

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, 2021 and 2020

EXECUTIVE SUMMARY

A. Introduction

Background Information

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

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

2. PNOC's Vision

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

3. PNOC's Mission

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

4. The Governance Commission for GOCCs (GCG) mandated PNOC to transform from a mere holding to also an operating company in September 2014. Thus, GCG recommended the abolition of PNOC Alternative Fuels Corporation and PNOC Development and Management Corporation, which was duly approved by the Office of the President on 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

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

6. The audit covered the examination on a test basis of the accounts and financial transactions of PNOC for the period January 1 to December 31, 2021 in accordance with ISSAIs. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of PNOC to prescribed laws, rules and regulations.

C. Financial Highlights (In Million Pesos)

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

Financial Position			
	2021	2020	Increase (Decrease)
Assets	36,557.539	36,530.751	26.788
Liabilities	3,846.631	4,075.770	(229.139)
Equity	32,710.908	32,454.981	255.927
Results of Operation			
	2021	2020	Increase (Decrease)
Income			
Service and Business Income	713.349	989.414	(276.065)
Gains	20.300	51.187	(30.887)
Non-Operating Income/Gain	790.284	151.663	638.621
Total Income	1,523.933	1,192.264	331.669
Expenses			
Personnel Services	137.691	136.027	1.664
Maintenance and Other Operating Expenses	119.069	133.163	(14.094)
Financial Expenses	1.074	8.157	(7.083)
Direct Costs	23.145	106.956	(83.811)
Non-Cash Expenses	292.233	126.547	165.686
Total Expense	573.212	510.850	62.362
Profit Before Tax	950.721	681.414	269.307
Income Tax Expense/(Benefit)	(141.129)	156.948	(298.077)
Profit After Tax	1,091.850	524.466	567.384
Other Comprehensive Income (Loss) for the Period	0.340	(0.530)	0.870
Comprehensive Income	1,092.190	523.936	568.254

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, 2021 and 2020 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 reliability and validity of Other Deferred Credits account with a balance of P248.972 million could not be established due to absence of sufficient details and supporting documents, contrary to paragraph 1.17 of the Conceptual Framework, paragraph 15 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2020-002 dated January 28, 2020, relative to the following: i) recognition of P8.615 million as Other Deferred Credits after completion of a project in 2013 implemented by PNOC Renewables Corporation; and ii) various intercompany charges to PNOC subsidiaries amounting to P240.357 million.

We recommended and Management agreed to require the Accounting Department to:

- a) *Analyze the transactions comprising the Barangay Electrification Project and various intercompany charges amounting to P8.615 million and P240.357 million, respectively, and take up the necessary adjusting entries; and*
 - b) *Maintain Subsidiary Ledger for the monitoring and analysis of Other Deferred Credits account to establish its reliability and validity.*
2. The reliability of the Property, Plant and Equipment (PPE) – Machinery and Equipment account with carrying amount of P25.905 million as of December 31, 2021 was not established due to the inclusion of unlocated items costing P7.642 million and disposed properties costing P0.607 million which were not adjusted as of year-end, while the costs of properties in the Accounting records differ from those reflected in the Report on the Physical Count of PPE (RPCPPE) with variance of P0.518 million, contrary to paragraph 15 of PAS 1, and Sections 6.3 and 7.1 of COA Circular No. 2020-006.

We recommended and Management agreed to require the:

- a) *Accounting Department and Property Management Department to derecognize the disposed properties based on the documents relative to disposal, and verify if the non-existing/missing PPE were already disposed with supporting IIRUP or transferred with supporting Property Transfer Report for recording in the books of PNOC, in compliance with Section 7.1 of COA Circular No. 2020-006. Thereafter, effect the necessary adjustments; and*

- b) *Accounting Department to review and analyze the difference between the costs of PPE – Machinery and Equipment per books/financial statements and RPCPPE.*

F. Status of Audit Suspensions, Disallowances and Charges

As at December 31, 2021, there were seven Notices of Disallowance (NDs) issued to PNOC. The NDs issued in CY 2021 amounting to P1,258,066.83 remained unsettled with appeals filed with the Cluster Director. Details are shown under Section F in Part II of this report.

G. Status of Implementation of Prior Years' Recommendations

Out of the 23 audit recommendations embodied in the prior years' Annual Audit Reports, three were fully implemented, 18 were partially implemented and two were not implemented, wherein two partially implemented were reiterated with updates, in Part III of this Report.

LIST OF ACRONYMS

Acronym	Definition
AAPSI	Agency Action Plan and Status of Implementation
AD	Accounting Department
AMD	Asset Management Department
BIR	Bureau of Internal Revenue
Board	Board of Directors
BOT	Build-Operate-Transfer
CEO	Chief Executive Officer
COB	Corporate Operating Budget
Code of Ethics	Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees
CSC	Civil Service Commission
CWT	Creditable Withholding Taxes
CY	Calendar Year
DAAAL	Deed of Assignment of Assets and Assumption of Liabilities
DBM	Department of Budget and Management
DES	Decentralized Energy Systems
DFS	Detailed Feasibility Study
DICT	Department of Information and Communications Technology
DOE	Department of Energy
DOF	Department of Finance
DOJ	Department of Justice
EDC	Energy Development Corporation
EMD	Estate Management Department
ERDC	Energy Research and Development Center
ESB	Energy Supply Base
EU	European Union
FNPC	First NatGas Power Corporation
FOREX	Foreign Exchange
FVOCI	Financial Assets at Fair Value through Other Comprehensive Income
FVPL	Financial Assets at Fair Value through Profit or Loss
FY	Fiscal Year
GAA	General Appropriations Act
GAD	Gender and Development
GBE	Government Business Enterprises
GCG	Governance Commission for GOCCs
GOPI	Gulf Oil Philippines, Inc.
GPB	GAD Plan and Budget
GSIS	Government Service Insurance System
GSPA	Gas Sales and Purchase Agreement

G-to-G	Government-to-Government
HSSE	Health, Safety, Security and Environmental
ICT	Information and Communication Technology
IIRUP	Inventory and Inspection Report of Unserviceable Property
IMS	Integrated Management Systems
IPSASB	International Public Sector Accounting Standards
ISO	International Organization for Standardization
ISSAI	International Standards of Supreme Audit Institutions
ISSP	Information Systems Strategic Plan
JMSU	Joint Marine Seismic Undertaking
JV	Joint Venture
LBP	Land Bank of the Philippines
LNG	Liquefied Natural Gas
MC	Memorandum Circular
MOU	Memorandum of Understanding
MR	Memorandum Receipt
ND	Notice of Disallowance
NEDA	National Economic and Development Authority
NG	National Government
Non-CPSEs	Non-Commercial Public Sector Entities
NRDC	Natural Resources Development Corporation
OGCC	Office of the Government Corporate Counsel
OSG	Office of the Solicitor General
P	Philippine Peso
PAFC	PNOC Alternative Fuels Corporation
Pag-ibig	Home Development Mutual Fund
PAPs	Programs, Activities, and Projects
PAR	Property Acknowledgement Receipt
Park	Industrial Park
PAS	Philippine Accounting Standards
PCC	PNOC Coal Corporation
PCW	Philippine Commission on Women
PD	Presidential Decree
PDMC	PNOC Development and Management Corporation
PERA	Personnel Economic Relief Allowance
PEZA	Philippine Economic Zone Authority
Philhealth	Philippine Health Insurance Corporation
PIP	PNOC Industrial Park
PJ	Petajoules
PMDC	Philippine Mining Development Corporation
PMPC	Prime Meridian Powergen Corporation
PNOC	Philippine National Oil Company
PNOC EC	PNOC Exploration Corporation

PNOG RC	PNOG Renewables Corporation
PPE	Property, Plant and Equipment
PRAISE	Program for Awards and Incentives for Service Excellence
PS	Procurement Service
PSALM	Power Sector Assets and Liabilities Management Corporation
PSPC	Pilipinas Shell Petroleum Corporation
PSTC	PNOG Shipping and Transport Corporation
PTR	Property Transfer Report
RA	Republic Act
RA	Representation Allowance
RCA	Revised Chart of Accounts
RPCPPE	Report on Physical Count on PPE
RR	Revenue Regulations
RTC	Regional Trial Court
SC	Service Contract
SPR	Strategic Petroleum Reserve
TA	Transportation Allowance
TCT	Transfer Certificates of Titles
THDC	Tongonan Holdings & Development Corporation
TOR	Terms of Reference
TRANSCO	National Transmission Corporation

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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, 2021 and 2020, 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, 2021 and 2020, its financial performance and its cash flows, for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 33.1 to the financial statements which disclose the promulgation of Resolution by the Regional Trial Court (RTC) of Mandaluyong City on November 13, 2019 on the case of Petron Corporation vs. PNOC, which rescinded the Deeds of Conveyance for the Refinery Properties, Bulk Plant Properties and Service Station Properties dated October 29, 1993. The Resolution ordered PNOC to re-convey to Petron Corporation all the properties covered under the said Deeds of Conveyance and Petron Corporation to pay

PNOC the amount of P143 million with legal interest reckoned from October 29, 1993. Both parties appealed the decision of the RTC to the Court of Appeals who denied the appeals on December 13, 2021. A Motion for Reconsideration was filed by PNOC through the Office of Government Corporate Counsel. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 20, 2022

**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, 2021 and 2020, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

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



ALFONSO G. CUSI
PNOC Chairman of the Board

Date Signed



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

Date Signed



JESUS CRISTINO P. POSADAS
PNOC President and CEO

Date Signed


JUN 20 2022

SUBSCRIBED AND SWORN TO BEFORE ME this _____ of _____ 2022 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
Jesus Cristino P. Posadas	119-173-658
Evangeline B. Albaytar	103-562-980

NOTARY PUBLIC

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JESUS M. ALBAYTAR, Notary Public
Notary Public, Republic of the Philippines
Member of the Philippine Bar
Member of the Taguig City Bar
Extended till: 30 June 2022
PNSOC, Building No. 8888, 8th Floor, Bldg. 8888
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PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 AND 2020

	<u>NOTE</u>	<u>2021</u>	<u>2020</u> <u>(As restated)</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	651,981,673	414,655,234
Investments	7	1,069,552,379	1,012,860,647
Receivables	8	230,092,394	588,244,063
Other Current Assets	14	308,926,763	319,207,527
Total Current Assets		<u>2,260,553,209</u>	<u>2,334,967,471</u>
Non-Current Assets			
Financial Assets	7	3,515,016,264	3,262,866,839
Investments in Associates	7	86,633,214	54,978,000
Investments in Subsidiaries	7	4,859,775,056	4,859,775,056
Other Investments	7	141,549,450	141,632,450
Receivables	8	0	59,862,662
Banked Gas Inventory	9	13,405,958,610	13,429,634,014
Investment Property	10	11,000,064,127	11,008,414,734
Property and Equipment	11	631,261,482	663,056,972
Intangible Asset	12	2,441	0
Deferred Tax Assets	13	656,471,351	715,300,905
Other Non-Current Assets	14	253,887	261,590
Total Non-Current Assets		<u>34,296,985,882</u>	<u>34,195,783,222</u>
Total Assets		<u>36,557,539,091</u>	<u>36,530,750,693</u>
LIABILITIES			
Current Liabilities			
Financial Liabilities	15	97,606,818	156,184,959
Inter-Agency Payables	16	74,638,475	98,193,997
Trust Liabilities	17	272,382,528	258,931,776
Other Payables	18	766,565,638	299,158,471
Total Current Liabilities		<u>1,211,193,459</u>	<u>812,469,203</u>
Non-Current Liabilities			
Deferred Credits/Unearned Income	19	271,919,149	475,283,469
Provisions	20	32,757,943	34,476,778
Deferred Tax Liabilities	21	2,330,760,617	2,753,540,476
Total Non-Current Liabilities		<u>2,635,437,709</u>	<u>3,263,300,723</u>
Total Liabilities		<u>3,846,631,168</u>	<u>4,075,769,926</u>
EQUITY			
Retained Earnings		29,596,783,654	29,341,576,824
Stockholders' Equity		3,114,595,519	3,114,595,519
Cumulative Changes in Fair Value		(471,250)	(1,191,576)
Total Equity		<u>32,710,907,923</u>	<u>32,454,980,767</u>
Total Liabilities and Equity		<u>36,557,539,091</u>	<u>36,530,750,693</u>

The notes on pages 10 to 64 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

	<u>NOTE</u>	<u>2021</u>	<u>2020</u>
Income			
Service and Business Income	23	713,349,472	989,413,905
Gains	29	20,299,727	51,186,679
Non-Operating Income/Gain	29	790,283,716	151,663,156
Total Income		1,523,932,915	1,192,263,740
Expenses			
Personnel Services	24	(137,690,659)	(136,026,685)
Maintenance and Other Operating Expenses	25	(119,068,579)	(133,163,229)
Financial Expenses	26	(1,074,406)	(8,157,069)
Direct Costs	27	(23,145,016)	(106,955,966)
Non-Cash Expenses	28, 29	(292,233,534)	(126,546,609)
Total Expenses		(573,212,194)	(510,849,558)
Profit Before Tax		950,720,721	681,414,182
Income Tax Expense/(Benefit)	30	(141,129,194)	156,947,976
Profit After Tax		1,091,849,915	524,466,206
Other Comprehensive Income/(Loss) for the Period		340,000	(530,326)
Comprehensive Income		1,092,189,915	523,935,880

The notes on pages 10 to 64 form part of these statements.

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

	Cumulative Changes in Fair Value of Investments	Retained Earnings/ (Deficit)	Contributed Capital	TOTAL
BALANCE AT JANUARY 1, 2020	(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	(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
Net realized forex loss on dollar 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
CHANGES IN EQUITY FOR 2021				
Add/(Deduct):				
Comprehensive Income for the year	0	1,091,849,915	0	1,091,849,915
Dividends	0	(959,356,721)	0	(959,356,721)
Other Adjustments:				
Changes in fair value of financial assets at FVOCI	340,000	0	0	340,000
Prior year's realized forex loss on dollar account	380,326	(380,326)	0	0
Prior period adjustments	0	123,093,962	0	123,093,962
BALANCE AT DECEMBER 31, 2021	(471,250)	29,596,783,654	3,114,595,519	32,710,907,923

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of Income/Revenue	1,194,618,004	639,138,157
Collection of Receivables	268,099,177	232,111,337
Receipt of Inter-Agency Fund Transfer	0	8,646,415
Trust Receipts	13,450,752	32,149,469
Other Receipts	41,084,339	198,114,043
Total Cash Inflows	1,517,252,272	1,110,159,421
Cash Outflows		
Payment of Expenses	218,709,934	241,773,734
Grant of Cash Advances	16,500	13,500
Prepayments	0	3,962,375
Refund of Deposits	7,365,877	8,718,329
Payments of Accounts Payable	46,574,651	49,680,087
Remittance of Personnel Benefit Contributions and Mandatory Deductions	119,299,535	36,198,885
Release of Inter-Agency Fund Transfers	9,419,485	1,566,909
Other Disbursements	213,511,074	158,047,628
Total Cash Outflows	614,897,056	499,961,447
Adjustments	5,669,555	1,907,620
Adjusted Cash Outflows	620,566,611	501,869,067
Net Cash Provided by Operating Activities	896,685,661	608,290,354
CASH FLOWS FROM INVESTING ACTIVITIES		
Total Cash Inflows		
Proceeds from Sale/ Disposal of Investment Property	0	8,525,584
Proceeds from Sale/Disposal of Property, Plant and Equipment	364,256	0
Receipt of Interest Earned	157,110,927	244,964,130
Receipt of Cash Dividends	1,924,230	1,925,332
Proceeds from Matured Investments	504,028,593	5,881,254,541
Proceeds from Sale of Other Assets	83,000	0
Total Cash Inflows	663,511,006	6,136,669,587
Cash Outflows		
Purchase/Construction of Investment Property	0	3,368,940
Purchase/Construction of Property and Equipment	11,120,804	5,368,947
Purchase of Investments	811,749,424	1,628,556,187
Total Cash Outflows	822,870,228	1,637,294,074
Net Cash Used in/(Provided by) Investing Activities	(159,359,222)	4,499,375,513
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of Cash Dividends	500,000,000	5,000,000,000
Total Cash Outflows	500,000,000	5,000,000,000
Net Cash Used In Financing Activities	(500,000,000)	(5,000,000,000)
INCREASE IN CASH AND CASH EQUIVALENTS	237,326,439	107,665,867
Effects of Exchange Rate Changes on Cash and Cash Equivalents	0	(380,326)
CASH AND CASH EQUIVALENTS, JANUARY 1	414,655,234	307,369,693
CASH AND CASH EQUIVALENTS, DECEMBER 31	651,981,673	414,655,234

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 20, 2022 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, Jesus Cristino P. Posadas, 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, tankering and/or shipping, storage, transport, marketing, and related activities concerning oil and petroleum products.

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

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

Vision

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

Mission

Through the efforts and initiative of world class professionals, PNOC is committed to:

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

- Foster sustainable and environment-friendly sources of energy and promote energy efficiency and conservation; and
- Maintain the highest standards of service and corporate governance.

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

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

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

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 109 residual positions (55.1%) 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.

By the end of 2021, the majority of the positions under the Reorganized Table of Organization have been filled-up by 119 out of 198 positions using the PNOC Competency-Based Human Resources System.

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

Projects

1.1 *Batangas Liquefied Natural Gas (LNG) Hub*

Description:

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

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

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

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

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

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

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

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

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.

The remaining volume of banked gas is equivalent to 101.103 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 Tabangao Refinery.

PSPC started withdrawing banked gas from PNOC under the 2016 GSPA on June 01, 2018 (start date), which is supposed to run until the expiration of said GSPA on February 23, 2024 (end date). However, in November 2020, PSPC proposed for an early termination of the GSPA in view of the permanent shutdown of the PSPC's Tabangao Refinery due to the impact of the COVID-19 pandemic. The terms for the proposed early mutual termination was approved by PNOC Board on May 17, 2021. The termination contract was signed on July 23, 2021, this was after receiving favorable review of said document by the Office of the Government Corporate Counsel (OGCC).

From June 1, 2018 up to prior termination of the contract in July 2021, PSPC paid for a total quantity of 3.107 PJ (i.e. including actual withdrawals of 2.716 PJ and annual deficiencies of 0.391 PJ). Upon termination of the GSPA, PSPC paid for the total outstanding volume of banked gas equivalent to 3.217 PJ, which were reverted to PNOC's banked gas inventory along with the paid deficiencies of 0.391 PJ. Hence, at the end of PSPC's GSPA termination, the remaining banked gas totaled to 101.278 PJ (i.e. 97.670 PJ + 3.217 PJ + 0391 PJ).

Due to the latest development in PSPC's shutdown of its Tabangao 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.

Following the approval of the PNOC Board of the Term Sheet, PNOC Management proceeded with the negotiation and finalization of GSPA with the buyer on November 22, 2021.

On November 11, 2021, a board approval was secured on the final draft of GSAs between PNOC and First NatGas Power Corporation and Prime Meridian PowerGen Corporation. An acknowledgement from the Department of Energy was also secured.

The GSPAs were signed on December 24, 2021.

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.

PNOC conducted biddings for the hiring of Detailed Feasibility Study (DFS) consultant for the SPR Project. As of 2021, bidding was unsuccessful due to failure of lone bidder to submit required eligibility documents and to pass the eligibility requirements.

The Terms of Reference (TOR) for hiring was submitted to the DOE on November 19, 2021 for review and favorable endorsement. New target for the conduct of DFS was adjusted to April 2023. There may be revisions to the TOR in consideration of the DOE.

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. In 2020, 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).

For the current year, the Board of Directors disapproved the award of contract recommended by the Bids and Awards Committee for the ESB Port development citing significant economic changes rendering the project no longer feasible.

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 Landbank of the Philippines. 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. 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 2020, PNOC executed a new Contract of Lease and Right of Way over PSTC Lots located in Brgy. Banaba South, Batangas City 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 Philippine Economic Zone Authority.

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.

For the period January to November 2020, deeds of absolute sale were signed by PDMC and the buyers for the sale of 11 Costa Verde lots.

In September 2020, sold three Costa Verde Housing commercial lots amounting to P12.04 million net of sales discounts.

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

In 2021, five Costa Verde and one El Pueblo properties were sold. PDMC recognized gain on sale from the transaction.

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).

COA Circular No. 2015-003 dated April 16, 2015 provides the classification of all government corporations and other entities/instrumentalities with corporate powers as Government Business Enterprises (GBEs) or Non-GBEs for the purpose of determining

the applicable Financial Reporting Framework in the preparation of their financial statements. PNOC and its subsidiaries were classified as GBEs.

Under COA Resolution No. 2020-013 dated January 31, 2020, GBEs and Non-GBEs were renamed into Commercial Public Sector Entities and Non-Commercial Public Sector Entities (Non-CPSEs) pursuant to the 2018 Edition of the Handbook of International Public Sector Accounting Pronouncements published by the International Federation of Accountants and the International Public Sector Accounting Standards Board (IPSASB).

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, 2021.

ii. Derecognition

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

1. the contractual rights to the cash flows from the financial asset expired or waived; and
2. PNOC has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PAS 39-Financial Instruments: Recognition and Measurement; and either the entity has:
 - transferred substantially all the risks and rewards of ownership of the financial asset; or
 - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iii. Impairment of financial assets

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

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty;
2. Default or delinquency in interest or principal payments;
3. The probability that debtors will enter bankruptcy or other financial reorganization; and
4. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

1) Financial assets carried at amortized cost

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

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

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

2) Fair value through other comprehensive income

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

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

b. Financial liabilities

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

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

i. Derecognition

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

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

c. Offsetting of financial instruments

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

d. Fair value of financial instruments

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

3.3 Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term money market placements that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are

subject to insignificant risk of change in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.4 Inventories

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

3.5 Investment Property

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

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment property 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
Computer software	3

iv. Residual value

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

e. Impairment

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

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

Operating lease

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

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

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

The depreciation policies for Property, Plant and Equipment are applied to similar assets leased by the entity.

3.8 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

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

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

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

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

b. Contingent Liabilities

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

c. Contingent Assets

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

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

3.9 Changes in Accounting Policies and Estimates

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

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

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

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

3.10 Foreign Currency Transactions

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

At each reporting date:

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

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

3.11 Revenue from Non-exchange Transactions

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

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

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

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

b. Recognition of revenue from non-exchange transactions

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

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

c. Measurement of revenue from non-exchange transactions

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

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

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

e. 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 2021, no revenue 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 2021, 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 2021, 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, 2021, 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, 2021, 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*".

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

5. PRIOR PERIOD ADJUSTMENTS

Particulars	As at December 31, 2021
Rent/lease income earned in prior years	154,561,285
Adjustment to implement effective interest method of accounting for financial assets	(42,829,630)
Adjustment to Deferred Tax Liability	(43,344,515)
Net adjustment on prior year's earnings and dividends of Investment in Associate	32,333,907
Adjustment for effect of change in income tax rate pursuant to RA No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to Income Tax Payable for CY 2020	14,553,458
Adjustment to Deferred Tax Asset	3,122,518
Adjustment to Accounts Payable	2,758,553
Adjustment to Other Receivables	1,258,067
Adjustment to Allowance for Impairment on Subsidiaries	1,210,706
Adjustment to Banked Gas Inventory	(530,387)
Total Prior Period Adjustments	123,093,962

6. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2021	As at December 31, 2020
Cash-Collecting Officers	321,534	498,198
Cash in Bank-Local Currency	12,859,394	17,451,234
Cash in Bank-Foreign Currency	2,287,906	1,469,743
Cash Equivalents	636,512,839	395,236,059
Total Cash and Cash Equivalents	651,981,673	414,655,234

Cash in Bank is cash deposits that earn interest at the respective bank deposit rates. PNOOC 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 1.30 – 1.60 percent for local currency and 1.00 percent for foreign currency.

7. INVESTMENTS

7.1 Financial Assets

Particulars	As at December 31, 2021	As at December 31, 2020
Total Current Financial Assets	509,552,379	1,012,860,647
Total Non-Current Financial Assets	3,515,016,264	3,262,866,839
Total	4,024,568,643	4,275,727,486

a. Reconciliation of the Current Investment in Treasury Bills

Particulars	As at December 31, 2021	As at December 31, 2020
Beginning Balance as at January 1	1,012,860,646	1,558,023,580
Additional investments made	516,445,881	1,193,321,094
Less: Investment sold/collected	(1,019,754,148)	(1,738,484,027)
Balance as at December 31	509,552,379	1,012,860,647

This account refers to *Investment in Treasury Bills* which consists of investment in Treasury Bills which are made for varying periods of more than 90 days but less than 1 year and earn interest at 1.41 – 1.92 per cent deposit rates.

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

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

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	1,302,065,987	0	1,302,065,987
Fair value increase (decrease)	0	(150,000)	(150,000)
Less: Investments sold / collected	(5,009,799,148)	0	(5,009,799,148)
Balance as at December 31, 2020	3,260,266,839	2,600,000	3,262,866,839

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

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

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

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

7.2 Investments in Associates

Particulars	Percentage of Ownership	As at December 31, 2021	As at December 31, 2020 (As restated)
Acquisition Cost:			
Gulf Oil Philippines, Inc. (GOPI)	35	54,978,000	54,978,000
Equity in Net Earnings of Investees			
Equity in net earnings for the year		1,245,537	0
Net adjustment on prior years' earnings and dividends		32,333,907	0
Dividends received for the year		(1,924,230)	0
Balance at end of year		86,633,214	54,978,000

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

7.3 Investments in Subsidiaries

Particulars	Percentage of Ownership	As at December 31, 2021	As at December 31, 2020
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

Particulars	Percentage of Ownership	As at December 31, 2021	As at December 31, 2020
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, series of 2002 shortened the corporate life of the company by amending its Articles of Incorporation. Its coal trading activities was absorbed by PNOC-EC effective June 1, 2002. The account of

PCC is still retained in PNOC books pending the order of Revocation of Registration from SEC.

PNOC Oil Carriers, Inc. / PNOC Tankers Corporation

In 2003, SEC issued a certificate for the revocation of the PNOC Oil Carriers, Inc. and PNOC Tankers Corporation, but the accounts of these corporations are retained pending receipt of the clearances from the BIR. PNOC has provided 100 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, 2021	As at December 31, 2020 (As restated)
Total Investments in Time Deposit	560,000,000	0
Total Non-Current Other Investments	141,549,450	141,632,450
Total	701,549,450	141,632,450

Investment in Time Deposits are made for varying periods of more than 90 days but less than 1 year and earn interest at 1.30 – 1.60 per cent deposit rates.

Reconciliation of Other Investments – Non-Current

Particulars	As at December 31, 2021	As at December 31, 2020 (As restated)
Investment in Stocks		
PLDT Preferred Shares	96,100	179,100
Total Investment in Stocks	96,100	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)
Philippine Mining Development Corp. (PMDC) (36% - Percentage of Ownership)	45,000,000	45,000,000
Total Other Investments	141,453,350	141,453,350
Total	141,549,450	141,632,450

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

directly remitting dividends to the National Government pursuant to the Revised Implementing Rules and Regulations of Republic Act No. 7656 or the Government-Owned or -Controlled Corporation Dividend Law dated January 26, 2016.

8. RECEIVABLES

Particulars	As at December 31, 2021	As at December 31, 2020
Total Current Receivables (net)	230,092,394	588,244,063
Total Non-Current Receivables	0	59,862,662
Total	230,092,394	648,106,725

8.1 Aging/Analysis of Receivable

As at December 31, 2021

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	129,921,753	67,829,169	104,074	91,278	61,897,232
Interests Receivable	1,061,313	1,061,313	0	0	0
Lease Receivable Inter-Agency	176,051,250	1,806,033	526,210	263,854	173,455,153
Receivables	1,711,708,461	20,330,475	0	0	1,691,377,986
Other Receivables	5,318,583	4,534,719	550	0	783,314
Less: Allowance for Impairment	(1,793,968,966)	0	0	0	(1,793,968,966)
Total	230,092,394	95,561,709	630,834	355,132	133,544,719

8.2 Loans and Receivables

Accounts	2021			2020		
	Current	Non- Current	Total	Current	Non- Current	Total
Accounts Receivable	129,921,753	0	129,921,753	200,969,776	59,862,662	260,832,438
Interests Receivable	1,061,313	0	1,061,313	28,718,503	0	28,718,503
Allowance for Impairment	(28,426,817)	0	(28,426,817)	0	0	0
Total	102,556,249	0	102,556,249	229,688,279	59,862,662	289,550,941

8.3 Lease Receivables

Accounts	As at December 31, 2021	As at December 31, 2020
Total Current Operating Lease Receivables	176,051,250	38,572,056
Total Noncurrent Operating Lease Receivables	0	166,068,552
Allowance for Impairment - Lease Receivables	(97,310,086)	0
Total	78,741,164	204,640,608

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

	As at December 31, 2021	As at December 31, 2020
Not later than one year	84,458,681	85,678,147
Later than one year but not later than five years	268,672,074	303,853,643
Later than five years	788,450,221	837,727,333
Total	1,141,580,976	1,227,259,123

8.4 Inter-Agency Receivables

Accounts	As at December 31, 2021	As at December 31, 2020
Due from Government Corporations	112,543,142	112,543,142
Due from Subsidiaries	1,599,165,319	1,590,996,204
Less: <i>Allowance for Impairment-Due from Government Corporations</i>	(112,543,142)	0
<i>Allowance for Impairment-Due from Subsidiaries</i>	(1,553,540,876)	(1,554,751,582)
Total	45,624,443	148,787,764

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

8.5 Other Receivables

Accounts	As at December 31, 2021	As at December 31, 2020
Due from Officers and Employees	3,761,922	3,504,499
Other Receivables	1,556,661	1,622,913
Less: <i>Allowance for Impairment-Due from Officers and Employees</i>	(672,046)	0
<i>Allowance for Impairment-Other Receivables</i>	(1,475,999)	0
Total	3,170,538	5,127,412

9. BANKED GAS INVENTORY

Accounts	As at December 31, 2021	As at December 31, 2020
Inventory Held for Sale		
Carrying Amount, January 1	13,429,634,014	13,536,589,980
Sold during the year	(23,145,016)	(106,955,966)
Adjustment	(530,388)	0
Total Carrying Amount	13,405,958,610	13,429,634,014

PNOC's asset, 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.

In 2013, the Power Sector Assets and Liabilities Management Corporation (PSALM) withdrew 4.61 PJ from the banked gas. Another portion equivalent to 6.324 PJ was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2016 for its Tabangao Refinery. After PNOC's signing of GSPA with PSPC for aforesaid volume, the total remaining uncontracted banked gas was then equivalent to 97.67 PJ.

PSPC started withdrawing banked gas from PNOC under the 2016 GSPA on June 01, 2018 (start date), which is supposed to run until the expiration of said GSPA on February 23, 2024 (end date). However, in November 2020, PSPC proposed for an early termination of the GSPA in view of the permanent shutdown of the PSPC's Tabangao Refinery due to the impact of the COVID-19 pandemic. The terms for the proposed early mutual termination was approved by PNOC Board on May 17, 2021. The termination contract was signed on July 23, 2021, this was after receiving favorable review of said document by the Office of the Government Corporate Counsel (OGCC).

From June 01, 2018 up to prior termination of the contract in July 2021, PSPC paid for a total quantity of 3.107 PJ (i.e. including actual withdrawals of 2.716 PJ and annual deficiencies of 0.391 PJ). Upon termination of the GSPA, PSPC paid for the total outstanding volume of banked gas equivalent to 3.217 PJ, which were reverted to PNOC's banked gas inventory along with the paid deficiencies of 0.391 PJ. Hence, at the end of PSPC's GSPA termination, the remaining baked gas totaled to 101.278 PJ (i.e. 97.670 PJ + 3.217 PJ + 0391 PJ).

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

The actual delivery of banked gas to FNPC and PMPC commenced on December 28, 2021 and December 26, 2021, respectively.

10. INVESTMENT PROPERTY

As at December 31, 2021

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

As at December 31, 2020

Particulars	Investment Property- Land (As restated)	Investment Property- Buildings	Investment Property-Land Improvements (As restated)	Total
Carrying Amount, January 1	11,275,638,168	78,014,052	4,386,846	11,358,039,066
Transfers	(344,762,122)	0	0	(344,762,122)
Adjustment	3,114,947		(3,114,947)	0
Restated Amount, January 1	10,933,990,993	78,014,052	1,271,899	11,013,276,944
Additions/Acquisitions	0	0	3,423,508	3,423,508
Total	10,933,990,993	78,014,052	4,695,407	11,016,700,452
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	10,933,936,424	70,070,809	4,407,501	11,008,414,734
Gross Cost	10,933,936,424	167,848,698	6,430,665	11,108,215,787
<i>Accumulated Depreciation</i>	0	(97,777,889)	(2,023,164)	(99,801,053)
Carrying Amount, December 31	10,933,936,424	70,070,809	4,407,501	11,008,414,734

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 29).

The fair value of investment properties amounted to P37,157,794,099 in 2021 and 2020 based on latest fair market value appraisal made in 2019.

Rental income earned from the investment properties amounted to P406,113,610 in 2021 and P376,161,504 in 2020.

Land amounting to P344,762,122 previously presented under Investment Property was reclassified to Property, Plant and Equipment. The parcel of land is used by the *Energy Supply Base* operations and thus qualifies as owner-occupied property under PAS 16. In addition, Investment Property - Land of P3,423,508 was reclassified to its proper account Land Improvements.

11. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2021

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

As at December 31, 2020

	Land (As restated)	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
Transfers	344,762,122	0	0	0	344,762,122
Restated Amount, January 1	545,829,529	300,218	95,955,040	32,791,871	674,876,658
Additions/Acquisitions	0	0	22,411,134	6,339,488	28,750,622
Total	545,829,529	300,218	118,366,174	39,131,359	703,627,280
Disposals	0	0	0	(6,479,117)	(6,479,117)
Depreciation/Reversal	0	(44,270)	(32,136,654)	(1,848,331)	(34,029,255)
Impairment Loss	0	0	0	0	0
Adjustment	0	0	0	(61,936)	(61,936)
Carrying Amount, December 31	545,829,529	255,948	86,229,520	30,741,975	663,056,972
Gross Cost	545,829,529	455,134	418,331,127	101,072,024	1,065,687,814
Accumulated Depreciation	0	(199,186)	(332,101,607)	(70,243,807)	(402,544,600)
Accumulated Impairment Loss	0	0	0	(86,242)	(86,242)
Carrying Amount, December 31	545,829,529	255,948	86,229,520	30,741,975	663,056,972

Land amounting to P344,762,122 previously presented under Investment Property was reclassified to Property, Plant and Equipment. The parcel of land is used by the *Energy Supply Base* operations and thus qualifies as owner-occupied property under PAS 16. In addition, Land of P3,423,508 was reclassified to its proper account Land Improvements.

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

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).

Fully depreciated property and equipment amounted to P59,014,743 and P59,650,719 as at December 31, 2021 and 2020, respectively.

12. INTANGIBLE ASSET

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

13. DEFERRED TAX ASSETS

As at December 31, 2021

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

As at December 31, 2020

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
Total	715,060,905	240,000	715,300,905

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

14. OTHER ASSETS

Particulars	2021			2020		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	0	0	0	16,500	0	16,500
Prepayments	32,936,037	0	32,936,037	8,906,151	0	8,906,151
Deposits	225,988,344	0	225,988,344	218,622,466	0	218,622,466
Other Assets	50,002,382	253,887	50,256,269	91,662,410	261,590	91,924,000
Total	308,926,763	253,887	309,180,650	319,207,527	261,590	319,469,117

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.

Prepayments account includes Withholding Tax at Source and overpayment of income tax amounting to P23,078,269 and P4,783,613, respectively, in 2021. This will be applied as tax credits in the immediately succeeding year.

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

15. FINANCIAL LIABILITIES

Particulars	As at December 31, 2021	As at December 31, 2020
Accounts Payable	91,714,745	149,454,778
Due to Officers and Employees	5,892,073	6,309,481
Service Concession Arrangements Payable	0	420,700
Total	97,606,818	156,184,959

16. INTER-AGENCY PAYABLES

Particulars	As at December 31, 2021	As at December 31, 2020
Due to Subsidiaries	67,173,293	67,212,957
Due to BIR	5,234,252	5,967,992
Due to GSIS	2,006,926	2,128,912
Due to PhilHealth	177,190	179,234
Due to Pag-IBIG	46,814	59,719
Income Tax Payable	0	22,645,183
Total	74,638,475	98,193,997

17. TRUST LIABILITIES

Particulars	As at December 31, 2021	As at December 31, 2020
Trust Liabilities	223,362,872	215,997,029
Guaranty/Security Deposits Payable	49,019,656	42,934,747
Total	272,382,528	258,931,776

Trust liabilities pertain to the Decentralized Energy System Project Fund.

Guaranty/Security Deposits Payable pertains to cash received as stipulated in the lease contracts entered with various lessees which includes P22.8 million from Wealth Horizon Development Corporation.

18. OTHER PAYABLES

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

Particulars	As at December 31, 2021	As at December 31, 2020
Dividends Payable	758,030,203	298,673,484
Other Payables	8,535,435	484,987
Total	766,565,638	299,158,471

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 subjected to dividends amounted to P918,713,441 for the year 2021.

19. DEFERRED CREDITS/UNEARNED INCOME

Particulars	As at December 31, 2021	As at December 31, 2020
Unearned Revenue/Income-Investment		
Property	4,737,760	188,721,214
Other Deferred Credits	248,972,029	257,354,251
Output tax	18,209,360	29,208,004
Total	271,919,149	475,283,469

The decrease in Unearned Revenue/Income-Investment Property amounting to P176,277,052 is due to the recognition of prior year income. Other deferred credits are non-current items which include accounts set-up for accrued receivables for various intercompany charges by PNOC to its dissolved subsidiaries.

20. PROVISIONS

Particulars	As at December 31, 2021	As at December 31, 2020
Leave Benefits Payable	32,757,943	34,476,778
Total	32,757,943	34,476,778

21. DEFERRED TAX LIABILITIES

Particulars	Revaluation Increment on Investment Property	Unrealized Gain in Financial Assets at FVOCI	Total
January 1, 2021	2,753,536,726	3,750	2,753,540,476
Charged to other comprehensive income for the year	0	22,500	22,500
Adjustments:			
Related to CREATE Law – NVRC	(7,224,086)	0	(7,224,086)
Related to CREATE Law – 2020 DTL Ending Balance	(458,922,788)	0	(458,922,788)
Related to Understated Beginning Balance	43,344,515	0	43,344,515
December 31, 2021	2,330,734,367	26,250	2,330,760,617

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

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

22. 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 P459,356,721 for 2021 net earnings due to the National Government.

PNOC declared a total cash dividend of P298,673,484 for 2020 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.

In April 2021, an additional P500.000 million cash dividend was remitted to the Bureau of Treasury as part of the “Bayanihan to Heal as One Act”.

The revaluation surplus of P9,181,439,315 was reclassified to Retained Earnings in accordance with PAS 40 on revaluation of investment property and in compliance with Revised Chart of Accounts adopted 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.

23. SERVICE AND BUSINESS INCOME

Particulars	2021	2020
Rent/Lease Income	447,451,927	408,351,960
Interest Income	131,204,122	168,908,569
Other Business Income – ESB	68,653,863	62,813,063
Sales Revenue – Banked gas	64,600,095	347,393,490
Share in Profit/Revenue of Affiliate/Associate	1,245,537	0
Fines and Penalties-Business Income	193,928	21,491
Dividend Income	0	1,925,332
Total	713,349,472	989,413,905

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

To fund the P500M additional cash dividends to the National Government in 2021, the Company redeemed various investments in treasury bills and bonds, resulting to lower average amount of placements subjected to interest during the year.

24. PERSONNEL SERVICES

Particulars	2021	2020
Salaries and Wages	85,555,239	86,122,406
Other Compensation	35,164,104	27,383,307
Personnel Benefit Contributions	11,458,586	11,398,459
Other Personnel Benefits	5,512,730	11,122,513
Total	137,690,659	136,026,685

24.1 Salaries and Wages

Particulars	2021	2020
Salaries and Wages-Regular	85,555,239	86,122,406
Total	85,555,239	86,122,406

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.

24.2 Other Compensation

Particulars	2021	2020
Year End Bonus	7,251,235	7,349,904
Personnel Economic Relief Allowance	3,125,096	3,087,474
Representation Allowance (RA)	2,531,125	2,474,500
Overtime and Night Pay	2,591,458	2,094,971
Directors' and Committee Members' Fees	1,770,000	0
Transportation Allowance (TA)	1,663,125	1,520,000
Clothing/Uniform Allowance	792,000	720,000
Cash Gift	661,500	657,500
Hazard Pay	588,000	602,500
Honoraria	186,500	57,500
Longevity Pay	40,000	45,000
Other Bonuses and Allowances	13,964,065	8,773,958
Total	35,164,104	27,383,307

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

24.3 Personnel Benefit Contributions

Particulars	2021	2020
Retirement and Life Insurance Premiums (GSIS)	10,093,606	10,045,612
PhilHealth Contributions	1,053,580	1,045,247
Pag-IBIG Contributions	155,700	153,800
Employees Compensation Insurance Premiur	155,700	153,800
Total	11,458,586	11,398,459

24.4 Other Personnel Benefits

Particulars	2021	2020
Terminal Leave Benefits	5,512,730	11,122,513
Total	5,512,730	11,122,513

25. MAINTENANCE AND OTHER OPERATING EXPENSES

Particulars	2021	2020
General Services	49,800,124	45,830,617
Taxes, Insurance Premiums and Other Fees	19,605,796	18,897,524
Utility Expenses	10,004,655	9,842,563
Professional Services	8,676,507	11,640,226
Supplies and Materials Expenses	6,871,396	11,144,267
Repairs and Maintenance	6,126,033	7,355,853
Communication Expenses	4,591,140	4,483,623
Training and Scholarship Expenses	1,013,946	573,573
Travelling Expenses	428,980	652,550
Other Maintenance and Operating Expenses	11,950,002	22,742,433
Total	119,068,579	133,163,229

25.1 General Services

Particulars	2021	2020
Security Services	27,028,657	25,453,951
Janitorial Services	8,574,460	7,541,570
Other General Services	14,197,007	12,835,096
Total	49,800,124	45,830,617

25.2 Taxes, Insurance Premiums and Other Fees

Particulars	2021	2020
Taxes, Duties and Licenses	14,295,632	14,287,784
Insurance Expenses	5,023,488	4,333,920
Fidelity Bond Premiums	286,676	275,820
Total	19,605,796	18,897,524

25.3 Utility Expenses

Particulars	2021	2020
Electricity Expenses	8,642,044	8,659,096
Water Expenses	1,165,717	966,417
Other Utility Expenses	196,894	217,050
Total	10,004,655	9,842,563

25.4 Professional Services

Particulars	2021	2020
Auditing Services	3,418,404	6,792,200
Other Professional Services	5,069,603	4,170,906
Consultancy Services	166,000	587,120
Legal Services	22,500	90,000
Total	8,676,507	11,640,226

25.5 Supplies and Materials Expenses

Particulars	2021	2020
Other Supplies and Materials Expenses	2,855,756	3,829,176
Semi-Expendable Furniture, Fixtures and Books Expenses	10,970	3,498,114
Fuel, Oil and Lubricants Expenses	2,331,995	1,796,504
Medical, Dental and Laboratory Supplies Expenses	607,258	1,493,632
Office Supplies Expenses	582,044	333,031
Semi-Expendable Machinery and Equipment Expenses	139,884	125,759
Accountable Forms Expenses	272,187	52,980
Non-Accountable Forms Expenses	71,302	15,071
Total	6,871,396	11,144,267

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.

25.6 Repairs and Maintenance

Particulars	2021	2020
Repairs and Maintenance-Buildings and Other Structures	4,659,067	5,265,154
Repairs and Maintenance-Transportation Equipment	1,218,390	1,390,522
Repairs and Maintenance-Machinery and Equipment	153,807	579,627
Repairs and Maintenance-Furniture and Fixtures	94,769	120,550
Total	6,126,033	7,355,853

25.7 Communication Expenses

Particulars	2021	2020
Telephone Expenses	2,965,751	2,913,865
Internet Subscription Expenses	1,457,894	1,401,754
Cable, Satellite, Telegraph and Radio Expenses	95,106	111,235
Postage and Courier Services	72,389	56,769
Total	4,591,140	4,483,623

25.8 Training and Scholarship Expenses

Particulars	2021	2020
Training Expenses	1,013,946	573,573
Total	1,013,946	573,573

25.9 Traveling Expenses

Particulars	2021	2020
Traveling Expenses-Local	428,980	562,372
Traveling Expenses-Foreign	0	90,178
Total	428,980	652,550

25.10 Other Maintenance and Operating Expenses

Particulars	2021	2020
Representation Expenses	3,006,684	4,139,111
Major Events and Convention Expenses	1,555,674	4,406,175
Subscription Expenses	549,966	18,369
Membership Dues and Contributions to Organizations	400,836	406,491
Advertising Expenses	195,431	45,645
Printing and Publication Expenses	55,348	2,575
Directors and Committee Members'	0	1,926,000
Other Maintenance and Operating	6,186,063	11,798,067
Total	11,950,002	22,742,433

26. FINANCIAL EXPENSES

Particulars	2021	2020
Management Supervision/Trusteeship Fees	971,150	5,904,760
Bank Charges	103,256	2,252,309
Total	1,074,406	8,157,069

27. DIRECT COSTS

Particulars	2021	2020
Cost of Sales of banked gas	23,145,016	106,955,966
Total Direct Costs	23,145,016	106,955,966

28. NON-CASH EXPENSES

28.1 Depreciation

Particulars	2021	2020
Depreciation-Buildings and Other	34,106,965	32,136,654
Depreciation-Investment Property	8,516,234	8,231,961
Depreciation-Machinery and Equipment	4,909,754	4,902,482
Depreciation-Furniture, Fixtures and	2,976,898	3,315,751
Depreciation-Transportation Equipment	1,242,692	109,215
Depreciation-Land Improvements	44,269	44,270
Total	51,796,812	48,740,333

28.2 Impairment Loss

PNOC recognizes impairment loss on receivables and due from non-operating subsidiaries amounting to P240,428,090 in 2021 and P64,674,026 in 2020. These receivables have been outstanding for ranging from two to more than five years as at year-end.

29. NON-OPERATING INCOME, GAINS AND LOSSES

29.1 GAINS

Particulars	2021	2020
Gain on Foreign Exchange (FOREX)	19,480,588	358,252
Gain on Sale of Property, Plant and Equipment	819,139	0
Gain on Redemption of Investment	0	48,426,627
Gain on Sale of Investment Property	0	2,401,800
Total	20,299,727	51,186,679

29.2 OTHER NON-OPERATING INCOME

Particulars	2021	2020
Miscellaneous Income	790,283,716	151,663,156
Total	790,283,716	151,663,156

Billings made to Pilipinas Shell Petroleum Corporation (PSPC) for the annual deficiency in banked gas withdrawals as part of the GSPA are recorded under Miscellaneous Income amounting to P149.000 million in 2020.

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. Miscellaneous income also includes other income from early termination of GSPA for P786.035 million in 2021.

29.3 NON-OPERATING LOSSES

Particulars	2021	2020
Loss on Foreign Exchange (FOREX)	8,632	3,015,195
Other Losses	0	10,117,055
Total	8,632	13,132,250

30. INCOME TAX EXPENSE/(BENEFIT)

Particulars	2021	2020
Current Income Tax	263,103,106	176,241,186
Deferred Income Tax (Benefit)	(404,232,300)	(19,293,210)
Total	(141,129,194)	156,947,976

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

Particulars	2021	2020
Profit after Tax	1,092,189,915	523,935,880
Non-cash Income/Expenses:		
<i>Depreciation</i>	51,796,812	48,740,333
<i>Gain on redemption of investment</i>	0	(48,426,627)
<i>Gain on sale of investment property</i>	0	(2,401,800)
<i>Gain on sale of property, plant and equipment</i>	(819,139)	0
<i>Other non-cash income</i>	(23,073,345)	(2,844,515)
<i>Other non-cash expenses</i>	240,436,722	74,941,082
Income credited to investing activities	(133,620,566)	(248,979,421)
Increase in Current Liabilities*	481,792,226	180,448,706
Decrease in Current Assets*	521,590,940	269,299,788
Decrease in Current Liabilities*	(747,049,370)	(11,478,821)
Increase in Current Assets*	(586,558,534)	(175,324,577)
Net Cash Flows from Operating Activities	896,685,661	607,910,028

*Except for Non-Operating Current Assets and Current Liabilities.

32. RELATED PARTY TRANSACTIONS

32.1 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 1-December 31, 2021
Alternate Chairman	Jesus Cristino P. Posadas	January 1-December 31, 2021
President and CEO	Adm. Reuben S. Lista (Ret.)	January 1-August 31, 2021
Director	Hermann Roy M. Atienza	January 1-March 31, 2021
Director	Adolf P. Borje	January 1-December 31, 2021
Director	Jonas Guy S. de Leon	January 1-September 30, 2021
Director	Ramon Victor Antonio B. Mitra	January 1-November 14, 2021
Director	Rex V. Tantiogco	January 1-December 31, 2021
Director	Romeo D. Poquiz	January 1-December 31, 2021
Director	Michael Ted R. Macapagal	January 1-October 07, 2021

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 CEO (January 1, 2021 to August 31, 2021)	Adm. Reuben S. Lista (Ret.)
OIC-President and CEO (September 2021 to December 31, 2021)	Atty. Graciela M. Barleta
Senior Vice President (VP) for Energy Business	
Senior VP for Finance and Administrative Services	Evangeline B. Albaytar
Senior Vice President for Energy Investments	Ronald C. Chua
Manager, Administrative Services Department	Lino Gerardo G. Calaor
Manager, Asset Management Department	Atty. Efren A. Legaspi
Administrator, PNOC Energy Supply Base	Engr. Carlito B. Pena
Manager, Park Management Department	Edwin G. Celzo
OIC-Manager, Accounting Department	Aoron R. Viuya
OIC-Manager, Strategy Management Office	Maria Belinda L. Cubelo
OIC-Manager, Internal Audit Office	Gina E. Manalo
OIC-Manager, Office of the General Counsel	Atty. Antonio G. Buenviaje
Manager, Treasury Department	Jennifer R. Racho

32.2 Key Management Personnel Compensation

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

Particulars	Aggregate Remuneration
Salaries and Wages	13,200,922
Other Compensation	6,288,242
Total	19,489,164

33. CONTINGENCIES

33.1 Petron Corporation vs. PNOC, Civil Case No. R-MND-17-03839-CV, Regional Trial Court (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 Government Corporate Counsel (OGCC)

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 reconvey 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 (P143,000,000.00), 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. Last Pleading was filed on March 21, 2021.

On December 13, 2021, the Court of Appeals denied the appeals of PNOC and Petron. The said decision was received by PNOC on January 8, 2022. A Motion for Reconsideration was filed.

Waiting for the ruling of the Court of Appeals.

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

For: Specific Performance and Damages

Handling Counsel: Office of the Solicitor General (OSG)

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

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

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

Status: Plaintiff terminated its presentation of evidence and formally offered their evidence. PNOG already filed comments on the formal offer. Presentation of defendant's evidence shall start on May 2, 2022 at 8:30 AM.

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

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

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

On September 24, 2018, the RTC, 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.

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

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

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

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

As such, PNOC referred the case to the OGCC and the latter filed the corresponding entry of Appearance and Comments.

Waiting for the ruling of the RTC.

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

For: Specific Performance and Damages

Handling Counsel: OSG

On January 14, 2014, PNOC received copy of the RTC decision dated November 18, 2013, ordering plaintiff Voltaire Rovira to pay PNOC the remaining balance of the VAP loan amounting to P434,254.17, without any interest; and ordering PNOC to pay the travel and hotel expenses of plaintiff Rovira amounting to P34,701.43. Plaintiff Rovira filed Notice of Appeal. PNOC on the other hand filed a Motion for Partial Reconsideration of the Decision as amount of damages and the payment of interest prayed for was not awarded by the court.

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

Status: The Court denied the Appeal for failure of the petitioner to comply with the mandatory requirement under Rule 45 of the Rules of Court. The Judgement

became final and executory on June 19, 2019. Rovira however filed a Motion for Reconsideration, Second Motion for Reconsideration and Motion to Recall Entry of Judgment which was also denied by the Supreme Court on December 11, 2019.

Waiting for the issuance of the Writ of Execution.

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

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

Handling Counsel: OSG

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

Status: PNOC will refile the case through the OGC. Case build up is ongoing.

33.6 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.

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

For: Ejectment

Handling Counsel: OSG

Defendant is one of the illegal dwellers occupying the lot owned by PNOC in Brgy. Salapungan, Tarlac City. It was offered by PNOC for sale to the defendant but the parties failed to agree on price, hence the suit for ejectment. MTC and RTC ruled in favor of PNOC and the case reached the Supreme Court on appeal.

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

On June 21, 2017, the Supreme Court ruled that the January 30, 2017 resolution has become final and executory and is recorded in the Book of Entries of Judgments.

Records were remanded back to the RTC. Waiting for Writ of Execution.

33.8 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.

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

On appeal to the Court of Appeals. On November 21, 2016, PNOC received copy of the Notice to File Appellant's Brief from the Court of Appeals.

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

Status: Waiting for the Resolution of the case.

33.9 PNOC vs. Willie Vestil, Civil Case No. 3298-0, RTC Branch 35, Ormoc City

For: Expropriation

Handling Counsel: OSG

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

Status: Awaiting further orders from the trial court.

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

For: Expropriation

Handling Counsel: OSG

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

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

Status: Awaiting decision on the amount of just compensation.

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

For: Expropriation

Handling Counsel: OSG

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

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

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

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

Status: Awaiting decision on the amount of just compensation.

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

For: Expropriation

Handling Counsel: OSG

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

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

On May 08, 2015, the RTC issued Order granting PNOC's Motion directing the PNB Ormoc City Branch to release to the plaintiff the amount of P104,750.00 plus accrued interest thereon.

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

On November 02, 2016, a follow-up letter requesting for update was sent by PNOC to PNB Ormoc City.

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

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

For: Expropriation

Handling Counsel: OSG

The Board of Commissioners submitted the commissioners report to the trial court recommending the value of the just compensation of the subject lot consisting of 26,898.35 square meters at P335,040 per hectare or a total of P901,202.32.

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

- a. Pay the remaining balance of the just compensation in the amount of P739,812.22;
- b. Pay the Commissioners fee at 45,000.00 each as Honorarium Fees; and

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

Status: Waiting for execution of judgement.

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

Handling Counsel: OSG

For: Expropriation

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

Pending Issues to be resolved by RTC:

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

(THDC demands that 12% 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: On September 17, 2019, the OSG received a Notice of Change of Address dated September 2, 2019 filed by defendant-intervenors counsel. Awaiting further orders from the trial court.

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

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

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

For: Expropriation

Handling Counsel: OSG

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

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

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

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

Status: On December 20, 2021, the Court ordered the release of the initial deposit of TransCO amounting to P24,573,000.00 to PNOC. The issue of the determination of just compensation is still pending.

33.17 National Transmission Corporation vs. PNOC, Civil Case No. CEB-41203, RTC Branch 14, Cebu City

For: Expropriation

Handling Counsel: OSG

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

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

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

Status: PNOC preferred not to pursue the arbitration because the case is similar to SCA-131-ML (Bataan) and was dismissed by the OSG arbitrator for lack of jurisdiction.

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

Status: Defendant offered to pay PNOC but requested waiver of penalties. PNOC cannot waive penalties and the defendant stated that they will go back to Court to ask for the waiver or tempering of interests and penalties.

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

Handling Counsel: OGC

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

PNOC received the Summons on December 7, 2021. PNOC sought for time to file Answer by filing the corresponding Motion for Extension therefor.

PNOC's Verified Answer was filed on February 8, 2022.

34. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS (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 PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year.

34.1 Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2021 in the total amount of P177,793,027 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2021 amounting to P12,741,895 were remitted to the Bureau of Internal Revenue in January 2022.

34.2 The Company's taxes and licenses in 2021 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	2021
Real Estate Tax	12,179,008
Business Taxes	1,932,613
Motor Vehicle Registration	61,933
Other Taxes, Fees and Licenses	122,078
Total	14,295,632

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit Observations

1. The reliability and validity of Other Deferred Credits account with a balance of P248.972 million could not be established due to absence of sufficient details and supporting documents, contrary to paragraph 1.17 of the Conceptual Framework, paragraph 15 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2020-002 dated January 28, 2020, relative to the following: i) recognition of P8.615 million as Other Deferred Credits after completion of a project in 2013 implemented by PNOC Renewables Corporation (PNOC RC); and ii) various intercompany charges to PNOC subsidiaries amounting to P240.357 million.

- 1.1. Paragraph 1.17 of the Conceptual Framework for Financial Reporting (Conceptual Framework) states that:

Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payment occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

Paragraph 15 of PAS 1 - Presentation of Financial Statements, on the Fair Presentation and Compliance with Philippine Financial Reporting Standards (PFRS) provides that:

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

Annex C of COA Circular No. 2020-002 dated January 28, 2020 on the adoption of the updated Revised Chart of Accounts (RCA) for Government Corporations prescribed, among others, the Other Deferred Credits (20501990) as the account to be credited to recognize other transactions not falling under any of the specific deferred credits accounts and debited when related income is earned, and/or for adjustments.

- 1.2. PNOC, adopting PFRS as its financial reporting framework which requires application of principles of accrual and fair presentation, and the Updated RCA has Other Deferred Credits account with total amount of P248.972 million as of December 31, 2021.

- 1.3. Verification disclosed that the transactions comprising Other Deferred Credits account lack sufficient details and supporting documents to substantiate the year-end balance, contrary to the foregoing financial reporting standards:

Nature of Transaction	Amount	Remarks
Barangay Electrification Project (BEP) implemented by PNOC RC	8,614,927.19	As of December 31, 2021, there is no project PNOC RC is engaged in by PNOC with same nature after completion in 2013.
Various Intercompany Charges	240,357,101.68	There are no supporting details and/or subsidiary ledgers maintained to provide for the breakdown of the charges and to arrive at adjustments, if necessary.
Total	248,972,028.87	

- 1.4 The Other Deferred Credits of P8.615 million, representing 15 per cent of the total project cost of BEP, with equivalent fund received by PNOC from the Department of Energy (DOE), was recorded on April 4, 2013 when PNOC paid completely PNOC RC on May 2, 2013 for the BEP in 45 barangays in the Province of Sulu. Based on record, PNOC is requesting for reimbursement from DOE for the remaining 85 per cent of the total project cost. As regards the P240.357 million, the amount represents various intercompany charges to dissolved subsidiaries of PNOC reported in the books as accrued receivables as early as 2012.
- 1.5 Because of the absence of sufficient details and supporting documents, including the non-maintenance of subsidiary ledgers for the account, the required audit procedures could not be applied to determine the necessary adjustments to the Other Deferred Credits account. Management's review of pertinent documents including contracts for the recorded receivables and Other Deferred Credits is necessary, and coordination with the subsidiaries is required, to ascertain the correctness of the accounting entries previously recorded and the adjusting entries that should be taken-up in the books of accounts.
- 1.6. **We recommended and PNOC Management agreed to require the Accounting Department to:**
- a. **Analyze the transactions comprising the BEP and various Intercompany charges amounting to P8.615 million and P240.357 million, respectively, and take up the necessary adjusting entries; and**
 - b. **Maintain Subsidiary Ledger for the monitoring and analysis of Other Deferred Credits Account to establish its reliability and validity.**

2. The reliability of the Property, Plant and Equipment (PPE) – Machinery and Equipment account with carrying amount of P25.905 million as of December 31, 2021 was not established due to the inclusion of unlocated items costing P7.642 million and disposed properties costing P0.607 million which were not adjusted as of year-end, while the costs of properties in the Accounting records differ from those reflected in the Report on the Physical Count of PPE (RPCPPE) with variance of P0.518 million, contrary to paragraph 15 of PAS 1, and Sections 6.3 and 7.1 of COA Circular No. 2020-006.

- 2.1. Paragraph 15 of PAS 1 provides that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets set out in the Conceptual Framework.

Section 6.3 of COA Circular No. 2020-006 dated January 31, 2020 states that:

*The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RPCPPE are duly recorded in their respective records and that the Property Cards (PCs) maintained by the Property Unit and the PPELCs maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from rendition of the RPCPPE by the Inventory Committee.
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Section 7.1 on the Disposition Procedures for Non-Existing/Missing PPEs of the same COA Circular provides that:

For the non-existing/missing PPEs, the Property Unit shall:

- a. *Verify if the PPEs, were already disposed with supporting Inventory and Inspection Report of Unserviceable Property (IIRUP) or transferred/donated to other government agencies with supporting Property Transfer Report (PTR);and*
- b. *Submit to the Accounting Unit the original copies of IIRUP and PTRs for disposed and transferred PPE items, for recording in the books of accounts.*

- 2.2. As of December 31, 2021, the cost of PPE – Machinery and Equipment account per books amounted to P97.134 million, supported with reconciliation of the accounting records with property records and RPCPPE.

- 2.3. Verification of pertinent documents disclosed the following:

- a. Deficiencies in the reconciliation of accounting records and RPCPPE:
 - i. Inclusion of unlocated items costing P7.642 million; and

- ii. Inclusion of disposed items costing P0.607 million in the books and RPCPPE.
- b. Difference of P0.518 million between the costs stated in the books of accounts and those reflected in the RPCPPE:

Report	Gross Cost
Per books/Notes to Financial Statements	97,133,705
RPCPPE	96,615,882
Total	517,823

2.4. The foregoing conditions raised doubt on the reliability of the PPE – Machinery and Equipment account.

2.5. We recommended and Management agreed to require the:

- a. Accounting Department and Property Management Department to derecognize the disposed properties based on the documents relative to disposal, and verify if the non-existing/unlocated PPE were already disposed with supporting IIRUP or transferred with supporting Property Transfer Report, for recording in the books of PNOC, in compliance with Section 7.1 of COA Circular No. 2020-006. Thereafter, effect the necessary adjustments; and
 - b. Accounting Department to review and analyze the difference between the costs of PPE – Machinery and Equipment per books/financial statements and per RPCPPE.
3. The reliability and validity of the Lease/Other Receivable, Inter-Agency Receivable and Accounts Receivable accounts totaling P9.594 million could not be established due to unreconciled variances between the balances per books of accounts and confirmation replies of some business partners/clients of PNOC, contrary to paragraphs 2.12, 2.13 and 2.30 of the Conceptual Framework.

3.1. Paragraphs 2.12 and 2.13 of the Conceptual Framework provide that:

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. Xxx.

To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Xxx.

Paragraph 2.30 of the same Conceptual Framework provides the definition of verifiability, one of the enhancing qualitative characteristics of useful financial information that is relevant and faithfully represented, as follows:

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

- 3.2. Letters of confirmation were sent to some business partners/clients of PNOC to verify the accuracy of the balances of receivable accounts in the Subsidiary Ledger as of December 31, 2021. The balances confirmed by four business partners/clients totaling P10.841 million as against the book balance amounting to P9.594 million disclosed a total variance of P13.295 million:

Client	Per Books	Per Confirmation	Variance
LEASE/OTHER RECEIVABLE			
Lessee 1	1,297,312.03	8,568,452.49	7,271,140.46
Lessee 2	1,535,321.60	1,737.20	1,533,584.40
INTER-AGENCY RECEIVABLE			
PNOC Exploration Corporation	6,027,070.26	2,271,029.11	3,756,041.15
ACCOUNTS RECEIVABLE			
Business Partner 1	733,940.59	0.00	733,940.59
Total	9,593,644.48	10,841,218.80	13,294,706.60

- 3.3. Verification disclosed that the variances were due to the following:

Lease/Other Receivable

Lessee 1

Receivables pertain to administrative dues for January to July 2021 and various charges for utilities, janitorial and security in 2016. Lessee 1 did not attach any schedule to its confirmation reply to support the balance of P8.568 million.

Lessee 2

Receivables pertain to lease from December 16 to 31, 2021, security deposit and share of real property tax. Lessee 2 did not attach any supporting schedule to support the confirmed balance.

Inter-Agency Receivable - PNOC Exploration Corporation (PNOC EC)

- a. Charges from 2018 to 2021 totalling P5.288 million and overpayment by PNOC EC for lease rental in 2016 of P80.00 that were not recognized by PNOC EC based on the intercompany reconciliation.

- b. Interest on EC Privacom Phase I and II totalling P384,745.77 were not recognized in the books of PNOC but considered as adjustment in the reconciliation.

Accounts Receivable - Business Partner 1

Receivables pertain to charges for truck scale, toll fees, gate pass, arrastre, stevedoring and rebagging totalling P0.734 million during November and December 2021. The said charges were not recognized per confirmation reply.

- 3.4. Due to the absence of schedule and/or details of the confirmation replies from business partners/clients, and the non-reconciliation of the variances, adjustments deemed necessary were not determined, hence the reliability of the receivable accounts totalling P9.594 million was not established.
- 3.5. **We recommended and Management agreed to require the Accounting Department to analyze each of the transactions recorded and to reconcile with the business partners/clients to identify the cause/s of the variances between book balance and confirmed balances, for preparation of adjustments, if any, to establish reliability and validity of the account.**

B. Other Audit Observations

4. **Due to the limited corporate powers of PNOC under its charter, the Decentralized Energy Systems (DES) Project Fund remained idle, hence, not effectively utilized for lending activities as required under the Financing Agreement dated February 6, 1987 by and between the Government of the Republic of the Philippines and the Commission of the European Communities for the promotion of the use of renewable energy technologies and in assisting the Philippine Government in providing sustainable and indigenous energy resources for the country.**

(This is a reiteration/restatement of the observation on DES Project Fund in the CY 2019 AAR)

- 4.1. In 1987, the European Union (EU), through the Commission on European Communities, signed a Financing Agreement with the Government of the Republic of Philippines whereby the former granted the Energy Research and Development Center (ERDC) of PNOC of DES Project Fund, a fund for the special and exclusive purpose of promoting the use of renewable energy technologies (photovoltaic, biogas systems, solar water heaters, mechanical grain dryers, fuel briquettes, charcoal stoves, biomass-fired ovens, etc.) and in assisting the Philippine Government in providing sustainable and indigenous energy resources for the country. In the Technical and Administrative Provisions of the Agreement, the ERDC will operate as service assisting firms/industries in commercializing promising decentralized village energy systems. To achieve its purpose, the methodology used is through extending of financial loans to individuals and small companies.

- 4.2. Since creation in 1973, PNOC is operating with corporate powers enumerated under its charter without mandate to lend its funds. After the Financing Agreement in 1987, the entitlement to rights, titles, credits, interests and the assumption of the obligations under the DES Project and the Fund had been transferred from an entity to another, for the latter's implementation. Prior to assumption of PNOC from 2010 to present, the facts and circumstances related to the DES Project are as follows:
- a. **January 13, 1993** –The PNOC Board of Directors approved the transfer of ERDC of PNOC to PNOC Energy Development Corporation (EDC), a subsidiary.
 - b. **May 28, 1993** – PNOC and PNOC EDC executed a Deed of Assignment where the former transferred in favor of the latter, all the rights, titles, credits, interests and obligations relative to the DES Project and the Fund for the latter's implementation.
 - c. **June 7, 2001** – Due to EU's exit from the DES Project and impending privatization of PNOC EDC, the DOE assured EU on the sustainability of DES Project, which is through cooperation of PNOC and PNOC EDC.
 - d. **November 29, 2007** – PNOC EDC was fully privatized.
 - e. **March 7, 2008** – PNOC created PNOC RC as its subsidiary with mandate to promote the development and implementation of renewable and environment-friendly energy sources in the country¹.
 - f. **July 29, 2010** – PNOC and EDC (formerly PNOC EDC) executed a Deed of Revocation cancelling the assignment of all the rights, titles, credits, interests and obligations from the latter, relative to the DES Project and the Fund.²
 - g. **November 2, 2011** – PNOC executed an agreement with Land Bank of the Philippines (LBP) placing the DES Fund in an interest-earning and risk-free account and obliged the latter to attribute its utilization in renewable energy projects and alternative energy sources to achieve the objectives of the DES Project.
 - h. **October 10, 2016** – PNOC terminated the agreement with LBP due to the directive of Governance Commission for GOCCs (GCG) to be an operating company and the recent developments in the renewable energy sector.
 - i. On **July 26, 2018**, the GCG approved the reorganization plan in PNOC, together with the revitalization of Energy Research Department (Business Research and Development Department) under the Office of Senior Vice President for Energy Investments, to develop new, energy related business ideas including renewable energy.

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

² This caused the recognition of the DES Fund as asset of PNOC.

- j. As of **December 31, 2021**, the DES Fund that are continuously invested in LBP, despite termination in 2016, has accumulated to P223.363 million:

Particulars	Amount
DES Fund	132,473,357.67
DES Interest Income	90,889,513.98
Total	223,362,871.65

- 4.3. In the Annual Audit Report for CY 2019, the Audit Team raised the non-implementation of the DES Project Fund to Management and have recommended to them the preparation of an action plan that meet the objectives and activities involved in the implementation of DES Project and to 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 the reorganizational plan.
- 4.4. In the submitted Agency Action Plan and Status of Implementation (AAPSI) as of December 31, 2021, the above recommendations were not yet implemented. Management explained that while PNOC, as the administrator of the fund, intends to continue the implementation of the DES Project Fund, their actions are limited as its corporate powers under its charter does not include the power to engage in financing or lending activities. Management also cited the legal opinion of the Office of the Solicitor General dated November 13, 2008 stating that *“while PNOC’s charter gives it power to borrow money from local and foreign sources as may be necessary for its operations, its charter does not expressly provide it with the power to lend.”*
- 4.5. Meanwhile, PNOC continuously invests the fund in Treasury Bills of LBP. Moreover, project concept paper on the Development of DES projects in PNOC properties was approved by PNOC President in February 2022. However, the DES Project Fund remains idle relative to the implementation of the fund’s purpose which, in effect, prevents the international commitment of the Government of the Republic of Philippines on the promotion of the use of renewable technologies.
- 4.6. In reference to the Financing Agreement, it allows the consultation in relation to the execution of the same that has not been resolved by application of the entire provisions and its amendment to be agreed in writing by the Commission on European Communities and the Government of the Republic of Philippines. It should be emphasized that PNOC RC was designated as the government’s arm to promote, develop and implement new and renewable energy sources in the country.
- 4.7. **We recommended that PNOC Management require the Office of the Senior Vice President for Energy Investments to request guidance from DOE on the implementation of DES Project Fund, with due consideration of the provisions on consultation and amendment of the Financing Agreement. Also, consider recommending to DOE the participation of PNOC RC in the said project, being the government’s arm in the promotion and development of renewable energy sector in the country.**
- 4.8. Management informed that part of their AAPSI is to communicate with DOE to seek clarification if the said project is strictly bounded to the original implementation

design of lending/financing or if it can be utilized to implement a potential PNOC renewable energy project. However, Management said that they deemed it proper to first develop a concrete DES-related project proposal by which the DES Fund can be possibly utilized for which they are intending to submit a proposal as part of their 2022 work commitment. In addition, PNOC has been working on the development of a DES project (solar) in one of its properties to be funded by the DES Project Fund, subject to approvals of the DOE on some of the provisions in the DES Fund Sustainability Plan.

5. **The withheld taxes for 2021 amounting to P260,740.13 have remained unutilized as tax credit against income tax or tax refund due to lack of BIR Form No. 2307 to be obtained from the lessee-payors by PNOC as lessor-payee, contrary to BIR Revenue Regulations (RR) No. 2-98, as amended. Moreover, withheld taxes for 2020 and prior years without BIR Form No. 2307 amounting to P303,164.35 have remained unpaid for completion of payment by respective lessees as at year-end contrary to the governing contracts of lease, and thus, could no longer be utilized either as tax credit or tax refund.**

- 5.1. BIR RR No. 2-98 dated April 17, 1998, as amended, requires withholding agents including lessees to submit BIR Form No. 2307 to lessor within 20 days from the close of the quarter. Further, it provides that BIR Form No. 2307 is a supporting document for utilization of withheld taxes either as tax credit or tax refund for the current year.

Under executed contracts of lease, in case of failure of the lessee to issue within the taxable year the necessary BIR Form No. 2307 to the lessor, the respective lessees agree to render its payment incomplete.

- 5.2. PNOC, as lessor-payee, for the current taxable year, is entitled to tax credit or tax refund from the withheld taxes on lease payments it received from lessees-payors and it coordinates, for the previous years, with lessees for payment of withheld taxes in the form of cash for completion of payment. As of December 31, 2021, PNOC still recognized amounts in its books of accounts pertaining to withheld taxes amounting to P0.564 million.
- 5.3. Verification disclosed that portion of the amount lacks BIR Form No. 2307 and the remaining amount lacks payment to complete its obligations for non-issuance of BIR Form No. 2307:

Particulars	Amount
Withheld taxes by lessees-payors (for Current Year)	260,740.13
Withheld taxes by lessees-payors (for Previous Years)	303,164.35
Total	563,904.48

Based on the Status of Other Receivables of PNOC as of December 31, 2021, the P260,740.13 pertains to withheld taxes without the corresponding BIR Form No. 2307 from the lessees for CY 2021 as at year-end. For the remaining amount of P303,164.35, PNOC informed that no payment has been received despite actions of the Management to enforce completion of payment of lessees-payors.

- 5.4. Inquiry with the Accounting Department and Treasury Department revealed that some clients from Energy Supply Base (ESB) provided the wrong form like BIR Form No. 2306 instead of BIR Form No. 2307 and certain business partners in ESB indicated PNOC EC, the previous operator of ESB, as payee instead of PNOC. For the previous years, some lessees have not responded to the collection letter sent by Treasury Department.
- 5.5. BIR RR No. 2-98 allows tax credit or refund of any creditable income tax which is deducted and withheld on income payments only when the income payment to lessor-payee like PNOC has been declared as part of the gross income and the fact of withholding is established by a copy of the withholding tax statement or BIR Form No. 2307 duly issued by the payor to the payee showing the amount paid and the amount of tax withheld therefrom. In the absence of BIR Form No. 2307, PNOC cannot avail tax credit or refund from the withheld taxes. For the previous years, as it can no longer be utilized either as tax credit or tax refund, the non-completion of payment also deprived PNOC from use of additional cash resource it could have derived from lessees as agreed under the contracts of lease.
- 5.6. **We recommended and PNOC Management agreed to require the:**
- a. **Accounting Department to assign a personnel to demand submission of BIR Form No. 2307 from the lessee-payors to support the use of withheld taxes amounting P260,740.13, and the eventual monitoring of submission by lessees of BIR Form No. 2307, within 20 days from the close of the quarter pursuant to BIR RR No. 2-98, as amended; and**
 - b. **Treasury Department to demand payment from lessees who fail to pay the P303,164.35 and to regularly send Statement of Account to lessees.**
- 5.7. Accounting Department has assigned personnel to closely coordinate with the Treasury Department to require the payors/lessees to submit the BIR Form No. 2307 upon receipt of payment and within 20 days from the close of the quarter per BIR RR No. 2-98, as amended. Moreover, Treasury Department is coordinating with the Office of the General Counsel for possible filing of cases against lessees who fail to pay the total amount of P303,164.35.
6. **Several deficiencies were noted in the accuracy, completeness and presentation of the accounts arising from lease, income taxes and withholding taxes transactions, contrary to the Conceptual Framework, PAS 1, PFRS 16, accounting policy of PNOC for lease, PAS 12 and COA Circular No. 2020-002.**
- 6.1. Paragraph 1.17 of the Conceptual Framework on the Financial Performance Reflected by Accrual Accounting provides that:
- Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis*

for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

- 6.2. Paragraph 15 of PAS 1 on the Fair Presentation and compliance with PFRS provides that:

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

- 6.3. Paragraph 81 of PFRS 16 - Leases, also provides that:

A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

- 6.4. As stated in Note 3.7 to the Financial Statements of PNOC, 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 which will determine the accurate income for lease payments for the period.

- 6.5. Paragraph 24 of PAS 12 - Income Taxes, provides that:

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination;

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and

(c) at the time of the transactions, does not give rise to equal taxable and deductible temporary differences

- 6.6. Annex C of COA Circular No. 2020-002 dated January 28, 2020 on the adoption of the updated RCA for Government Corporations prescribed, among others, the use of the following accounts:

Deferred Tax Assets account (11201010) is debited to recognize the amount of income tax recoverable in future periods with respect to deductible temporary difference and operating loss carry forward and

Minimum Corporate Income Tax. This account is credited to reduce tax liability, and/or adjustments.

Withholding Tax at Source account (19902080) is debited to recognize the amount of creditable withholding tax deducted by an entity, which is designated by the BIR as authorized withholding agent, from rental, interest income from loans, service fees on deposit of notes, supervisory and other bank fees, income from payments and settlements transactions or other services to be credited by BIR upon receipt from the entity of proof of remittance to the BIR together with BIR Form No. 2307. This account is credited upon application of the excess previous tax payments against income taxes payable to the BIR, and/or adjustments.

Taxes, Duties and Licenses account (50215010) is debited to recognize the amount of taxes, duties, licenses and other fees except income tax due to regulatory entities. This also includes taxes on interest income on savings deposits, time deposits, and government securities of the bond sinking fund/other funds. This account is credited, at year end, to close to the Revenue/Income and Expense Summary account, and/or effect adjustments.

- 6.7. PNOC, as a lessor in various contracts of lease, recognizes in its books of accounts the accrual of lease income, the receipt of payments therefrom with and without BIR Form No. 2307, the resulting income tax (current and deferred) for the period and its settlements, and record accounting entries to adjust the year-end balances of accounts.
- 6.8. Verification of the foregoing transactions disclosed that:
 - a. some of the lease transactions were not recorded in the proper accounts or period and were not adjusted at year-end;
 - b. transactions involving temporary differences between the taxable income and accounting income for the quarters related to Deferred Tax Asset were debited/credited to Other Assets account and its adjustments were reflected by debiting/crediting Taxes, Duties and Licenses account instead of Income Tax Expense account; and
 - c. creditable withholding taxes were recognized under Income Tax Expense instead of Withholding Tax at Source account and its application against income tax due were not entered in the books.
- 6.9. The Accounting Department submitted Journal Vouchers and adjusted the books to correct the deficiencies, which were validated by the Audit Team.
- 6.10. **We recommended that PNOC Management require the Accounting Department to prospectively, record the i) income from lease payments account in the proper accounts and/or period; and ii) transactions involving income taxes and withholding taxes in the appropriate accounts, in accordance with the Conceptual Framework, PAS 1, PFRS 16, accounting policy of PNOC for lease, PAS 12 and COA Circular No. 2020-002.**

7. **The Gender and Development (GAD) Plan and Budget (GPB) for Calendar Year (CY) 2021 amounting to P3.130 million or 0.51 per cent of the approved Corporate Operating Budget (COB), was below the required of at least five per cent pursuant to Section 36 (a) of Republic Act (RA) No. 9710; thereby, preventing review and endorsement by Philippine Commission on Women (PCW) which will determine whether PNOC Programs, Activities, and Projects (PAPs) for CY 2021 are gender responsive and cost efficient and effective for its implementation with the funds attributed to it, in conjunction with PCW Memorandum Circular No. 2020-05 covering effects of non-compliance with required GAD budget.**
 - 7.1. Section 36 (a) of RA No. 9710 dated August 14, 2009 states that the cost of implementing GAD programs shall be the agency's GAD budget which shall be at least five per cent of the agency's total budget appropriations.
 - 7.2. For CY 2021, the total COB of PNOC amounted to P613.183 million. A portion thereof is for projects and programs on GAD. Based on initial GAD Accomplishment Report, PNOC has utilized P262,374.35 from the total amount for the implementation of various activities.
 - 7.3. Verification of pertinent documents disclosed that the budget for GAD amounted to P3.130 million or merely 0.51 per cent of the total COB.
 - 7.4. Under PCW Memorandum Circular No. 2020-05 dated September 11, 2020, the non-compliance with the minimum five per cent GAD budget will deter PCW from making review and endorsement on the GPB of an agency that is necessary for its information whether programs and projects are gender responsive and worth for attributing of its funds to achieve the GAD-related objectives.
 - 7.5. Over the years, the former and present Audit Teams in PNOC have been raising to management the need for compliance with the required rate of GPB. As it has been clarified, the rules on the rate for implementation of GAD projects of any agency do not require the direct appropriations of minimum amount in the COB but through attribution. Hence, agencies do not necessarily set aside a budget for GAD projects, but they are required to integrate GAD activities into their programs, activities and projects through gender mainstreaming.
 - 7.6. **We recommended that PNOC Management require the Strategy Management Office and other offices/departments to come up with the list of programs, activities and projects of PNOC which cost could be attributed to GAD, to meet the required of at least five per cent of the total COB, to merit the review and endorsement of succeeding GPBs by PCW.**

C. Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2021 in the total amount of P177.793 million were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2021 amounting to P12.742 million were remitted to the Bureau of Internal Revenue in January 2022.

D. 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 2021 were deducted from the salaries of PNOC personnel in the amount of P19.062 million and remitted within the prescribed period. The premiums deducted in December 2021 in the amount of P1.664 million were remitted in January 2022 with details as follows:

Agency	Premiums collected and remitted from January to November 2021	Premiums collected in December 2021 and remitted in January 2022	Total
GSIS	16,828,068.71	1,464,452.23	18,292,520.94
Pag-IBIG	299,182.00	27,162.00	326,344.00
PhilHealth	1,935,152.91	172,205.73	2,107,358.64
Total	19,062,403.62	1,663,819.96	20,726,223.58

E. Insurance of Property

PNOC has also been compliant with RA No. 656 in insuring its properties with the Government Service Insurance System.

F. Status of Audit Suspensions, Disallowances and Charges

There were no issued audit suspensions and charges for CY 2021.

As at December 31, 2021, the status of audit disallowances are as follows:

ND No.	Date Issued	Nature of Disallowance	Beginning Balance January 1, 2021	Issued in 2021	Settlements in CY 2021	Ending Balance December 31, 2021
PNOC 21-001-(19)-A	12/23/2021		0	134,302.15	0	134,302.15
PNOC 21-002-(19)-B	12/23/2021		0	172,073.87	0	172,073.87
PNOC 21-003-(19)	11/18/2021	Excess Reimbursable	0	111,954.19	0	111,954.19
PNOC 21-004-(19)	11/18/2021	Expenses of the Board of Directors	0	246,534.00	0	246,534.00
PNOC 21-005-(19)	11/18/2021		0	334,046.40	0	334,046.40
PNOC 21-006-(19)-A	12/03/2021		0	63,531.67	0	63,531.67
PNOC 21-007-(19)	11/18/2021		0	195,624.55	0	195,624.55
Total			0	1,258,066.83	0	1,258,066.83

The disallowances are under appeal with the CGAS-Cluster 3 Director.

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 previous years' Annual Audit Reports, three were fully implemented, 18 were partially implemented and two were not implemented, wherein two partially implemented were reiterated with updates in this Report. Details are shown in the following table:

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
2020 AAR Observation No. 1 pages 62-68	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).	<p>1. Apply the equity method of accounting on the Investment in GOPI, and accordingly:</p> <ul style="list-style-type: none"> - 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 	Fully implemented

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
		<p>from GOPI in prior years including accounting entries and adjust related accounts to correct misstatements in the FS of PNOC; and</p> <p>- Disclose in the Notes to FS the description of the method used to account for the investment.</p> <p>2. For Investment in PMDC, reclassify the presentation in the FS from Investment in Associates to Investment in Stocks account pursuant to the RCA.</p>	Fully implemented
2020 AAR Observation No. 2 pages 68-70	<p>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.</p>	<p>3. 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.</p>	<p>Partially implemented</p> <p>On March 2, 2022, the new President and Chief Executive Officer of PNOC was oriented on the pending concern with PNOC EC as part of the briefing of the Asset Management Department (AMD).</p>

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
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.	4. 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 5. 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 Reiterated the audit observation and restated the recommendation in Observation No. 4 of Part II of this AAR. Partially implemented Reiterated the audit observation and restated the recommendation in Observation No. 4 of Part II of this AAR.
2019 AAR Observation No. 2 pages 61-64	The procurements of various Information and Communication Technology (ICT) projects costing P3.254 million for Calendar Year (CY) 2019 were not supported with an approved Information Systems Strategic Plan (ISSP) and P2.511 million or 77 per cent 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)	6. Give utmost importance in finalizing the ISSP for submission to and approval of the Department of Information and Communications Technology (DICT); and 7. Procure from DBM-PS the needs for ICT projects in compliance to Section 24 of the General Provisions of the GAA for FY 2019.	Fully implemented Partially implemented Terms of Reference and Local Purchase Requisition and procurement-related documents for 2021 and 2022 are under review.

Reference	Audit		Status/ Action Taken
	Observations	Recommendations	
	Corporate Budget Memorandum No. 40 dated January 3, 2018 and Section 24 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2019.		
2019 AAR Observation No. 4 pages 66-67	The grant of monetary award under the Civil Service Commission (CSC)-approved Program for Awards and Incentives for Service Excellence (PRAISE) for PNOC as implemented under its Service Award Policy Guidelines is computed based on number of years rendered in the agency, thus, contrary to Section 6 of CSC Memorandum Circular (MC) No. 1, Series of 2001.	8. 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 Praise Manual revisited to address observations of CSC-NCR. Upon signing of the PNOC President, it will be resubmitted to CSC-NCR.
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	9. 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 Human Resource Information System is still undergoing adjustments/fine tuning before implementation. Moreover, PNOC has updated the sex-disaggregated data by age, employment status, salary grade, training attended and health status under the PNOC-GAD webpage.

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	Observations	Recommendations	
	<p>system for monitoring and evaluation purposes of GAD issues in PNOC and the non-submission of the written communication/s proving notification to Philippine Commission on Women (PCW) prior to undertaking of activities other than those indicated in the PCW-endorsed GPBs was contrary to Section 4.4 and 9.2, respectively, of PCW-NEDA-DBM Joint Circular No. 2012-01.</p>		
<p>2018 AAR Observation No. 1, pages 73-76</p>	<p>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.</p>	<p>10. Facilitate/negotiate with PNOC EC to finalize the agreement on the transfer of assets;</p> <p>11. 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</p> <p>12. Recognize depreciation expense pertaining to the ESB assets in compliance with the Matching Principle of accounting</p>	<p>Partially implemented</p> <p>Negotiations were pursued but no agreement was reached yet.</p> <p>Not implemented</p> <p>Fair market value not yet determined or agreed upon.</p> <p>Not implemented</p> <p>No basis yet for recognition of depreciation since the fair market value has yet to be determined or agreed upon.</p>

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2018 AAR Observation No. 2, pages 76-79	The balance of Due from Government Corporations - PSALM account in the amount of P112.543 million as against the confirmed zero balance affected the fair presentation of balances of pertinent account in the financial statements contrary to Paragraph 15 of PAS 1, thus, the existence, validity and collectability cannot be ascertained.	13. Continue to exert extra effort in resolving the issue on who is accountable between PNOC and PSALM for the Output VAT.	Partially implemented Office of the Solicitor General (OSG) informed PNOC that they are ready to file the case for arbitration with the Department of Justice (DOJ). PNOC will formally endorse to the OSG the request for the arbitration with the DOJ.
2018 AAR Observation No. 3, pages 79-81 2015 AAR Observation No. 1, pages 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.	14. File appropriate legal charges against NRDC, if necessary.	Partially implemented PNOC has already requested from the OSG to file the case with the DOJ for arbitration on April 15, 2019. On November 15, 2019, the OSG replied that PNOC may collect from NRDC by commencing arbitration claim with the DOJ and final demand letter will be sent to NRDC by the OSG. Demand letter was served on December 4, 2019 but no response has been received. PNOC has already requested from the OSG for the filing of the case with the DOJ for its arbitration.

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<p>2018 AAR Observation No. 6, pages 84-86</p> <p>2017 AAR Observation No. 4, pages 73-76</p>	<p>Non-submission of the Report of the Annual Physical Inventory of Property and Equipment amounting to P338.658 million is contrary to Section IV, V.2, V.3 and V.4 of COA Circular No. 80-124 dated January 18, 1980 and Section 122 of PD 1445, thus, the existence, completeness and valuation cannot be ascertained and the accountabilities of employees cannot be established.</p>	<p>15. Renew the Memorandum Receipts (MR or Gen. Form No. 32) now Property Acknowledgement Receipt (PAR) every three years.</p>	<p>Partially implemented</p> <p>Updating of Memorandum Receipts is ongoing.</p>
<p>2016 AAR Observation No. 5, page 59</p>	<p>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.</p>	<p>16. Recognize the payables to PNOC RC amounting to P51.956 million and settle the account as soon as possible.</p>	<p>Partially implemented</p> <p>The individual barangay certificate of installation is necessary to be secured through barangay visitation with the DOE, PNOC and COA to be able to reimburse the amount from DOE.</p> <p>However, they are still coordinating on the conduct of field visit as the current situation is not conducive for site visit. Coordination with a local group to do the initial site visit is ongoing.</p>

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2016 AAR Observation No. 7, pages 62-83	<p>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.</p> <p>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.</p> <p>Further, PNOC incurred additional expenses of P9.554 million in CY 2016 for the payment of real property taxes and security services for</p>	<p>17. Cause the completion of processing the titles of 67 lots to ensure the proper transfer of ownership to PNOC;</p> <p>18. 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;</p>	<p>Partially implemented</p> <p>PNOC finds the completion of the processing of titles, and registration of untitled lots a long-term process for the subject lots considering the following:</p> <p>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;</p> <p>b) necessity to resolve issues that still requires judicial process like adverse claims and lack of technical descriptions;</p> <p>Partially implemented</p> <p>PNOC finds the completion of the processing of titles, and registration of untitled lots a long-term process for the subject lots considering the following:</p> <p>a) lack/absence of primary documents (deed) to support the requirements in the registration/ titling or even in the transfer of title in</p>

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	<p>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.</p>	<p>19. 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;</p>	<p>PNOC's name;</p> <p>b) necessity to resolve issues that still requires judicial process like adverse claims and lack of technical descriptions;</p> <p>c) unregistrable lots – part of the public domain;</p> <p>d) could not be located;</p> <p>e) Badoc Lots - with pending request with COA for clearance for dropping from the PNOC Book; and</p> <p>f) some other issues that barred PNOC from having the said lots transferred/ titled/registered in its name.</p> <p>Partially implemented</p> <p>AMD (formerly EMD) and AD are conducting reconciliation of records found to be inconsistent from time to time.</p> <p>AMD requested from AD the records/books to determine the properties subject for reconciliation on records of area. AD has provided the</p>

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		<p>20. Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies; and</p>	<p>records/ books which are now subject to AMD's validation.</p> <p>Partially implemented</p> <p>PNOC continues 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 lots that have use and/or not useable for any PNOC project.</p> <p>On the issue of informal settlers, demand letters to vacate were served to the informal settlers who are intruding on PNOC lots. Likewise, PNOC has 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 concerned barangay authorities for joint coordination to stop the illegal activities/proliferation of informal settlers.</p>
		<p>21. Study and submit PNOC's marketing strategy to hasten the disposal of the idle</p>	<p>Partially implemented</p> <p>At the January 2021 regular board</p>

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		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.	meeting, the PNOC Board of Directors approved the disposal by sale of several idle lots that have no use for PNOC's operation. Two public biddings were conducted and both failed. PNOC Disposal Committee resorted to negotiation for the sale of some properties. On March 18, 2022, the Disposal Committee passed and approved Resolution Nos. 2, 3 and 4 s' 2022 recommending the awards of some properties. On March 8, 2022, Notices of Award were issued by PNOC.
2015 AAR Observation No. 2, pages 54-57	Found existing for reciprocal accounts between <i>Due from Subsidiaries</i> per PNOC books and <i>Due to PNOC</i> 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 <i>Due from Subsidiaries</i> , contrary to paragraphs 58 and 59 of PAS 39.	22. Coordinate with the Finance Managers/ Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items;	Partially implemented PNOC provided PNOC RC with 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. However, for the unbooked receivables of PNOC, PNOC RC claims that all documents are still for review.

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		23. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements.	Partially implemented PNOC coordinated with PNOC RC for the reconciliation of the books of said agencies and has provided PNOC RC documents regarding the reconciling items. PNOC is waiting for the booking by PNOC RC of the adjustments and/or reconciling items indicated in the intercompany reconciliation.