24,306)
Carrying Amount, December 31	**201,067,407**	**300,218**	**95,955,040**	**32,791,871**	**330,114,536**

In 2020, additions in Buildings and Other Structures pertain mainly to the major repairs at ESB Warehouse 1 to 4 (P20,131,793) while the Machinery and Equipment pertains to the purchase of transportation equipment (P4,813,839) and watercrafts (P694,643).

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

Fully depreciated property and equipment amounted to P59,650,719 and P64,477,405 and as at December 31, 2020 and 2019, respectively.

12. DEFERRED TAX ASSETS

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2020	695,790,195	240,000	696,030,195
Charged to other comprehensive income for the year	14,322	0	14,322
Credited to profit or loss for the year	19,256,388	0	19,256,388
December 31, 2020	**715,060,905**	**240,000**	**715,300,905**

Particulars	Tax effect of Temporary differences	Unrealized loss in Financial Assets at FVOCI	Total
January 1, 2019 (as restated)	695,667,998	155,000	695,822,998
Credited to profit or loss for the year	122,197	0	122,197
Adjustments	0	85,000	85,000
December 31, 2019	**695,790,195**	**240,000**	**696,030,195**

In 2020, Retained Earnings amounting to P350,061,217 was adjusted to recognize previously understated Deferred Tax Assets on Allowance for Impairment of Receivables.

13. OTHER ASSETS

Particulars	2020			2019		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	16,500	0	16,500	305,000	0	305,000
Prepayments	8,906,151	0	8,906,151	9,808,089	0	9,808,089
Deposits	218,622,466	0	218,622,466	209,904,136	0	209,904,136
Other Assets	91,662,410	261,590	91,924,000	175,278,730	275,191	175,553,921
Total	**319,207,527**	**261,590**	**319,469,117**	**395,295,955**	**275,191**	**395,571,146**

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

Other Assets is comprised mainly by premium on investment in bonds. In 2020, this account decreased due to the early redemption of portion of investment in bonds.

14. FINANCIAL LIABILITIES

Particulars	As at December 31, 2020	As at December 31, 2019
Accounts Payable	149,454,778	100,074,644
Due to Officers and Employees	6,309,481	1,084,739
Service Concession Arrangements Payable	420,700	55,500
Total	**156,184,959**	**101,214,883**

Significant increase in accounts payable is attributable to accruals of various maintenance and other operating expenses incurred during the year. Moreover, in 2020, accruals for initial and final pay of newly filled and vacated positions, mostly pertaining to members of top management, were recognized.

15. INTER-AGENCY PAYABLES

Particulars	As at December 31, 2020	As at December 31, 2019
Due to Subsidiaries	67,212,957	24,421,137
Income Tax Payable	22,645,183	0
Due to BIR	5,967,992	9,231,293
Due to GSIS	2,128,912	1,467,079
Due to PhilHealth	179,234	116,268

Particulars	As at December 31, 2020	As at December 31, 2019
Due to Pag-IBIG	59,719	53,583
Total	**98,193,997**	**35,289,360**

16. TRUST LIABILITIES

Particulars	As at December 31, 2020	As at December 31, 2019
Trust Liabilities	215,997,029	207,278,783
Guaranty/Security Deposits Payable	42,934,747	19,503,524
Total	**258,931,776**	**226,782,307**

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

In 2020, the Company received security deposit in the form of cash as stipulated in the long-term lease contract entered with Wealth Horizon Development Corporation.

17. OTHER PAYABLES

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

Particulars	As at December 31, 2020	As at December 31, 2019
Dividends Payable	298,673,484	356,719,259
Unclaimed Balances	0	16,000
Other Payables	484,987	716,588
Total	**299,158,471**	**357,451,847**

Dividends Payable pertains to the declared cash dividend to the National Government based on the Company's net earnings. This is in compliance with the revised 2016 Implementing Rules and Regulations of Republic Act (RA) No. 7656 issued by the Department of Finance. The law requires GOCCs to remit at least 50 per cent of net earnings to the National Government. Net earnings for the year subjected to dividends amounted to P597,346,969.

18. DEFERRED CREDITS/UNEARNED INCOME

Particulars	As at December 31, 2020	As at December 31, 2019
Unearned Revenue/Income-Investment Property	188,721,214	178,798,886
Other Deferred Credits	257,354,251	265,259,346
Output tax	29,208,004	15,017,425
Total	**475,283,469**	**459,075,657**

Unearned revenue pertains mainly to the balance of rental on refinery properties by New Ventures Refinery Corporation (NVRC) for 2019. PNOC recognized receivable from NVRC by applying the new rates based on PNOC's re-appraised value which was higher than NVRC's new rates that were based on their 2017 re-appraised value conducted by their accredited 3rd party appraiser. NVRC's payment of rental to PNOC was based on their computed new rates. Other deferred credits are non-current items which include accounts set-up for accrued receivables for various intercompany charges by PNOC to its dissolved subsidiaries.

19. PROVISIONS

Particulars	As at December 31, 2020	As at December 31, 2019
Leave Benefits Payable	34,476,778	32,357,328
Total	**34,476,778**	**32,357,328**

20. DEFERRED TAX LIABILITIES

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Total
January 1, 2020	2,753,536,726	26,250	2,753,562,976
Credited to other comprehensive income for the year	0	(22,500)	(22,500)
December 31, 2020	**2,753,536,726**	**3,750**	**2,753,540,476**

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

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 7656, PNOC declared a total cash dividend of P291,187,902. for 2020 net earnings which is also the outstanding dividend payable due to the National Government as at December 31, 2020.

In 2019, PNOC declared a total cash dividend of P356,719,259 for 2019 net earnings.

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

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

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

In 2020, Retained Earnings amounting to P350,061,217 was adjusted to recognize previously understated Deferred Tax Assets on Allowance for Impairment of Receivables.

22. SERVICE AND BUSINESS INCOME

Particulars	2020	2019
Rent/Lease Income	408,351,960	404,280,906
Sales Revenue – Banked gas	347,393,490	560,752,373
Interest Income	168,908,569	304,690,391
Other Business Income – ESB	62,813,063	81,189,811
Dividend Income	1,925,332	2,474,010
Fines and Penalties-Business Income	21,491	817,143
Total	**989,413,905**	**1,354,204,634**

As a result of the pre-termination of the GSPA with Pilipinas Shell Petroleum Corporation, sales revenue from banked gas declined in 2020.

To fund the P5B remittance of cash dividends to the National Government in compliance to RA 11469 or "The Bayanihan to Heal as One Act", the Company redeemed various investments in treasury bills and bonds, resulting to lower average amount of placements subjected to interest during the year.

23. PERSONNEL SERVICES

Particulars	2020	2019
Salaries and Wages	86,122,406	66,656,900

Particulars	2020	2019
Other Compensation	27,383,307	22,013,152
Personnel Benefit Contributions	11,398,459	8,580,801
Other Personnel Benefits	11,122,513	8,656,080
Total	**136,026,685**	**105,906,933**

23.1 Salaries and Wages

Particulars	2020	2019
Salaries and Wages-Regular	86,122,406	66,656,900
Total	**86,122,406**	**66,656,900**

In 2020, promotions and increment on basic salaries of various employees became effective. Moreover, newly hired employees during the year also accounted for the significant increase in Salaries and Wages – Regular.

As approved by the Governance Commission for GOCCs (GCG) through GCG Memorandum 2018-05, 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, 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.

23.2 Other Compensation

Particulars	2020	2019
Year End Bonus	7,349,904	5,548,903
Personnel Economic Relief Allowance (PERA)	3,087,474	2,466,742
Representation Allowance (RA)	2,474,500	1,888,250
Overtime and Night Pay	2,094,971	2,168,630
Transportation Allowance (TA)	1,520,000	1,016,250
Clothing/Uniform Allowance	720,000	618,000
Cash Gift	657,500	514,000
Hazard Pay	602,500	0
Honoraria	57,500	593,412
Longevity Pay	45,000	100,000
Other Bonuses and Allowances	8,773,958	7,098,965
Total	**27,383,307**	**22,013,152**

23.3 Personnel Benefit Contributions

Particulars	2020	2019
Retirement and Life Insurance Premiums (GSIS)	10,045,612	7,739,062
PhilHealth Contributions	1,045,247	597,439

Particulars	2020	2019
Pag-IBIG Contributions	153,800	122,200
Employees Compensation Insurance Premiums	153,800	122,100
Total	**11,398,459**	**8,580,801**

23.4 Other Personnel Benefits

Particulars	2020	2019
Terminal Leave Benefits	11,122,513	8,487,375
Other Personnel Benefits	0	168,705
Total	**11,122,513**	**8,656,080**

The significant increase in terminal leave benefit was on account of promotions and increment on basic salaries of various employees and also pro-rated leave credits earned by newly hired employees during the year.

24. MAINTENANCE AND OTHER OPERATING EXPENSES

Particulars	2020	2019
General Services	45,830,617	49,264,595
Taxes, Insurance Premiums and Other Fees	18,897,524	19,254,838
Professional Services	11,640,226	32,878,559
Supplies and Materials Expenses	11,144,267	8,755,764
Utility Expenses	9,842,563	12,431,766
Repairs and Maintenance	7,355,853	4,708,785
Communication Expenses	4,483,623	4,780,217
Travelling Expenses	652,550	2,222,458
Training and Scholarship Expenses	573,573	1,949,392
Confidential, Intelligence and Extraordinary Expanses	0	188,660
Other Maintenance and Operating Expenses	22,742,433	21,373,567
Total	**133,163,229**	**157,808,601**

24.1 General Services

Particulars	2020	2019
Security Services	25,453,951	24,605,871
Other General Services	12,835,096	16,144,077
Janitorial Services	7,541,570	8,514,647
Total	**45,830,617**	**49,264,595**

24.2 Taxes, Insurance Premiums and Other Fees

Particulars	2020	2019
Taxes, Duties and Licenses	14,287,784	13,627,974
Insurance Expenses	4,333,920	5,437,573

Particulars	2020	2019
Fidelity Bond Premiums	275,820	189,291
Total	**18,897,524**	**19,254,838**

24.3 Professional Services

Particulars	2020	2019
Auditing Services	6,792,200	6,138,519
Other Professional Services	4,170,906	7,039,790
Consultancy Services	587,120	17,853,750
Legal Services	90,000	1,846,500
Total	**11,640,226**	**32,878,559**

Consultancy Services consist mainly of accrual for the preparation of Feasibility and Detailed Engineering Design on the proposed development of PNOC's Energy Supply Base in Mabini, Batangas amounting to P17.9 million in 2019.

24.4 Supplies and Materials Expenses

Particulars	2020	2019
Other Supplies and Materials Expenses	3,829,176	4,436,510
Semi-Expendable Furniture, Fixtures and Books Expenses	3,498,114	31,473
Fuel, Oil and Lubricants Expenses	1,796,504	3,325,293
Medical, Dental and Laboratory Supplies Expenses	1,493,632	139,512
Office Supplies Expenses	333,031	630,761
Semi-Expendable Machinery and Equipment Expenses	125,759	91,917
Accountable Forms Expenses	52,980	97,887
Non-Accountable Forms Expenses	15,071	2,411
Total	**11,144,267**	**8,755,764**

The Company acquired various executive and clerical desks and chairs for office use during the year that resulted to a significant increase in semi-expendable furniture, fixtures and books expenses.

24.5 Utility Expenses

Particulars	2020	2019
Electricity Expenses	8,659,096	11,377,542
Water Expenses	966,417	826,496
Other Utility Expenses	217,050	227,728
Total	**9,842,563**	**12,431,766**

24.6 Repairs and Maintenance

Particulars	2020	2019
Repairs and Maintenance-Buildings and Other Structures	5,265,154	2,787,563
Repairs and Maintenance-Transportation Equipment	1,390,522	1,512,722
Repairs and Maintenance-Machinery and Equipment	579,627	264,431
Repairs and Maintenance-Furniture and Fixtures	120,550	12,086
Repairs and Maintenance – Land Improvements	0	131,983
Total	**7,355,853**	**4,708,785**

In 2020, ongoing major repairs are being made to PNOC Buildings 5 and 6 for the improvement and upkeep of the buildings.

24.7 Communication Expenses

Particulars	2020	2019
Telephone Expenses	2,913,865	3,174,852
Internet Subscription Expenses	1,401,754	1,461,953
Cable, Satellite, Telegraph and Radio Expenses	111,235	86,303
Postage and Courier Services	56,769	57,109
Total	**4,483,623**	**4,780,217**

24.8 Traveling Expenses

Particulars	2020	2019
Traveling Expenses-Local	562,372	1,404,512
Traveling Expenses-Foreign	90,178	817,946
Total	**652,550**	**2,222,458**

24.9 Training and Scholarship Expenses

Particulars	2020	2019
Training Expenses	573,573	1,949,392
Total	**573,573**	**1,949,392**

24.10 Confidential, Intelligence and Extraordinary Expenses

Particulars	2020	2019
Extraordinary and Miscellaneous Expenses	0	188,660
Total	**0**	**188,660**

24.11 Other Maintenance and Operating Expenses

Particulars	2020	2019
Major Events and Convention Expenses	4,406,175	2,601,972
Representation Expenses	4,139,111	5,985,358
Directors and Committee Members' Fees	1,926,000	2,157,000
Membership Dues and Contributions to Organizations	406,491	483,290
Advertising Expenses	45,645	128,884
Subscription Expenses	18,369	46,339
Printing and Publication Expenses	2,575	270,073
Rent/Lease Expenses	0	45,728
Other Maintenance and Operating Expenses	11,798,067	9,654,923
Total	**22,742,433**	**21,373,567**

In 2020, PNOC undertook various programs to address the impact of COVID-19 Pandemic to the local community. Part of these efforts include the provision of rice subsidies to areas where the Company's businesses are focused, purchase of various medical supplies including surgical face masks and vitamins and food packs for front liners.

25. FINANCIAL EXPENSES

Particulars	2020	2019
Management Supervision/Trusteeship Fees	5,904,760	6,176,700
Bank Charges	2,252,309	2,612,453
Total	**8,157,069**	**8,789,153**

26. DIRECT COSTS

Particulars	2020	2019
Cost of Sales of banked gas	106,955,966	152,836,905
Total Direct Costs	**106,955,966**	**152,836,905**

27. NON-CASH EXPENSES

27.1 Depreciation

Particulars	2020	2019
Depreciation-Buildings and Other Structures	32,136,654	31,388,966
Depreciation-Investment Property	8,231,961	8,236,179
Depreciation-Machinery and Equipment	4,902,482	815,041
Depreciation-Furniture, Fixtures and Books	3,315,751	3,067,892
Depreciation-Transportation Equipment	109,215	651,050
Depreciation-Land Improvements	44,270	21,016
Total	**48,740,333**	**44,180,144**

In 2020, the Company made major replacements to PNOC Buildings 5 and 6 aircon systems amounting to P14 million which was capitalized in the books as Machinery and Equipment.

27.2 Impairment Loss

PNOC recognized impairment loss on due from non-operating subsidiaries amounting to P64.7M. These receivables have been outstanding for more than five years as at December 31, 2020.

28. NON-OPERATING INCOME, GAINS AND LOSSES

28.1 GAINS

Particulars	2020	2019
Gain on Redemption of Investment	48,426,627	0
Gain on Sale of Investment Property	2,401,800	2,459,100
Gain on Foreign Exchange (FOREX)	358,252	2,485,415
Total	**51,186,679**	**4,944,515**

In 2020, the Company made early redemptions on various treasury bond and bill investments to fund the dividend remittance required by RA 11469 or the "Bayanihan to Heal as One Act".

28.2 OTHER NON-OPERATING INCOME

Particulars	2020	2019
Miscellaneous Income	151,663,156	4,483,496
Total	**151,663,156**	**4,483,496**

In 2020, annual deficiency in banked gas withdrawals billed to Pilipinas Shell Petroleum Corporation (PSPC) as part of the GSPA amounting to P149M was recognized under Miscellaneous Income. The amount is subsequently collected in February 2021. PNOC recognized the annual deficiency as other income since PNOC does not expect PSPC to exercise its remaining rights to recover the annual deficiency due to the proposed early termination of the subject GSPA in November 2020 as mentioned in Note 1.2. Moreover, PSPC ceased to withdraw banked gas starting February 2021.

28.3 NON-OPERATING LOSSES

Particulars	2020	2019
Loss on Foreign Exchange (FOREX)	3,015,195	6,872,149
Other Losses	10,117,055	0
Total	**13,132,250**	**6,872,149**

Other losses pertain to loss on various treasury bond and bill investments to fund the dividend remittance required by RA 11469 or the "Bayanihan to Heal as One Act".

29. INCOME TAX EXPENSE (BENEFIT)

Particulars	2020	2019
Current Income Tax	176,241,186	173,897,361
Deferred Income Tax (Benefit)	(19,293,210)	(1,017,845)
Total	**156,947,976**	**172,879,516**

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

Particulars	2020	2019
Profit after Tax	523,935,880	714,136,659
Non-cash Income/Expenses:		
Depreciation	48,740,333	44,180,144
Gain on redemption of investment	(48,426,627)	0
Gain on sale of investment property	(2,401,800)	(2,459,100)
Other noncash expenses	74,941,082	0
Other noncash income	(2,844,515)	(4,401,599)
Income credited to investing activities	(248,979,421)	(284,980,677)
Increase in Current Liabilities*	180,448,706	30,365,205
Decrease in Current Assets*	269,299,788	235,120,689
Decrease in Current Liabilities*	(11,478,821)	(81,820,409)
Increase in Current Assets*	(175,324,577)	(134,031,497)
Net Cash Flows from Operating Activities	**607,910,028**	**516,109,415**

*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	Energy Secretary Alfonso G. Cusi	January-December 2020

Position	Name	Coverage
Alternate Chairman	Jesus Cristino P. Posadas	January-December 2020
President and CEO	Adm. Reuben S. Lista (Ret.)	January-December 2020
Director	Hermann Roy M. Atienza	January-December 2020
Director	Adolf P. Borje	January-December 2020
Director	Jonas Guy S. de Leon	January-December 2020
Director	Ramon Victor Antonio B. Mitra	January-December 2020
Director	Rex V. Tantiongco	January-December 2020
Director	Romeo D. Poquiz	January-December 2020
Director	Michael Ted R. Macapagal	January-December 2020

Term of Office

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

Senior Management

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

The Company's executive officers are as follows:

Position	Name
President and Chief Executive Officer	Adm. Reuben S. Lista (Ret.)
Senior Vice President for Finance and Administrative Services November 9, 2020 – December 31, 2020	Evangeline B. Albaytar
Senior Vice President for Energy Business	Atty. Graciela M. Barleta
Senior Vice President for Energy Investments November 9, 2020 – December 31, 2020	Ronald C. Chua
Manager, Administrative Services Department	Lino Gerardo G. Calaor
Manager, Asset Management Department	Atty. Efren A. Legaspi
Manager, Project Management Department	Adalia L. Endaya
Administrator, PNOC Energy Supply Base	Engr. Carlito B. Pena
Manager, Park Management Department February 3, 2020 – December 31, 2020	Edwin G. Celzo
OIC-Manager, Accounting Department September 7, 2020 – December 31, 2020	Aoron R. Viuya
OIC-Manager, Strategy Management Office October 19, 2020 – December 31, 2020	Maria Belinda L. Cubelo
Manager, Internal Audit Office	Eleanor Rochelle S. Cruz
OIC-Manager, Office of the General Counsel	Atty. Antonio G. Buenviaje
OIC-Manager, Treasury Department	Jennifer R. Racho

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	17,681,925
Other Compensation	2,959,585
Personnel Benefit Contribution	1,872,567
Other Personnel Benefits	2,166,087
Total	**24,680,164**

32. CONTINGENCIES

1. **Petron Corporation vs. PNOC, Civil Case No. R-MND-17-03839-CV, RTC Branch 278, Mandaluyong City, CA GR CV No. 114986, Court of Appeals**

   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 the Secretary General (OSG)

   On November 13, 2019, RTC 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. Petron has filed it Reply Brief while PNOC will file its Reply Brief by mid-March 2021.

2. **Energy Oil and Gas Holdings Inc. vs. PAFC, 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. Plaintiff filed Motion for Reconsideration and OSG filed comments on the Motion. The MR is now submitted for resolution.

Status: As such, the trial on merits of the case for specific performance was scheduled on February 8, 2021 with the initial presentation of Plaintiff's evidence. However, the initial presentation of plaintiff's evidence has been cancelled and moved to 26 April 2021 to give due course to the Motion for Reconsideration (MR) filed by the Plaintiff on 27 January 2021. The Court gave respondents (PAFC, et al.) fifteen (15) days upon receipt of the MR to comment thereto. Thereafter, the same shall be considered submitted for resolution.

3. **Keppel Philippines Holdings, Inc. vs. PNOC/PDMC, Civic Case No. 7364, RTC Branch 84, Batangas City For: Petition for Review, G.R. No. 202050, Supreme Court**

   For: Specific Performance

   Handling Counsel: OSG

   On 24 September 2018, the RTC, Br. 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.

   On 11 October 2018, KPHI filed an Omnibus Motion, seeking reconsideration of the 24 September 2018 resolution.

   The hearing on Motion for Reconsideration and other Motions was held last January 29, 2020. PNOC Counsel opposed the Motion to Set Case for Oral Arguments and Omnibus Motion to Grant Pending Request for Subpoena Ad Testificandum and to Set Case for Additional Hearing Dates on the Motion for Reconsideration.

   Status: The respective motions were submitted for resolution.

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

   For: Specific Performance and Damages

   Handling Counsel: OSG

   The Court denied the Appeal of Rovira 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 19 June 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.

   Status: For coordination with OSG to file a Motion for the Issuance of Writ of Execution.

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

   Court of Appeals affirmed the RTC decision dismissing the PNOC petition on technicality.

   Status: PNOC will re-file the case and has forwarded to the OGCC the necessary documents for the re-filing.

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

   For: Expropriation

   Handling Counsel: OSG

   On its last setting, 25 November 2020, the Court followed up its previous order directing TransCo to deposit Twenty Four Million Five Hundred Seventy Three Thousand Pesos (Php24,573,000.00) to PNOC. As per TransCo, thru its counsel Atty. Wilfredo T. Garcia. Jr., they would inform PNOC once the check is ready as the voucher is already being processed.

   In addition, the Court informed the parties that it already gave the Commissioners a deadline to submit the latter's report and thus, gave both parties thirty (30) days upon receipt to comment on the said Commissioner's Report.

   Status: PNOC's previous oral motion on the matters of (1) subdivision, (2) determination of boundaries, (3) informal settlers, (4) real property taxes, and (5) expenses over the said issues, are already submitted to the Court for resolution.

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

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

   Handling Counsel: OSG

   This is a petition filed last June 2008 by members of the party list representatives and other Congressman to have the Joint Marine Seismic Undertaking (JMSU) among 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 OSG filed its Memorandum. The case is submitted for decision.

8. **PNOC vs. Antonio Bulatao, Civil Case No. 9292, RTC, Tarlac City, G.R. No. 228128, Third Division, Supreme Court**

For: Ejectment

Handling Counsel: OSG

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

Status: Awaiting for resolution from the Supreme Court.

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

For: Expropriation

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.

Handling Counsel: OSG

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.

Status: On appeal to the Court of Appeals. On November 21, 2016, PNOC received copy of the Notice to File Appellant's Brief from the Court of Appeals. PNOC filed its brief. Awaiting resolution of the case.

10. **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.

Status: The trial court granted PNOC's manifestation and motion to hold proceedings in abeyance.

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

For: Expropriation

Handling Counsel: OSG

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

Status: Awaiting decision on the amount of just compensation.

12. **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 Php300.00 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.

Status: Commissioner's Report is submitted for the court's resolution. Awaiting decision on the amount of just compensation.

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

For: Expropriation

Handling Counsel: OSG

PNOC paid the just compensation plus 6% interest. Thereafter, the court issued an order of the full settlement of the case last July 02, 2013.

Pending issue: PNOC to withdraw from the PNB Ormoc City Branch the initial deposit of just compensation deposited in the name of Flasalie Maglasang in December 1994 amounting to Php104,750.00 plus interest.

Status: 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. Waiting for PNB reply.

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

For: Expropriation

Handling Counsel: OSG

The Board of Commissioners submitted the commissioners report to the trial court recommending the value of the just compensation of the subject lot consisting of 26,898.35 square meters at P335,040 per hectare or a total of Php901,202.32 pesos.

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.

15. PNOC vs. Sps. Dominador and Minerva Samson and Tongonan Holdings & Development Corporation, 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;

Tongonan Holdings Urgent Motion seeking the issuance of an order directing the sheriff to re-compute the judgment award in its favor and demand the difference from PNOC. PNOC filed its opposition on this Motion on February 7, 2013. (THDC demands that 12% instead of 6% 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).

Status: 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.

On 17 September 2019, the OSG received a Notice of Change of Address dated 2 September 2019 filed by defendant-intervenor's counsel.

16. 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 filed its comment to the petition for review siding with Petron Corporation petition being the owner of the property leased by Petron.

On 24 September 2018, the OSG received a copy of the RTC's 31 August 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 1 October 2018, the OSG filed its comment thereto. Awaiting resolution.

17. 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: Transco has asked for time to compute the amount of deposit as they still need to determine what is inner, roadside and near road lots.

18. **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.

Status: The case was submitted for arbitration with OSG but did not prosper. Waiting for the resumption of hearings.

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

Handling Counsel: OSG

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 is unable to pay its creditors. Petitioner submitted in Court their proposed rehabilitation plan. PNOC submitted its Comment/Opposition on the rehabilitation plan

Defendant offered to pay PNOC but requested waiver of penalties. PNOC cannot waive penalties and the defendant stated that they will go back to

Status: Court to ask for the waiver or tempering of interests and penalties.

33. EVENTS AFTER THE BALANCE SHEET DATE

On March 26, 2021, R.A. No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was enacted into law. The Act introduced changes in regular corporate income tax rates (RCIT) for domestic corporations, resident and non-resident foreign corporations from 30% to 25% beginning July 1, 2020 until June 30, 2023, except for Corporations with net taxable income not exceeding P5,000,000 and with total assets not exceeding P100,000,000, excluding land, on which the particular business entity's office, plant and equipment are situated during the taxable year for which the tax imposed, shall be taxed at 20%. The Act also introduced changes in minimum corporate income tax rates (MCIT) for domestic and resident foreign corporation from 2% to 1% beginning July 1, 2020 until June 30, 2023.

On April 08, 2021, the BIR issued Revenue Regulations No. 5 – 2021 on the implementation the new Income Tax rates on the regular income of corporations, on certain passive incomes, including additional allowable deductions from Gross Income of persons engaged in business or practice of profession pursuant to RA No. 11534. Section 9 (Transitory Provisions) thereof provides that in the computation of income tax due of corporation for taxable year 2020, regardless of the taxpayers, annual accounting period, the taxable income shall be computed without regard to the specific date when sales, purchases and other transactions occur. The income and expenses shall be deemed to have been earned and spent equally for each month of the period. The transitory rate of 27.5% was used in the computation of the income tax due as prescribed by the aforementioned BIR issuance for corporations with a taxable year ending December 31, 2020.

Consequently, current and deferred income taxes for financial statements reporting purposes will still be measured using the applicable income tax rates as of December 31, 2020 since the CREATE bill was not yet enacted as of such date.

This would result in a difference between the provision for current income tax for the financial statements for the year ended December 31, 2020 and the amount of income tax due per taxable year 2020 income tax return amounting to P14,686,766.

The change in the enacted tax rates would also result in decrease in deferred tax assets and deferred tax liabilities estimated at P119 million and P459 million, respectively.

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

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 PFRS, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year.

34.1 Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2020 in the total amount of P18,543,241 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2020 amounting to P2,822,295 were remitted to the Bureau of Internal Revenue in January 2021.

34.2 The Company's taxes and licenses in 2020 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	2020
Real estate tax	13,038,763
Business taxes	950,226
Motor Vehicle Registration	74,993
Other taxes, fees and licenses	223,802
Total	**14,287,784**

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The Investment in Associates account is not properly measured and/or presented in the financial statements due to: i) understatement by at least P30.522 million resulting from valuation at cost of the investment in Gulf Oil Philippines, Inc. (GOPI) instead of equity method and lack of disclosure on the method used to account for the said investment, contrary to Philippine Accounting Standard (PAS) 28 and PAS 27, and ii) presentation of investments in Philippine Mining and Development Corporation (PMDC), a government corporation, without significant influence under the same account contrary to COA Circular No. 2020-002 prescribing the adoption of the Updated Revised Chart of Accounts (RCA).

1.1 Paragraphs 3, 5, 6, 10, 16, 33 and 34 of PAS 28 state that:

3 *An **associate** is an entity over which the investor has **significant influence**.*

5 *If an entity holds, directly or indirectly (eg through subsidiaries), **20 per cent or more of the voting power** of the investee, **it is presumed that the entity has significant influence**, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. **A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.***

6 *The existence of significant influence by an entity is usually evidenced in one or more of the following ways:*

*(a) **representation on the board of directors or equivalent governing body of the investee;***

xxx

*(d) **interchange of managerial personnel**; or* (Emphasis Ours)

10 *Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those*

changes is recognised in the investor's other comprehensive income (see IAS 1 Presentation of Financial Statements).

16 *An entity with joint control of, or* ***significant influence over, an investee shall account for its investment in an associate or a joint venture*** *using the* ***equity method*** *except when that investment qualifies for exemption in accordance with paragraphs 17-19.* (Emphasis Ours)

33 *The* ***most recent available financial statements of the associate or joint venture*** *are used by the entity in applying the equity method. When the* ***end of the reporting period of the entity is different from that of the associate or joint venture****, the* ***associate or joint venture prepares****, for the use of the entity,* ***financial statements as of the same date as the financial statements of the entity*** *unless it is impracticable to do so.*

34 *When,* ***in accordance with paragraph 33****, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity,* ***adjustments shall be made for the effects of the significant transactions or events that occur between the date and the date of the entity's financial statements****. In any case,* ***the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months****. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.* (Emphasis Ours)

Paragraph 16 (c) of PAS 27 requires, among others, disclosures about the description of the method used to account for the investments with significant influence.

The RCA includes Investment in Stocks account which conditions for use are enumerated:

> *This account is debited to recognize amount of investments in stocks of government corporations and public utilities measured at cost other than those invested to joint venture, associates/affiliates and government corporate subsidiaries. This is credited upon sale, transfers, write-off, and/or adjustments.*

Paragraph 9 of PAS 28 states that an entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

1.2 As of December 31, 2020, the Investment in Associates account consists of the following:

Investee	Percentage of Ownership	Amount
Gulf Oil Philippines, Inc. (GOPI)	35	P54,978,000
Philippine Mining Development Corporation (PMDC)	36	45,000,000
Total		**P99,978,000**

1.3 The facts and circumstances pertinent to the investees follow:

- GOPI is an entity created in 1998 through a joint venture by and between Gulf International Lubricants Ltd. and PNOC and started commercial operations on January 1, 2000. It is engaged in the manufacturing, sales and distribution of lubricating oils under the "Gulf" brand name.

  In 2019, records show that the representatives of PNOC in the Board of Directors (BOD) of GOPI were the two members of the PNOC BOD. Based on the available audited financial statements (AFS) from Calendar Years (CYs) 2000 to 2020, GOPI's reported net income (loss) and distributed cash dividends as follows:

Year	Net Income (Loss)	Cash Dividend
2000	(10,797,607.00)	0.00
2001	290,326.00	0.00
2002	835,860.00	0.00
2003	(692,548.00)	0.00
2004	(475,974.00)	0.00
2005	1,454,254.00	0.00
2006	3,634,917.00	1,570,800.00
2007	5,713,343.00	1,727,880.00
2008	8,284,140.00	2,042,034.00
2009	10,250,722.00	2,246,244.00
2010	12,522,109.00	2,466,156.00
2011	14,031,977.00	3,141,600.00
2012	14,728,673.00	3,927,000.00
2013	20,780,161.00	5,105,100.00
2014	20,802,832.00	30,394,980.00
2015	15,800,104.00	0.00
2016	26,829,007.00	15,865,080.00
2017	29,715,014.00	39,646,956.00

Year	Net Income (Loss)	Cash Dividend
2018	23,316,877.00	0.00
2019	10,359,489.00	15,865,080.00
2020	10,888,168.00	7,068,600.00
	218,271,844.00	131,067,510.00

- PMDC, formerly Natural Resources Mining Development Corporation, is 100 per cent wholly owned corporation of the National government. The PMDC was incorporated as an attached agency of the Department of Environment and Natural Resources (DENR) and registered with the Securities and Exchange Commission based on the authorization of the President of the Philippines. Upon increase of its capital stock in 2005 from P100 million to P125 million, the revised equity structure showed DENR-NRDC, PNOC and the National Development Company holding 44 per cent, 36 per cent and 20 per cent, respectively.

As investor, PNOC recognizes in its books of accounts and later presents in the financial statements (FS) some transactions arising from the operations of the two investees.

1.4 Analysis of transactions disclosed that the valuation and presentation of Investment in Associates account did not conform with the provisions of PAS 28, PAS 27 and COA Circular No. 2020-002.

GOPI

a. The share from the income (loss) from operations of GOPI is not recognized in the books of accounts and the cash dividends received were credited to Dividend Income account instead of the Investment in Associate account.

b. There are discrepancies between the dividend income recognized in the books of PNOC and the computed share of PNOC in the cash dividends declared and distributed by GOPI:

Year	Per Books of PNOC	Per FS of GOPI	Difference
2000	*	0.00	
2001	*	0.00	
2002	*	0.00	
2003	*	0.00	
2004	*	0.00	
2005	*	549,780.00	
2006	*	604,758.00	
2007	*	714,711.90	

Year	Per Books of PNOC	Per FS of GOPI	Difference
2008	*	786,185.40	
2009	*	863,154.60	
2010	*	1,099,560.00	
2011	1,374,445.00	1,374,450.00	(5.00)
2012	1,786,779.00	1,786,785.00	(6.00)
2013	5,085,465.00	10,638,243.00	(5,552,778.00)
2014	5,552,778.00	0.00	5,552,778.00
2015	5,552,778.00	5,552,778.00	0.00
2016	6,663,334.00	13,876,434.60	(7,213,100.60)
2017	7,335,523.00	0.00	7,335,523.00
2018	5,595,776.00	5,552,778.00	42,998.00
2019	2,474,010.00	2,474,010.00	0.00
	41,420,888.00	45,873,628.50	(165,409.40)

** No available data. For coordination with PNOC*

The discrepancy is mainly attributed to difference in the reporting periods of the two corporations. PNOC's reporting period is calendar year ending December 31 while GOPI is fiscal year ending March 31.

c. Since PNOC did not apply the equity method, PNOC's Investment in GOPI is understated by 35% of the net of cumulative net income (loss) and cash dividend of GOPI by at least P30.522 million.

d. There is no disclosure in the Notes to Financial Statements on the method used to measure or value the investment in GOPI.

<u>*PMDC*</u>

While we agree that there is lack of significant influence of PNOC over PMDC pursuant to Paragraph 9 of PAS 28 which states that loss of significant influence can occur when an associate becomes subject to control of government, however the investment in PMDC was presented under Investment in Associates account instead of Investment in Stocks as provided under the RCA prescribed in COA Circular No. 2020-002.

1.5 Management made the following justifications on the use of cost model in measuring its Investment in GOPI as follows:

a. Although PNOC has two representatives in the Board of Directors of GOPI, it does not necessarily mean that they exert significant influence on matters concerning the latter.

b. PNOC does not take part in GOPI policy-making process nor participate in the management of the company in any capacity and that they do not have any material transactions with GOPI other than the receipt of dividends. PNOC, as a stockholder, does not receive any essential technical information from GOPI other than audited financial statements.

Management concluded that adjusting entries to conform with PAS 28, on the use of equity method, in measuring the Investment in Associate-GOPI may not be necessary.

1.6 As our rejoinder, in view of the clear provisions of PAS 28 particularly on the presumption of significant influence of an entity holding 20 percent or more of the voting power on an investee unless it is clearly demonstrated that there is none, and the evidence of representation on the Board of Directors, which are both present in PNOC's investment in GOPI, we maintain our stand that the equity method of accounting for said investment as of December 31, 2020 should be used instead of cost method. In effect, the carrying value of investments is understated by at least P30.522 million as of December 31, 2020 and retained earnings as of December 31, 2019 and 2020 is likewise understated by undetermined amounts.

1.7 With regard to the investment in PMDC, the presentation as Investment in Associates is inconsistent with the nature of the investment which falls under Investment in Stocks under the RCA.

1.8 ***We recommended that Management require the Accounting Department to:***

<u>Investment in GOPI</u>

a) Apply the equity method of accounting, and accordingly:

- ***Request the preparation of the latest financial statements of GOPI as of the same date used by PNOC, or calendar year ending December 31, 2020 and every year thereafter, for the share in net income for CY 2020 and future years, in accordance with paragraphs 33-34 of PAS 28;***

- ***Record the adjusting entries for the share in net income to correct the understatement in Investment in Associates account by at least P30.522 million as of December 31, 2020, and corresponding understatement in retained earnings and income for the respective periods;***

- ***Analyze the cash dividends received from GOPI in prior years including accounting entries and adjust related accounts to correct misstatements in the FS of PNOC; and***

- ***Disclose in the Notes to FS the description of the method used to account for the investment.***

Investment in PMDC

b) Reclassify the presentation in the FS from Investment in Associates to Investment in Stocks account pursuant to the RCA.

2. 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.

2.1 Paragraph 15 of PAS 1 states that:

> *The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

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

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

2.2 Section V.4 of COA Circular No. 89-296 dated January 27, 1989 states that, property or assets which are no longer serviceable or needed by an agency or corporation may be transferred to other government entities/agencies without cost or at an appraised value upon authority of the head or governing body of the said agency or corporation, and upon due accomplishment of an Invoice and Receipt of Property.

2.3 PNOC owns several landholdings located in various parts of the country. Among these properties is the ESB created primarily to provide logistical support for the energy industry. Under the contract of lease entered into by and between PNOC, lessor, and PNOC EC, one of its subsidiaries as lessee, the latter is authorized to operate the ESB and install improvements on ESB including those attached to the ground with degree of permanency which will be owned by it.

As directed by the Governance Commission for GOCCs in 2018 to reorganize and the Department of Energy to rationalize operations which include transformation of PNOC to an operating company, PNOC approved a transition plan absorbing operations of ESB which was subsequently acceded by the PNOC EC. Beginning January 1, 2018 when PNOC took over the ESB, all revenues from its operations flowed into and were recognized in the books of accounts of PNOC including use of certain properties placed/installed by the PNOC EC.

PNOC and PNOC EC have previously conducted joint physical inventory-taking and subjected the same to determination of appraised values.

2.4 Evaluation disclosed that the assumption of PNOC of the operations of ESB with use of the properties therein from January 1, 2018 up to present, were not supported with a formal agreement and supporting documents:

Subjects of COA Circular No. 89-296	Per audit
Invoice and Receipt of Property	There is no document or its equivalent issued to PNOC: - As of December 31, 2020, there is no final list of assets to be accepted from the PNOC EC. Per communications between the officials of PNOC and PNOC EC, the former is uncertain to accept all based on the usefulness of the assets to the operations. - The execution of documents still dependent on the later determination of valuation of the assets.
Value	There is no documented valuation as agreed by PNOC with PNOC EC, whether at no cost or at appraised value: - The appraised values of assets were made available to PNOC and the PNOC EC in February 2018 or two months after January 1, 2018. - The inventory-taking was conducted in June 2018 or five months after January 1, 2018. - As of December 31, 2020, the valuation is still to be decided for proposal to be made to the PNOC EC once the list of assets to be accepted is finally determined.

2.5 Management submitted, among others, the following comments:

a. PNOC had already decided not to accept the assets and communicated it to PNOC EC. However, the PNOC EC refused any of the proposals submitted by PNOC over the years. For Management, to accept the entire assets will result in unnecessarily bloating the books of PNOC and will carry with it the burden to undertake the tedious process of disposal of assets.

b. PNOC had also communicated to the PNOC EC the valuation of the chosen assets, i.e. average of the appraisals or at book value or transfer without cost through donation which was not accepted by the latter.

2.6 Since calendar year (CY) 2018, COA monitors the disposition of PNOC having the sole discretion (list of assets and the valuation) in rationalizing its operations being the parent company, on how to come up with a proposal to be offered to PNOC EC. PNOC, within the same period, has transformed into an operating company. However, without a formal agreement between the two corporations, the recognition of the properties in the books of PNOC and derecognition in the books of PNOC EC has not materialized, thus affecting the faithful representation of the transactions in the financial statements of both corporations.

2.6 ***We recommended that Management to 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.***

B. Compliance with Tax Laws

Taxes withheld and due to the Bureau of Internal Revenue (BIR) for CY 2020 in the total amount of P18,543,241 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2020 amounting to P2,822,295 were remitted to the BIR in January 2021.

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

Premiums due to GSIS, Pag-IBIG and PhilHealth for CY 2020 were deducted from the salaries of PNOC personnel in the amount of P17,984,513.19 and remitted within the prescribed period. The premiums deducted in December 2020 in the amount of P1,592,780.44 were remitted in January 2021 with details as follows:

Agency	Premiums collected and remitted in 2020 (January to November 2020)	Premiums collected in December 2020 and remitted in January 2021	Total
GSIS	15,780,121.27	1,393,170.92	17,173,292.19
Pag-IBIG	295,902.00	26,762.00	322,664.00
PhilHealth	1,908,489.92	172,847.52	2,081,337.44
Total	**17,984,513.19**	**1,592,780.44**	**19,577,293.63**

D. Status of Audit Suspensions, Disallowances and Charges

As of December 31, 2020, there were no outstanding suspensions, disallowances and charges. The unsettled portion amounting to P3,585.38 as of December 31, 2019 of the Notice of Disallowance issued in CY 2019 pertinent to the payment of insurance premiums were fully settled in CY 2020.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 23 audit recommendations embodied in the prior years' Annual Audit Reports, two were fully implemented, 19 were partially implemented and two were not implemented. Details are shown in the following table:

Reference	Audit Observation	Audit Recommendations	Status of Implementation
2019 AAR Observation No. 1 pages 59-61	The non-implementation of the Decentralized Energy Systems (DES) Project prevented the Government of the Republic of the Philippines from performing its international commitment with the European Union (EU) and limited the capacity of certain offices in PNOC in exercising functions, thus, contrary to the Financing Agreement dated February 6, 1987 and the Governance Commission for GOCCs (GCG) Memorandum Order No. 2018-05 dated July 26, 2018, respectively.	1. Prepare and implement a plan of action to carry out the activities and meet the objectives of the DES Project as faithful compliance of the Government of the Republic of the Philippines with its commitment with the EU under Financing Agreement dated February 6, 1987; and 2. Ensure the best use of the DES Fund in conformity with functional statements of the Office of the Senior Vice President for Energy Investments under GCG Memorandum Order No. 2018-05 dated July 26, 2018.	Partially implemented PNOC do not have the corporate power to engage in financing particularly direct lending in order to operate the project. Nevertheless, PNOC met with Development Bank of the Philippines and inquired from Landbank of the Philippines to explore avenues on how to best utilize and manage the fund. Partially implemented PNOC started industry and environmental scanning and data collection to explore possible projects or initiatives that can be considered.
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	3. Give utmost importance in finalizing the ISSP for submission to and approval of the DICT; and	Partially implemented The ISSP was submitted to the DICT on December 30, 2020.

Reference	Audit		Status of Implementation
	Observation	Recommendations	
	approved Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent of the total ICT projects were not bought from the DBM-Procurement Service (PS), thus, contrary to Section 4.4 of the Department of Budget and Management (DBM) Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.	4. Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.	Partially implemented PNOC's validation of the needed information technology equipment is ongoing for the finalization of the terms of reference.
2019 AAR Observation No. 3 pages 64-66	The reimbursable expenses paid to the Board of Directors (BOD) of PNOC in the amount of P2.777 million for CY 2019 exceeded the amount allowed under Section 10 of GCG Memorandum Circular No. 2016-01 dated May 10, 2016 by P1.281 million.	5. Secure approval of the GCG on the excess reimbursed expenses. In the absence of such approval, require the concerned member of the Board to refund the same to prevent the issuance of notice of disallowance; and 6. Strictly adhere to the rates allowed by GCG Memorandum Circular No. 2016-01 dated May 10, 2016 in the payment of reimbursable expenses to the Board.	Partially Implemented After receipt in 2020 of the reply on the reimbursable expenses from GCG, PNOC adopted the limitation set in the General Appropriations Act in relation to RA 6758. Fully implemented

Reference	Audit		Status of Implementation
	Observation	Recommendations	
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.	7. 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.	Partially implemented PNOC has coordinated with CSC to seek guidance on the grant of said incentive.
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 issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission	8. 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	Partially implemented PNOC has posted sex disaggregated data on the following areas: • Manpower Statistics; • Health Data; • Training Program Attendance PNOC will further expand the coverage of the database once the PNOC Human Resource Information System is fully installed and running.

Reference	Audit		Status of Implementation
	Observation	**Recommendations**	
	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.	9. Facilitate/negotiate with PNOC EC to finalize the agreement on the transfer of assets; 10. 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; and 11. Recognize depreciation expense pertaining to the ESB assets in compliance with the Matching Principle of accounting	Partially implemented Reiterated in Audit Observation No. 2 of this AAR. This observation was first raised in the AAR for CY 2018. Not implemented Related audit observation reiterated in this AAR. Not implemented Related audit observation reiterated in this AAR.
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	12. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output	Partially implemented Office of the Solicitor General (OSG) informed PNOC that they are ready to file

Reference	Audit		Status of Implementation
	Observation	Recommendations	
	zero balance affected the fair presentation of balances of pertinent account in the financial statements contrary to Paragraph 15 of PAS 1, thus, the existence, validity and collectability cannot be ascertained.	VAT.	the case for arbitration with the Department of Justice (DOJ). PNOC will formally endorse to OSG the request for the arbitration.
2018 AAR Observation No. 3, page 79-81 \ 2015 AAR Observation No. 1, page 52-54	Loans Receivable from Natural Resources Development Corporation (NRDC) in the amount of P70.090 million remained uncollected for more than ten years contrary to Item no. 2 of Loan Agreements dated March 9, 2004 and June 11, 2004 respectively, thereby, depriving the Company of its resources that could have been derived therefrom.	13. Exert extra effort in coordinating with NRDC for the issuance of Board Resolution assigning its future dividends from PMDC to PNOC as partial settlement of its long overdue accounts with PNOC; and 14. File appropriate legal charges against NRDC, if necessary.	Closed The assignment of dividends of NRDC to PNOC is no longer feasible since dividends are to be remitted directly to the National Government pursuant to the 2016 RIRR of RA 7656. Partially implemented PNOC has already requested from OSG to file the case with DOJ for arbitration.
2018 AAR Observation No. 6, pages 84-86\ 2017 AAR Observation No. 4, pages 73-76	Non-submission of the Report of the Annual Physical Inventory of Property and Equipment amounting to P338.658 million is contrary to Section IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18, 1980 and Section 122 of PD 1445, thus, the existence, completeness and valuation cannot be ascertained and the	15. Renew the Memorandum Receipts (MR or Gen. Form No. 32) now Property Acknowledgement Receipt (PAR) every three years.	Partially implemented Additional manpower dedicated to assist the Administration Officer will be requested for the renewal of MR.

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

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

July 14, 2021

ADM. REUBEN S. LISTA (Ret) .. EPWB 7/15/1:35
President and Chief Executive Officer
Philippine National Oil Company
Energy Center, Rizal Drive
Bonifacio Global City, Taguig City

Dear President Lista:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of **Philippine National Oil Company (PNOC)** for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Audit Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of PNOC for the years ended December 31, 2020 and 2019.

The audit observations and recommendations which were discussed by the Audit Team with concerned PNOC officials and staff during the exit conference conducted on June 3, 2021 and are presented in detail in Part II of the report, are as follows:

1. The Investment in Associates account is not properly measured and/or presented in the financial statements due to: i) understatement by at least P30.522 million resulting from valuation at cost of the investment in Gulf Oil Philippines, Inc. (GOPI) instead of equity method and lack of disclosure on the method used to account for the said investment, contrary to Philippine Accounting Standard (PAS) 28 and PAS 27, and ii) presentation of investments in Philippine Mining and Development Corporation (PMDC), a government corporation, without significant influence under the same account, contrary to COA Circular No. 2020-002 prescribing the adoption of the Updated Revised Chart of Accounts (RCA).

   Recommendations:

   a) Apply the equity method of accounting on the investment in GOPI, and accordingly:

      i. Request the preparation of the latest financial statements of GOPI as of the same date used by PNOC, or calendar year ending December 31, 2020 and every year thereafter, for the share in net income for CY 2020 and future years, in accordance with paragraphs 33-34 of PAS 28;

      ii. Record the adjusting entries for the share in net income to correct the understatement in Investment in Associates account by at least P30.522 million as of

December 31, 2020, and corresponding understatement in retained earnings and income for the respective periods;

iii. *Analyze the cash dividends received from GOPI in prior years including accounting entries and adjust related accounts to correct misstatements in the FS of PNOC; and*

iv. *Disclose in the Notes to FS the description of the method used to account for the investment.*

b) *Reclassify the presentation of the investment in PMDC from Investment in Associates to Investment in Stocks account pursuant to the RCA.*

2. 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.

Recommendation:

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.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

Lydia F. de Joya

MA. LYDIA F. DE JOYA
Director IV

Copy furnished:

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

PHILIPPINE NATIONAL OIL COMPANY

Agency Action Plan and Status of Implementation (AAPSI)

Audit Observations and Recommendations
For the Calendar Years 2019 and 2020
As of ________

<table>
<tr><th rowspan="3">Ref</th><th rowspan="3">Audit Obser-vations</th><th rowspan="3">Audit Recommen-dations</th><th colspan="4">Agency Action Plan</th><th rowspan="3">Status of Implemen-tation</th><th rowspan="3">Reason for Partial /Delay/ Non-implemen-tation, if applicable</th><th rowspan="3">Action Taken / Action to be taken</th></tr>
<tr><th rowspan="2">Action Plan</th><th rowspan="2">Person /Dept. Responsible</th><th colspan="2">Target Implemen-tation Date</th></tr>
<tr><th>From</th><th>To</th></tr>
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</table>

Agency sign-off:

_______________________________ ________

Name and Position of Agency Officer Date

Note:

Status of Implementation may either be: (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed

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, 2020 and 2019

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Reference	Audit		Status of Implementation
	Observation	Recommendations	
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	12. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output	Partially implemented Office of the Solicitor General (OSG) informed PNOC that they are ready to file

Reference	Audit		Status of Implementation
	Observation	Recommendations	
	zero balance affected the fair presentation of balances of pertinent account in the financial statements contrary to Paragraph 15 of PAS 1, thus, the existence, validity and collectability cannot be ascertained.	VAT.	the case for arbitration with the Department of Justice (DOJ). PNOC will formally endorse to OSG the request for the arbitration.

Reference	Audit		Status of Implementation
	Observation	Recommendations	
	accountabilities of employees cannot be established.		
2018 AAR Observation No. 8, pages 90-92	The payment of premiums in the aggregate amount of P78,883 for the accident insurance of PNOC officers and employees while on official travel exceeded the allowable accident insurance coverage of P200,000 contrary to Section 19 of Executive Order No. 248 dated May 29, 1995.	16. Refund immediately the amount of P78,883 to preclude the issuance of Notice of Disallowance.	Fully 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 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.	17. Recognize the payables to PNOC RC amounting to P51.956 million and settle the account as soon as possible.	Partially implemented The individual barangay certificate of installation is necessary to be secured through barangay visitation with DOE, PNOC and COA to be able to reimburse amount from DOE. However, the unavailability of local counterpart as well as the unstable peace and order hampered the pursuance of travel. The issue will be raised to the PNOC Board for guidance. Also, letter to the DOE for consideration was drafted.

<table>
<tr><th rowspan="2">Reference</th><th colspan="2">Audit</th><th rowspan="2">Status of Implementation</th></tr>
<tr><th>Observation</th><th>Recommendations</th></tr>
<tr><td>2016 AAR Observation No. 7, page 62-83</td><td>Investment Property as of December 31, 2016 amounting to P1.689 billion consisted of 23 lots with an area of 718,056 sq.m. with Transfer Certificates of Titles (TCTs) but not in the name of PNOC, and of 44 lots amounting to P100.041 million with an area of 241,741 sq.m. without TCTs in the name of PNOC.

Also, discrepancies existed between the records being maintained by Estate Management Department (EMD) and Accounting Department (AD) on: a) for land area consisting of 23 lots, per EMD records, the total area was 516,884 sq.m., while per AD records, the total area was 1,463,776 sq.m., or a difference of 946,892 sq.m.; and b) four TCTs with an area of 9,517 sq.m. and a total cost of P676.75 included in the accounting records but not included in the EMD records.

Further, PNOC incurred additional expenses of P9.554 million in CY 2016 for the payment of real property taxes and</td><td>18. Cause the completion of processing the titles of 67 lots to ensure the proper transfer of ownership to PNOC;</td><td>Partially implemented

PNOC finds the completion of the processing of titles, 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 which still requires judicial process like adverse claims and lack of technical descriptions;

c.) unregistrable lots – part of the public domain;

d.) could not be located;

e.) Badoc Lots - with pending request with COA for clearance for dropping from the PNOC Book; and

f.) some other issues which barred</td></tr>
</table>

Reference	Audit		Status of Implementation
	Observation	Recommendations	
	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.		PNOC from having the said lots transferred/ titled/registered in its name.
		19. 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;	Partially implemented Ongoing evaluation of status on various lots.
		20. Require the reconciliation of records between the EMD and AD to determine the actual area under paragraphs 7.4 (c) and 7.4 (d) and make the necessary adjustments, where appropriate;	Partially implemented Asset Management Department (AMD), formerly EMD, and AD are conducting reconciliation of records found to be inconsistent from time to time. AMD is continuing its research for the supporting documents.
		21. Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies; and	Partially implemented PNOC continued to accept and process the application for lease of PNOC idle lots whether it is a short or long term lease and has identified those idle

Reference	Audit		Status of Implementation
	Observation	Recommendations	
			lots that have use and/or not useable for any PNOC project. On the issue of informal settlers, demand letters to vacate were served to the informal settlers who are intruding PNOC lots. Likewise, PNOC have sought the assistance of the Local Government Unit Municipal Engineering Office to stop the illegal construction activity in PNOC lots considering that no building permits were issued on their part. PNOC is also regularly coordinating with the Barangay authorities for joint coordination to stop the illegal activities/proliferation of informal settlers.
		22. Study and submit PNOC's marketing strategy to hasten the disposal of the idle assets and to explore possibilities to generate income from their use while awaiting disposal for the purpose of optimizing their values and/or to at least recover the amount invested by PNOC.	Partially implemented AMD reported to the Board the best utilization of the lot and was directed by the Board to re-study its option to dispose. AMD has submitted results of the study and recommended its previous recommendation to dispose properties.

Reference	Audit		Status of Implementation
	Observation	**Recommendations**	
2015 AAR Observation No. 2, page 54-57	Found existing for reciprocal accounts between Due from Subsidiaries per PNOC books and Due to PNOC per subsidiaries' records was a variance of P4.684 million involving various reconciling items which remained unresolved for more than one to 13 years. Also, no Allowance for Impairment was recognized for the account Due from Subsidiaries, contrary to paragraphs 58 and 59 of PAS 39.	23. Coordinate with the Finance Managers/ Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items; 24. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements.	Partially implemented PNOC provided PNOC RC all the necessary documents on October 13, 2016. PNOC RC also partially settled its long outstanding accounts on December 19, 2016 amounting to P263,650.95. Partially implemented PNOC coordinated with PNOC RC for the reconciliation of the books of said agencies.