

PHILIPPINE NATIONAL OIL COMPANY

ANNUAL REPORT 2015



PNOC
The Energy Company

COMPANY PROFILE

The Philippine National Oil Company (PNOC) celebrates forty two years of continuously providing for the energy needs of the country through its exploration, research, and development support to PNOC subsidiaries.

It was the onset of the 1973 energy crisis which gave birth to PNOC, a government-owned and controlled corporation, through Presidential Decree (PD) No. 334, with the primary purpose of providing and maintaining an adequate and stable supply of oil and petroleum products for domestic requirements.

How Our Core Businesses Started

The passing of the years has shown PNOC's areas of responsibilities evolving to meet the country's complex and growing needs. This is shown through the numerous subsidiaries created over time to address specific areas for development. In 1974, after purchasing Esso Phils., Inc., (now Petron Corporation), the largest oil firm in the country, three tanker corporations were created. A stevedoring corporation, the pre-cursor to the PNOC Shipping and Transport Corporation (PSTC), was acquired soon after to facilitate the movement of oil products throughout the country.

After the discovery of oil in Palawan in 1976 and seeing the potential of energy sources other than oil, PD 927 was enacted to promote the exploration and development of oil and other indigenous energy sources, effectively expanding PNOC's scope of operations. The Coal Development Act of 1976 set to establish a coal development program, which later on led to the creation of the PNOC Coal Corporation (PCC).

This year also saw the creation of two of PNOC's more lucrative subsidiaries – the PNOC Energy Development Corporation (PNOC EDC) and PNOC Exploration Corporation (PNOC EC). PNOC EDC has put the company on the map by making the country the second largest producer of geothermal energy in the world. This geothermal energy has contributed considerably to reducing the country's dependence on imported oil to 50 percent. The \$5.0 billion Malampaya Deepwater Gas-to-Power Project heralds PNOC EC's participation in the largest and most important investment of its kind in the history of the Philippines.

PNOC's ventures into business deal with petrochemicals and real estate development. The PNOC Petrochemical Development Corporation's (PPDC) Petrochem Park was declared a flagship project under the Ramos Administration. The PNOC Development and Management Corporation (PDMC), on the other hand, has been able to balance and maximize the use of PNOC land, both by earning from it through rentals or sale.

Where We Are Now

The developing trend towards other sources of energy as a response to its increasing demand, led to the creation of the PNOC Alternative Fuels Corporation (PAFC) in 2006 and the PNOC Renewables Corporation (PRC) in 2008. PNOC started tapping into newer areas of energy development.

In March 2013, the Boards of PNOC Shipping and Transport Corporation (PSTC) and PNOC approved the shortening of term of the PSTC, which was subsequently ratified by the Governance Commission for Government Owned and Controlled Corporations (GCG). This was after the PSTC has already served the purpose for which it was established, having served the transport requirements of Petron for thirty years. PNOC is winding down its operations.

In September 2014, PNOC was mandated to transform from a mere holding to also an operating company by the GCG during the 2015 Performance Agreement Negotiations. In line with this move, the GCG recommended the abolition of the PAFC and the PNOC Development and Management Corporation (PDMC), which was duly approved by the Office of the President that same month. The transition and turnover plans for PAFC and PDMC were submitted to the GCG in February 2015 and their going concerns were continued and transitioned into PNOC in accordance with the plans.

To help it fulfill its new role as an operating company, PNOC signed a Memorandum of Agreement with the Development Academy of the Philippines (DAP) in September 2015 to assist in the preparation of a restructuring plan to be submitted to the PNOC Board and the GCG for approval. Towards this end, the DAP started to conduct focused group discussions with the PNOC in the last quarter of the year.

PNOC EC, as the upstream oil and gas subsidiary of PNOC, is still at the forefront of exploring oil and gas, as the company's exploration arm. The search for indigenous sources of energy actively continues as PNOC EC pursues its mandate with dedication and perseverance. PNOC EC owns a 10% stake in the upstream component of the Malampaya Deepwater Gas-to-Power Project, together with Shell and Chevron.

OIL & GAS

Petroleum Exploration and Development

PNOC EC has been implementing an aggressive petroleum exploration program for the past years, as shown in its interests in six exploration Service Contracts – Offshore Mindoro, Calamian, West Calamian, West Balabac, East Sabina, and Cagayan Basin. Seismic data acquisition, processing and interpretation, geological and geophysical studies, were conducted in preparation for well drilling activities.

The ongoing quest to explore indigenous energy continued as PNOC EC started drilling the Mangosteen-1 well located in the southern part of the Cagayan Basin on March 21, 2015. This was completed on May 5, 2015 with a total depth of 2,423 meters. The Department of Energy then confirmed on July 10, 2015, that Mangosteen-1 was a Discovery Well.

Natural Gas Production

The Malampaya Deepwater Gas-to-Power Project's total natural gas sales for the year reached 117.93 billion standard cubic feet (bcf), lower than last year's 126.30 bcf production. This output provided the gas fuel requirements of its three (3) power plant customers in Batangas, namely: Santa Rita (1,000 MW), San Lorenzo (500 MW), and Ilijan (1,200 MW).

The total condensate sale of the Malampaya project was estimated at 3.76 million barrels compared to last year's 4.41 million barrels for the year.



COAL

PNOC EC continued with the coal business after the dissolution of the PNOC Coal Corporation (PCC), having assumed its operations of coal trading and integrated services, serving the requirements of the cement manufacturing and power production industries.

The Malangas Coal Reservation in Zamboanga Sibugay falls under Coal Operating Contract (COC) 41, where PNOC EC operates a large-scale coal mine known as the Integrated Little Baguio (ILB). Unfavorable coal prices in the market has caused all development and production activities in the area including the municipalities of Malangas, Diplahan, and Imelda, to be stopped since March 1, 2013. PNOC EC still continued to monitor and support the mining operations of various small-scale coal miners.

The Isabela Coal Mine and Power Plant Project under COC 122, located in the Province of Isabela, consists of a coal mine production area and a mine-mouth power generating facility. The project aims to promote the use of indigenous coal sources and augment the energy demand requirements of the province.

The Department of Finance (DOF) started the evaluation of commercial viability of the project and PNOC EC's financial capability to undertake it in January, as directed by the NEDA ICC – Cabinet Committee. PNOC EC was tasked to secure from DOJ and DOE confirmation on EPIRA, DOE's energy policy and amenability to direct investment in power generation. With the DOJ's recent opinion that PNOC and its subsidiaries cannot enter into the power generation business, PNOC EC has continued to review various options in the development of the COC 122 Project.

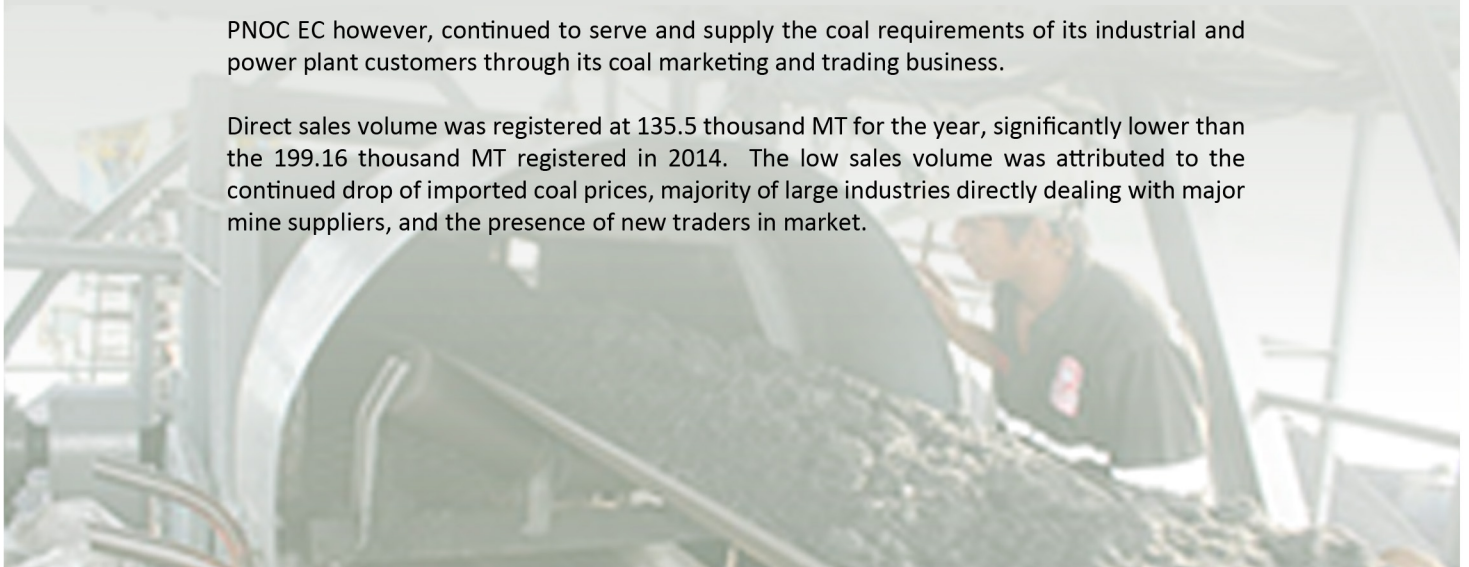
PNOC EC continued to conduct Corporate Social Responsibility (CSR) and Information, Education, Communication (IEC) activities for the project.

Coal Production and Sales

For CY 2015, total aggregate coal production from Malangas coal operations (COC 41) was registered at 56.37 thousand metric tons (MTs) coming mostly from the production of small-scale coal miners, lower than the 63.16 MTs production last year.

PNOC EC however, continued to serve and supply the coal requirements of its industrial and power plant customers through its coal marketing and trading business.

Direct sales volume was registered at 135.5 thousand MT for the year, significantly lower than the 199.16 thousand MT registered in 2014. The low sales volume was attributed to the continued drop of imported coal prices, majority of large industries directly dealing with major mine suppliers, and the presence of new traders in market.



The PNOC Renewables Corporation (PNOC RC) has worked towards promoting, developing and implementing renewable energy programs and projects in the country since 2008. PNOC-RC has projects on solar, wind, hydropower, ocean, and geothermal.

RENEWABLE ENERGY

Solar

PNOC RC is spearheading the installation of grid-tied rooftop solar systems in public institutions. On May 2, 2015, PNOC RC signed a MOA with the Philippine Heart Center (PHC) for the installation of a 100-kw Solar Photovoltaic (PV) Facility at the Medical Arts Building, at East Avenue, Quezon City. The project was inaugurated on November 3, 2015.

The company also signed a Memorandum of Agreement (MOA) with the Department of Science and Technology (DOST) on June 2, 2015 for the installation of a 100kW Solar Photovoltaic (PV) Facility at the rooftop of the DOST Main Building, Science Heritage Building, and other designated buildings at the DOST Complex, in Bicutan, Taguig City. EPCC procurement was completed last September 2015.

Under the MOAs, the cooperation period between PNOC RC and PHC and DOST shall be a maximum period of 15 years, and at the end of this period, ownership of the solar panels shall be transferred to PHC and DOST.

PNOC RC has also made several agreements with government institutions like UP Diliman and the DENR – Environmental Management Bureau for Solar PV rooftop projects.



RENEWABLE ENERGY

Hydropower

PNOC RC has four (4) existing service contracts namely: Nalatang, Dulangan, Saltan B, and Pacuan-Guinobaan. The public bidding for joint venture (JV) partnership on seven (7) run-of-river hydro projects (Okoy, Siaton, Pacuan-Guinobaan, Pacil B & C, Saltan B & Dulangan) were failed bids, except for Nalatang which is under evaluation and awaiting Board approval for JVA award.

The PNOC RC's Joint Venture (JV) Selection Committee approved a rebid for the JV partners on February 16, 2015 for the following hydropower projects: 8.25MW Dulangan, 24MW Saltan-B, and 13.8MW Pacuan-Guinobaan. Bidding process for the joint venture for the three projects is ongoing.

PNOC RC forged a joint venture with Aboitiz Power Corp. for the development of the 44 MW Nalatang B Hydropower Project in Benguet province, approved by the PNOC RC Board on January 28, 2015. PNOC RC owns the service contract, but Aboitiz Power Corp. will complete the project. PNOC RC assigned the Nalatang Service Contract to Aboitiz Power Corp., subject to DOE's approval.

The construction of the 1MW Rizal Hydropower Project, which benefited a total of 22,990 beneficiaries, started in July 2014, then was completed and inaugurated on December 9, 2015. Testing and commissioning is ongoing. PNOC RC filed an application for an ERC permit. A public hearing was held on July 28, 2015 as scheduled, while the ERC inspection is scheduled in April 2016.



RENEWABLE ENERGY

Geothermal

PNOC RC maintains a ten percent share in the Maibarara Geothermal, Inc. (MBI) consortium. The power plant was commissioned on February 2014, and has now generated a total of 88,658 MWh year-to-date (YTD).

Since the project's commissioning, the Maibarara Geothermal Power Project (MGPP) has been in commercial operation. In March 2015, the Board of Directors approved PNOC RC's investment in the 10 MW Project Expansion for the Maibarara Geothermal Power Plant, commercial operation of which is scheduled by the third quarter of 2016.



In 2006, the PNOC Alternative Fuels Corporation (PAFC), formerly the PNOC Petrochemical Development Corporation (PPDC), was created with the primary mandate to explore, develop, and accelerate the utilization and commercialization of alternative fuels in the country, as there was a strong need to source alternative fuels instead of relying on basic oil and gas.

ALTERNATIVE FUELS

Biofuels

In pursuit of its mandate, PAFC initiated the conduct of a feasibility study (FS) entitled “Establishment of a Commercial Sweet Sorghum Plantation and a Sweet Sorghum Syrup Processing Plant in the Philippines” in partnership with NEDA as the funding agency, with a group from the University of the Philippines, Los Banos Foundation, Inc. (UPLBFI) as consultants.

The project aims to provide a detailed FS and detailed engineering design considering different scenarios for both the plantation and the processing plant of sweet sorghum. It also covers market study, social acceptability, and environmental impacts of sweet sorghum syrup production. The study is yet to be presented to the PNOC IAC.

A pilot plantation of the Sweet Sorghum was established in May. Harvest of the first and second hectares was done on September 7 and Sept. 22-23, 2015, respectively.



The PNOC Development and Management Corporation (PDMC) is PNOC's real estate arm engaged in industrial estate development and management. It has been managing 118 hectares of landholdings in Rosario, Cavite since 2001, with about 12 hectares remaining in its books as capital and investment assets.

Since the extension of PDMC's corporate life in March 2008, PDMC's activities were mainly on the sale of assets principally based on its Privatization Plan, as approved by the PDMC and PNOC Boards as well as by the Privatization Council of the Department of Finance in September 2006.

ESTATE MANAGEMENT

Sale of Costa Verde Inventories and El Pueblo Condormitel Units

For 2015, PDMC sold fourteen (14) Costa Verde lots with a Total Contract Price of P22.8 million, and has collected P18.5 million of installment receivables.

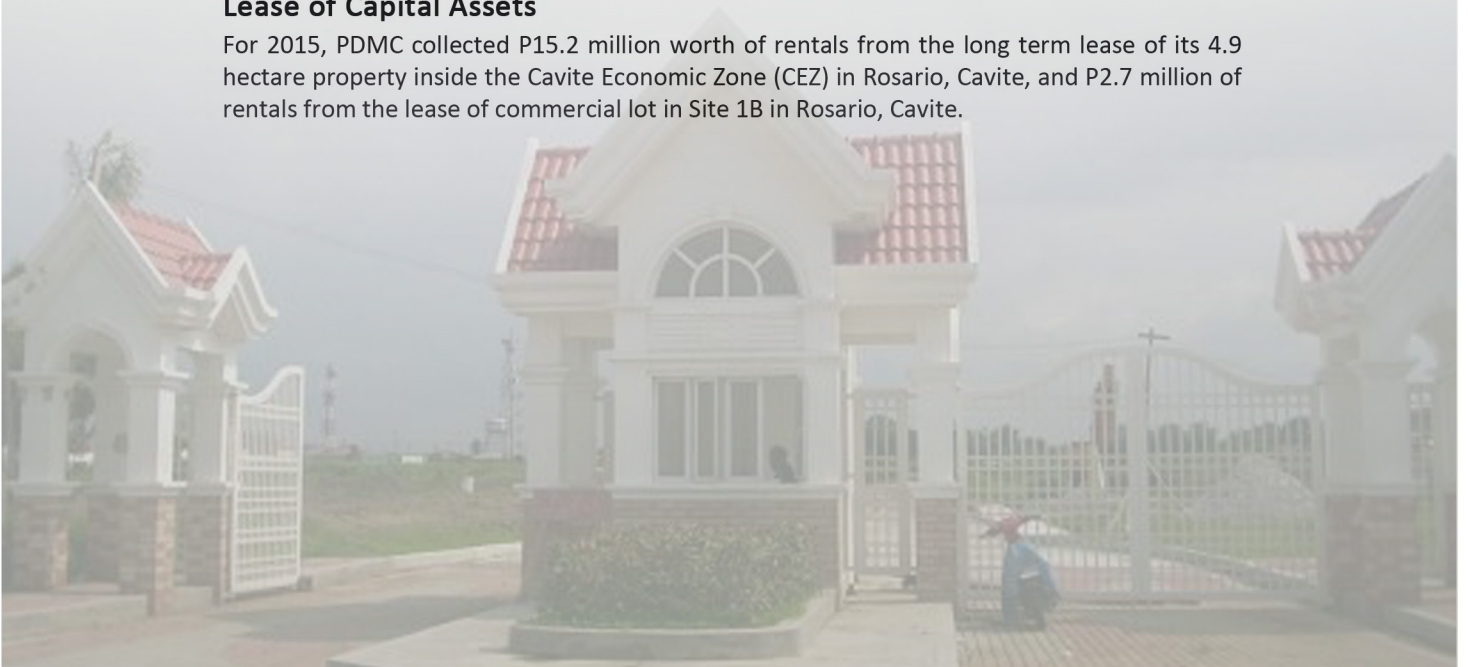
Nineteen (19) El Pueblo Condormitel units were sold with a Total Contract Price of P25.2 million. Collections registered at P9.8 million comprising of cash sales, down payment, and amortization.

Socialized Housing

PDMC sales and collection for Socialized Housing were turned over to the Local Government Unit of Rosario, Cavite in June 2010. A total of P6.5 million remittance from the LGU was received for the year 2015.

Lease of Capital Assets

For 2015, PDMC collected P15.2 million worth of rentals from the long term lease of its 4.9 hectare property inside the Cavite Economic Zone (CEZ) in Rosario, Cavite, and P2.7 million of rentals from the lease of commercial lot in Site 1B in Rosario, Cavite.



OTHER BUSINESSES

Compressed Natural Gas (CNG) for Vehicle Project

PNOC EC's Compressed Natural Gas (CNG) for vehicle project, in line with the Department of Energy's (DOE) existing Natural Gas Vehicle Program for Public Transport (NGVPPT), is underway. The project aims to provide fuel for 1,000 buses by constructing a CNG distribution infrastructure – one (1) mother station and two (2) daughter stations – to increase the use of CNG in public utility vehicles.

The Department of Transportation and Communication (DOTC) affirmed the grant of 168 new franchises for CNG buses, and the availability of new bus franchises.

The initial results of the validated project economics and the viability of the project was presented to DOE by PNOC EC. The DOE formally declared to extend the NGVPPT Pilot Phase from 2018 to 2023, and requested to enter into a new Gas Sales and Purchase Agreement (GSPA) with PNOC EC. A draft agreement for the CNG GSPA was received on November 25, 2015, and review of the draft is ongoing.



OTHER BUSINESSES

Industrial Park Operations

The PAFC also continuously provided basic services such as raw and fire water, power supply, and jetty services to the locators within the Industrial Park Estate in Bataan and commercial areas. These activities mostly cater to the needs of the locators and provides the bulk of revenues for the Park.

The Health, Safety, Security and Environmental (HSSE) Program facilitates the efficient operation throughout the Park and its compliance with various requirements of the government. It includes management of activities on health, safety, security, and environmental monitoring.

On April 17, 2013, Republic Act No. 10516 was signed into law by President Benigno Aquino III, amending P.D. No. 949 which designated the Industrial Park solely for petrochemical and petrochemical-related industries. The enactment of R. A. 10516 maximizes the best economic use of the park by expanding its use for businesses engaged in energy-related infrastructure projects and other gainful economic activities.

Persistent Organic Pollutants (POPs) Project

The POPs Project, the first of its kind in the country and in Southeast Asia, is part of a global program introducing and applying a non-combustion technology to destroy polychlorinated biphenyls (PCBs) wastes.

Since the signing of the Memorandum of Agreement (MOA) regarding the turnover of the POPs Project from PAFC to DENR last December 2014, regular coordination meetings were conducted to formalize the official turnover of the POPs facility together with the chemicals, tools and equipment. Inventory review was done and the inventory list was finalized in 2015.

DENR and PAFC agreed to sign a Joint POPs Implementation Letter that will enable DENR to include repayment of PAFC's cash outlay for POPs through DENR's upcoming GAA proposal and extending its terms of payment with PAFC.

DIVIDENDS TO THE NATIONAL GOVERNMENT

PNOC remitted P3.8 billion in dividends (including P2.0 billion in extraordinary cash dividends) out of its 2014 earnings and subsidiaries' remittances for 2014 net earnings, to the Bureau of Treasury during the year.



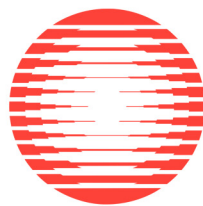
© DEX BALDON

PHILIPPINE NATIONAL OIL COMPANY

Roster of Members of Governing Board

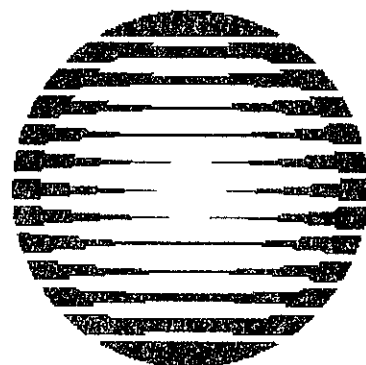
As of 31 December 2015

| Name | Period Covered | Designation |
|-------------------------------|--|---------------------------------|
| CARLOS JERICO L. PETILLA | 01 JAN 2015 TO 29 JUN 2015 | CHAIRMAN |
| ZENAIDA Y. MONSADA | 01 JAN 2015 TO 29 JUN 2015 30 JUN 2015 TO 31 DEC 2015 | PERMANENT ALTERNATE CHAIRMAN |
| DONATO D. MARCOS | 9 NOV 2015 TO 31 DEC 2015 | PERMANENT ALTERNATE |
| ANTONIO M. CAILAO | 01 JAN 2015 TO 31 DEC 2015 | PRESIDENT AND CEO, MEMBER |
| DANTE B. CANLAS | 01 JAN 2015 TO 31 DEC 2015 | MEMBER |
| BOB D. GOTHONG | 01 JAN 2015 TO 31 DEC 2015 | MEMBER |
| POTENCIANO V. LARRAZABAL, JR. | 01 JAN 2015 TO 31 DEC 2015 | MEMBER |
| PEDRO A. AQUINO, JR. | 01 JAN 2015 TO 31 DEC 2015 | MEMBER |
| JOHN J. ARENAS | 01 JAN 2015 TO 31 DEC 2015 | MEMBER |
| HERMINO M. ALCASID, SR. | 05 MAR 2015 TO 31 DEC 2015 | MEMBER |
| FERNANDO V. BARREIRO | 03 MAR 2015 TO 31 DEC 2015 | MEMBER |



PNOC
The Energy Company

PHILIPPINE NATIONAL OIL COMPANY



PNO

The Energy Company

2015 ANNUAL AUDIT REPORT



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)

For the Year Ended December 31, 2015

EXECUTIVE SUMMARY

A. Introduction

Philippine National Oil Company (PNOC)

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

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

2. PNOC's vision is to be a world class organization that executes the country's energy strategy toward self-sufficiency, sustainability, stability of prices, and security of supply by 2025. 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 self-sufficiency level in oil, gas and other energy sources; ensure security of supply; contributing to energy price stability and affordability; foster sustainable and environmentally-friendly sources of energy; and promote and maintain the highest standard of service and corporate governance.
3. PNOC has four subsidiaries working together to realize PNOC's vision: PNOC Exploration Corporation, PNOC Development and Management Corporation, PNOC Alternative Fuels Corporation, and PNOC Renewables Corporation.

Scope and Objectives of Audit

4. The audit was conducted to determine the (a) level of assurance that may be placed on the Management's assertions on the financial statements; (b) the propriety of transactions as well as compliance with existing rules and regulations and Management's policies; and (c) the extent of the implementation of prior years' audit recommendations.
5. The audit covered the examination on a test basis of the accounts and financial transactions and operations of PNOC for the period January 1 to December 31, 2015 in accordance with Philippine Standards on Auditing (PAS). The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Corporation with prescribed laws, rules and regulations.

B. Financial Highlights (In Million Pesos)

The operating budget of PNOC for the year 2015 was P702 million. Thirty-five percent of the budget, equivalent to P244 million, was utilized during the year.

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

Financial Position

| | 2015 | 2014 | Increase (Decrease) |
|-------------|--------|--------|------------------------|
| Assets | 40,202 | 42,405 | (2,203) |
| Liabilities | 3,617 | 4,597 | (980) |
| Equity | 36,585 | 37,808 | (1,223) |

Results of Operations

| | 2015 | 2014 | Increase (Decrease) |
|-------------------------------------|-------|-------|------------------------|
| Revenues | 2,060 | 4,440 | (2,380) |
| Operating Expenses | 264 | 234 | 30 |
| Income From Operations | 1,796 | 4,206 | (2,410) |
| Other Income | 23 | 812 | (789) |
| Net Profit Before Tax | 1,819 | 5,018 | (3,199) |
| Income Tax | 19 | 12 | 7 |
| Profit | 1,800 | 5,006 | (3,206) |
| Other Comprehensive Income (Loss) | (1) | 0 | (1) |
| Comprehensive Income For the Period | 1,799 | 5,006 | (3,207) |

PNOC remitted a total of P3.074 billion in dividends to the Bureau of Treasury during the year 2015.

C. Auditor's Opinion

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements of the PNOC as at December 31, 2015 as stated in the Independent Auditor's Report in Part I.

D. Significant Audit Observations and Recommendations

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

1. No allowance for impairment loss was recognized for Long-term Loan Receivable from the Natural Resources Development Corporation (NRDC) in the amount of P37.253 million which was dormant for more than seven years contrary to PAS 39.

Recommendations:

- a. Evaluate the collectability of the loan receivable and recognize impairment loss if necessary, in compliance with the provisions of PAS 39; and
 - b. Take concrete action in collecting the overdue account.
2. Found existing for reciprocal accounts between Due from Subsidiaries per PNOC books and Due to PNOC per subsidiaries' records was a variance of P4.684 million involving various reconciling items which remained unresolved for more than one to 13 years. Also, no Allowance for Impairment was recognized for the account Due from Subsidiaries, contrary to paragraphs 58 and 59 of PAS 39.

Recommendations:

- a. Coordinate with the Finance Managers/Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items;
 - b. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and
 - c. Provide allowance for impairment of receivables to present the net realizable value of Due from Subsidiaries in compliance with the provisions of PAS 39.
3. The ownership, accuracy, completeness and existence of Investment Properties amounting to P11.584 billion as of December 31, 2015 could not be ascertained due to:
 - a. non-registration of certain lots under the name of PNOC;
 - b. unrecorded lots in PNOC books;
 - c. untitled lots not found during the actual inventory count; and
 - d. improper classification of land under the Investment Properties account.

Also, PNOC incurred additional expenses of P10.476 million in CY 2015 for the payment of real property taxes and security services for various lots which remained idle or unutilized for years.

Recommendations:

- a. Exert efforts in the processing of the titles of 76 lots to ensure the proper transfer of ownership to PNOC;
- b. Make a documentary inventory of the lands to confirm and validate the Transfer Certificate of Title (TCTs) establishing the required government land registrations and PNOC ownership over all Investment Properties, to be able to check as well the status of the land if these are not public domain and therefore, not outside the commerce of men;
- c. Confirm the ownership on the 12 lots with 211,674 square meters found in the vault but were not registered under the name of the Company and not recorded in the accounting records;
- d. Immediately require the person/s responsible for the custody of the TCTs to account for the 45 TCTs of the 250,022 square meters of land not found during the actual inventory of land titles for the safeguarding and security of PNOC assets;
- e. Require the coordination of Estate Management Department (EMD) and Accounting Department to compare data and come up with a reconciled and properly grouped list of Investment Properties;
- f. Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies;
- g. Study PNOC's marketing strategy to hasten the disposal of these idle assets and to explore possibilities to generate income out of these assets in the meantime that these are not disposed of for the purpose of optimizing their values and/or to at least recover the amount invested by PNOC;
- h. Require the coordination of EMD and Accounting Department to review the intended purposes and use of the lots for proper classification;
- i. Prepare the necessary reclassification entries, if applicable; and
- j. Include adequate disclosures/information in the Notes to Financial Statements.

4. The accuracy, existence and completeness of PPE with net book value of P201.281 million as of December 31, 2015 could not be ascertained due to non-submission of Physical Inventory Report, inconsistent asset classification, inconsistent capitalization policy, non-recognition of depreciation expense on PPE received and improper recognition of assets, contrary to existing laws, rules and regulations.

Recommendations:

- a. Consider conducting the inventory near year-end to give ample time for any contingencies and/or deficiencies that may arise and submit the Physical Inventory Report within the target deadline;
- b. Establish a distinct description for each PPE classification to avoid confusion in the future;
- c. Implement Section 2.2.1 of COA Circular No. 2005-002 on small tangible items with estimated useful life of more than one year to be recorded as inventories upon acquisition and expense upon issuance;
- d. Consider developing and/or updating a written accounting policy/manual incorporating COA Rules and Circulars and PAS, to standardize the Company's accounting and operating policies and procedures; and
- e. Prospectively monitor completeness and accuracy of journal entries on transfers from subsidiaries including depreciation of assets received.

E. Summary of Total Suspensions, Disallowances and Charges as of December 31, 2015

There were no issued Notices of Suspension, Disallowance and Charge during the year. There were also no outstanding suspension, disallowance and charge pertaining to prior years as of December 31, 2015.

F. Status of Implementation of Prior Years' Recommendations

Out of the 16 audit recommendations embodied in the previous years' Annual Audit Reports, eight were fully implemented and eight were partially implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

| | Page |
|-----------------|--|
| Part I | AUDITED FINANCIAL STATEMENTS |
| | Independent Auditor's Report 1 |
| | Management Representation Letter 3 |
| | Statement of Financial Position 6 |
| | Statement of Comprehensive Income 7 |
| | Statement of Changes in Equity 8 |
| | Statement of Cash Flows 9 |
| | Notes to Financial Statements 10 |
| Part II | AUDIT OBSERVATIONS AND RECOMMENDATIONS 52 |
| Part III | STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS 90 |



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, Fort Bonifacio
Taguig City, Metro Manila

We have audited the accompanying financial statements of **Philippine National Oil Company** (a Corporation wholly-owned by the Government of the Republic of the Philippines), which comprise of the statement of financial position as of December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Philippine National Oil Company** as of December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 22 to the financial statements which describes uncertainties related to the outcome of civil and other cases pending before various courts. Our opinion is not qualified in respect of this matter.

COMMISSION ON AUDIT


JULIETA D. AMBAT
State Auditor IV
OIC-Supervising Auditor 

May 17, 2016



PHILIPPINE NATIONAL OIL COMPANY

PNOC Building VI, Energy Center, Rizal Drive, BGC, Taguig City, Philippines Tel. No. (632) 789-7662

February 12, 2016

MS. JULIETA D. AMBAT

State Auditor

OIC-Supervising Auditor

Commission on Audit

Philippine National Oil Company

3/F Building 6, Energy Center, Rizal Drive,

Bonifacio Global City, Taguig City

In connection with your audit of the financial statements of **PHILIPPINE NATIONAL OIL COMPANY** as at December 31, 2015 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in stockholders' equity and cash flows of **PHILIPPINE NATIONAL OIL COMPANY** in conformity with Philippine Financial Reporting Standards, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. We are responsible for the fair presentation in the statements of financial position, results of operations, changes in stockholders' equity and cash flows in conformity with Philippine Financial Reporting Standards applied on a consistent basis.
2. We acknowledge our responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error.
3. We have considered application system, operating system and hardware central of the Company's on-going activity and preparation of financial statements. These are all in place to enhance systems as necessary to avoid significant material misstatements in the Company's accounting records or adversely affect business operations.
4. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.


5. We have made available to you –
 - a. All financial records and related data.
 - b. List of the resolutions passed and approved by the PNOC Board of Directors for the year
6. We are not aware of –
 - a. Any irregularities involving management or employees who have significant roles in the internal control structure.
 - b. Any irregularities involving other employees that could have a material effect on the financial statements.
 - c. Any communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
7. We have no plans or intentions that may materially alter the carrying value or classifications of assets and liabilities.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Philippine Financial Reporting Standards.
9. There are no –
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in the financial statements.
 - c. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions or other requirements.
 - d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on the cash balances and line of credit or similar arrangements.
10. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
11. All cash and bank accounts and all other properties and assets of the Company of which we are aware of are included in the financial statements. The Company has satisfactory title to all recorded assets. There are no liens or encumbrances on any asset of the Company.
12. All liabilities of the Company of which we are aware of are included in the financial statements. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by PAS No. 37 - Provisions, Contingent Liabilities,

and Contingent Assets, and our legal counsel has not advised us of any unasserted claims or assessments that are probable of assertion and that must be disclosed in accordance with the aforementioned standard.


13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. No matters or occurrences have come to our attention up to the date of this letter that would materially affect the financial statements and related disclosures for the year then ended or although not affecting such financial statements or disclosures, have caused or are likely to cause any material change, adverse or otherwise, in the financial position, result of operations or cash flows of the Company.

Very truly yours,

PHILIPPINE NATIONAL OIL COMPANY



ANTONIO M. CAILAO
President and CEO



GLEND A. MARTINEZ
Senior Vice President for Management Services

PART I - AUDITED FINANCIAL STATEMENTS

PHILIPPINE NATIONAL OIL COMPANY

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

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(In Philippine Peso)

| | Note | 2015 | 2014 |
|--|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | 4 | 251,766,088 | 1,863,528,457 |
| Receivables | 5 | 171,382,638 | 149,796,078 |
| Held-to-maturity investments | 6 | 6,991,016,206 | 7,309,178,894 |
| Investments in subsidiaries and affiliates | 7 | 5,056,206,406 | 5,273,274,356 |
| Investment properties | 8 | 11,584,239,935 | 11,584,823,981 |
| Property and equipment, net | 9 | 201,280,679 | 211,435,729 |
| Banked gas inventory | 10 | 13,789,376,675 | 13,789,376,675 |
| Other assets | 11 | 1,825,674,637 | 1,950,128,087 |
| Deferred tax assets | 20 | 331,258,983 | 273,912,132 |
| TOTAL ASSETS | | 40,202,202,247 | 42,405,454,389 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 12 | 285,447,116 | 253,869,173 |
| Dividends payable | 14 | 271,799,184 | 1,073,899,265 |
| Deferred tax liabilities | 20 | 2,788,779,231 | 2,791,232,821 |
| Other credits | 13 | 271,412,833 | 478,044,395 |
| TOTAL LIABILITIES | | 3,617,438,364 | 4,597,045,654 |
| EQUITY | 14 | 36,584,763,883 | 37,808,408,735 |
| TOTAL LIABILITIES AND EQUITY | | 40,202,202,247 | 42,405,454,389 |

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL OIL COMPANY
(A Corporation Wholly-Owned by the Government of the Republic of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2015
(In Philippine Peso)

| | Note | 2015 | 2014 |
|--|------|----------------------|----------------------|
| REVENUES | | | |
| Dividend Income | 15 | 1,507,889,673 | 3,022,856,455 |
| Rent Income | | 281,561,159 | 258,617,785 |
| Interest Income | | 270,816,183 | 1,158,413,962 |
| | | 2,060,267,015 | 4,439,888,202 |
| GROSS REVENUES | | | |
| OPERATING EXPENSES | 16 | (263,738,739) | (233,599,413) |
| INCOME FROM OPERATIONS | | 1,796,528,276 | 4,206,288,789 |
| FOREIGN EXCHANGE GAIN | 17 | 5,554 | 229 |
| OTHER INCOME | 18 | 23,162,716 | 812,363,721 |
| NET PROFIT BEFORE TAX | | 1,819,696,546 | 5,018,652,739 |
| INCOME TAX | 19 | | |
| Current | | (22,495,670) | (4,278,561) |
| Deferred | | 3,173,154 | (7,920,128) |
| PROFIT | | 1,800,374,030 | 5,006,454,050 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Changes in FV of AFS investments, net | 11 | (1,051,250) | 0 |
| COMPREHENSIVE INCOME FOR THE PERIOD | | 1,799,322,780 | 5,006,454,050 |

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL OIL COMPANY

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

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

(In Philippine Peso)

| | CAPITAL STOCK | RETAINED EARNINGS | TOTAL EQUITY |
|--|--------------------------|------------------------------|-------------------------|
| | (Note 14) | (Note 14) | |
| Balances, January 1, 2014 | 3,114,595,519 | 32,190,586,191 | 35,305,181,710 |
| Comprehensive income for 2014 | 0 | 5,006,454,050 | 5,006,454,050 |
| Cash dividend for 2014 net earnings | 0 | (994,575,187) | (994,575,187) |
| Cash dividend directly remitted to the National Government by: | | | |
| PNOC Exploration Corporation | 0 | (1,500,336,895) | (1,500,336,895) |
| PNOC Development & Management Corp. | 0 | (7,814,943) | (7,814,943) |
| PNOC Alternative Fuels Corp. | 0 | (500,000) | (500,000) |
| Balances, December 31, 2014 | 3,114,595,519 | 34,693,813,216 | 37,808,408,735 |
| Balances, January 1, 2015 | 3,114,595,519 | 34,693,813,216 | 37,808,408,735 |
| Comprehensive income for 2015 | 0 | 1,799,322,780 | 1,799,322,780 |
| Cash dividend for 2015 net earnings | 0 | (271,799,184) | (271,799,184) |
| Extraordinary cash dividend | 0 | (2,000,000,000) | (2,000,000,000) |
| Cash dividend directly remitted to the National Government by: | | | |
| PNOC Exploration Corporation | 0 | (750,168,448) | (750,168,448) |
| PNOC Alternative Fuels Corp. | 0 | (1,000,000) | (1,000,000) |
| Balances, December 31, 2015 | 3,114,595,519 | 33,470,168,364 | 36,584,763,883 |

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL OIL COMPANY

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

(In Philippine Peso)

| | 2015 | 2014 |
|---|------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers, subsidiaries and employees | 600,766,735 | 2,261,884,989 |
| Cash paid to suppliers, subsidiaries and employees | (182,605,503) | (245,913,030) |
| Net cash from operating activities | 418,161,232 | 2,015,971,959 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in treasury bonds - net | 319,000,000 | (2,416,757,306) |
| Cash dividends from subsidiaries/associates | 756,721,226 | 1,514,204,616 |
| Loan drawdowns to subsidiaries | (15,845,000) | (40,700,000) |
| Net proceeds from disposal of assets | 1,905,877 | 8,115,850 |
| Capital expenditures | (17,806,439) | (24,820,279) |
| Net cash from (used in) investing activities | 1,043,975,664 | (959,957,119) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of cash dividend to National Government | (3,073,899,265) | (101,962,486) |
| Net cash used in financing activities | (3,073,899,265) | (101,962,486) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,611,762,369) | 954,052,354 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,863,528,457 | 909,476,103 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 251,766,088 | 1,863,528,457 |

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL OIL COMPANY

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

NOTES TO FINANCIAL STATEMENTS

(In Philippine Peso)

1. BACKGROUND

The Philippine National Oil Company (*herein referred to as PNOC or "the Company"*) was created through Presidential Decree No. 334 on November 9, 1973, to provide and maintain an adequate supply of oil. Its charter was amended to include energy exploration and development. Forty-two years after its creation, the Company serves as the key institution in the exploration, development and utilization of indigenous energy sources. Development in the country, as well as the global front, makes it imperative for the Company to get more involved in new and renewable energy activities and projects.

The registered office address is PNOC Building 6, Energy Center, Rizal Drive, Bonifacio Global City, Fort Bonifacio, Taguig City.

2. BASIS OF FINANCIAL STATEMENTS PREPARATION

The principal accounting policies applied in the preparation of the financial statements are stated below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in Philippine peso, which is the Company's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB). These consist of the following:

- (a) PFRS - correspond to International Financial Reporting Standards;
- (b) Philippine Accounting Standards (PAS) - correspond to International Accounting Standards; and
- (c) Philippine Interpretations to existing standards - correspond to Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee (SIC) of the IASB; these include Interpretations developed by the Philippine Interpretation Committee (PIC).

The financial statements of the Company have been prepared using the measurement specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis except for trade and other receivables and property, plant and equipment.

The measurement bases are more fully described in the accounting policies that follow:

- trade and other receivables – at fair value, net of allowance for doubtful account (see Note 5);

- property, plant and equipment – at cost, net of accumulated depreciation and amortization (see Note 9).

New standards, amendments and interpretations effective beginning January 1, 2014

A number of new standards, interpretations and amendments effective for the first time for periods beginning on January 1, 2014, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment are detailed below.

Amendments to PFRS 10 Consolidated Financial Statements, PFRS 11 Joint Arrangements, and PAS 27 Separate Financial Statements: Investment Entities

These amendments provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.

Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 39, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. The amendment has no impact on the Company's financial position or performance.

Amendment to PAS 36, Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets

These amendments remove the unintended consequences of PFRS 13, Fair Value Measurement, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units for which impairment loss has been recognized or reversed during the period. The adoption of these amendments has no impact on the disclosure in the Company's financial statements.

Philippine Interpretation IFRIC 21, Levies

This interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*, in prior years consistent with the requirements of IFRIC 21.

Annual Improvements to PFRSs (2010 – 2012 cycle)

In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies those short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no material impact on the Company.

Annual Improvements to PFRSs (2011 – 2013 cycle)

In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption to Philippine Financial Reporting Standards*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits mandatory application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first-time PFRS adopter.

New standards, amendments and interpretations effective subsequent to December 31, 2014

PFRS 9, Financial Instruments: Classification and measurement

PFRS 9 (2010 version) reflects the first phase of the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through Other Comprehensive Income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will potentially have no impact on the classification and measurement of the Company's financial assets and liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA). The Company will not opt to early adopt the standard.

Deferred

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the Company's financial statements.

The following new standards and amendments were already adopted by the FRSC but are still for approval by BOA.

Effective in 2015

Amendments to PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the conditions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since the Company has no retirement plan.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after January 1, 2015. Except as otherwise stated, the Company does not expect these amendments to have a significant impact on the financial statements.

PFRS 2, Share-based Payment - Definition of Vesting Condition

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- a performance condition must contain a service condition
- a performance target must be met while the counterparty is rendering service
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- a performance condition may be a market or nonmarket condition
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination

The amendment clarifies that a contingent consideration that is not classified as equity in accordance with PAS 32 is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after January 1, 2015. The Company shall consider this amendment for future business combinations.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets

The amendments require entities to disclose the judgment made by Management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key Management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains Management personnel services from another entity (also referred to as Management entity) is not required to disclose the compensation paid or payable by the Management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key Management personnel services provided by a separate Management entity. The amendments are effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011 – 2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after January 1, 2015. Except as otherwise stated, the Company does not expect these amendments to have a significant impact on the financial statements.

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts within the scope of PAS 39. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

PAS 40, Investment Property

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property, i.e., property, plant, and equipment.

Effective in 2016

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company given that the Company is not using a revenue-based method to depreciate its noncurrent assets.

PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective from annual periods beginning on or after January 1, 2016. These amendments will not have any impact on the Company's financial statements.

PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or early January 1, 2016, with early adoption permitted. The amendment will not have any impact on the Company's financial statements

PFRS 14, Regulatory Deferral Accounts

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012 – 2014 cycles)

The Annual Improvements to PFRSs (2012 – 2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

PFRS 5, Non-current Assets held for Sale and Discontinued Operations – Changes in Methods of Disposal

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, Financial Instruments: Disclosures – Servicing Contracts

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendments)

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, Employee Benefits – Regional Market Issue Regarding Discount Rate

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report, e.g., in the Management commentary or risk report.

Effective in 2018

PFRS 9, Financial Instruments – Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit

risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effectivity date. The mandatory effectivity date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by the BOA.

The Company is currently assessing the impact of adopting this standard. The adoption of the third phase of the project is not expected to have any significant impact on the Company's financial statements.

PFRS 9, Financial Instruments

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The Company is currently assessing the impact of adopting PFRS 9 (2014 version). The adoption of the other phases of the project is not expected to have any significant impact on the Company's financial statements.

The following new standard and amendments issued by the IASB have not yet been adopted by the FRSC.

International Financial Reporting Standards (IFRS) 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Amendments to International Accounting Standards (IAS) 1, Presentation of Financial Statements

In December 2014, the IASB issued the amendments to IAS 1. The amendments include narrow-focus improvements in five areas, namely: materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016.

Amendments to IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities, and IAS 28, Investment in Associates and Joint Ventures

In December 2014, the IASB issued Investment Entities: Applying the Consolidation Exception (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address certain issues that have arisen in applying the investment entities exception under IFRS 10. The amendments are effective on or after January 1, 2016.

The Company is currently assessing the impact of IFRS 15, the amendments to IAS 1 and IFRS 10, IFRS 12 and IAS 28 and plans to adopt the new and amended standards on their required effective dates once adopted locally.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Included also are the short-term investments maturing one year or less from value date. These are subject to insignificant risk of change in value.

Receivables

Trade and other receivables are recognized initially at the transaction price. They are subsequently measured at realizable value net of allowance for probable losses.

Allowance for Probable Losses

At the close of the accounting period, the Company ascertains the adequacy of its estimated losses from doubtful trade and non-trade accounts receivable to adjust these accounts to their estimated realizable values. Allowance for probable losses is provided based on aging of accounts at 60 per cent for accounts over two, three and four years and 100 per cent for those over five years.

Financial Instruments

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value. Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available for sale (AFS) investments, and loans and receivables. For financial liabilities, the Company classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on

the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefit.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset with 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of financial position.

Fair Value of Financial Instruments

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

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

HTM Investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investment when the Company has the positive intention and ability to hold to maturity. If the Company were to sell more than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Company would be prohibited to classify any financial assets as HTM investments for the following two years.

After initial measurement, HTM investments are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows. The Company's loans and receivables are presented as Trade and Other Receivables in the balance sheet.

Trade receivables are stated at net realizable value as reduced by appropriate allowances for doubtful accounts. The adequacy of the allowance for doubtful accounts is reviewed yearly.

Financial assets categorized as loans and receivables include cash and cash equivalents, trade and other receivables, and advances to related parties. Cash and cash equivalents are cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

AFS Investments

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the balance sheet unless Management intends to dispose of the investment within 12 months from the balance sheet date. All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired. In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the profit or loss.

Other Financial Liabilities

Other financial liabilities, which include loans payable, trade and other payables, due to related parties and long-term debt are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the profit or loss when the liabilities are derecognized, as well as through the amortization process.

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or 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 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 a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost

For assets carried at amortized cost, the Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for 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 for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate which is the effective interest rate computed at initial recognition. The carrying value of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. If in case the receivable has proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

AFS Investments

For AFS Investments, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

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

AFS Investments Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the asset is reduced through the use of an allowance account.

Derecognition of Financial Assets and Liabilities

Financial Asset

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- a. the right to receive cash flows from the asset has expired
- b. the Company retains the right to receive cash flows from the asset, but has assumed as obligation to them in full without material delay to a third party under a "pass through" arrangement; or
- c. the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred the control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained

substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

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

Investments in Subsidiaries and Affiliates

Investments in wholly-owned and controlled subsidiaries and affiliates are accounted for under the cost method of accounting. They are carried in the Company's balance sheet at cost less any impairment in value. The Company recognizes income from the investments only to the extent that it received distributions from accumulated profits of the subsidiaries and associates. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Impairment is provided for any substantial and presumably permanent decline in the carrying values of the investments.

Investment Properties

Investment properties comprise of parcels of land acquired and held for capital appreciation and rental income generation.

The Company uses the cost model for the valuation of its investment properties. Investment properties are stated at cost less any impairment in value. Costs include acquisition and transaction costs.

Expenditures incurred after the investment properties were put into operations, such as repairs and maintenance costs, are charged to profit or loss in the year in which the costs are incurred.

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

Investment properties are derecognized when they have either been disposed or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation and amortization are charged so as to allocate the cost of assets less any residual values using the straight-line method over estimated useful lives of the property, as follows:

| Property classification | Estimated useful lives |
|---------------------------|------------------------|
| Building and Improvements | 25 |
| Fencing | 5 |

Property, Plant and Equipment

Property, plant and equipment are measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditures relating to an item of property, plant and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

All other expenses relating to an item of property, plant and equipment that is described as repairs and maintenance are charged to the statements of comprehensive income during the year in which they are incurred.

Depreciation and amortization are charged so as to allocate the cost of assets less any residual values using the straight-line method over estimated useful lives of the property, as follows:

| Property classification | Estimated useful lives |
|-----------------------------------|------------------------|
| Building and Improvements | 25 |
| Machinery and equipment | 5 |
| Communication equipment | 5 |
| Transportation equipment | 5 |
| Furniture, fixtures and equipment | 5 |
| Information technology equipment | 3 |

The estimated useful lives, residual values and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

If there is an indication that there has been a significant change in depreciation rate, useful lives or residual value of an asset, the depreciation of that asset is revised prospectively to reflect new expectations.

Gain or loss arising from the disposal or retirement of an asset is determined by computing the difference between the sales proceeds and the carrying amount of the assets and is recognized as income or expense for the period.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge to depreciation is made with respect to those assets.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are stated in their nominal values.

Foreign Currency Transactions

The Company converts into local currency its foreign currency-denominated transactions using, whenever appropriately applicable, the average and actual foreign exchange rate prevailing during the month and date of transaction, respectively. Monetary assets and liabilities that are denominated in foreign currencies are restated using the closing exchange rate at reporting date. The Company's foreign currency denominated assets and liabilities were restated based on prevailing exchange rate. Non-monetary assets and liabilities are translated at historical exchange rates. Foreign exchange gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

Revenue Recognition

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income from operating leases, wherein substantially all the risks and rewards of ownership are retained by the Company as a lessor, is recognized on a straight-line basis over the term of the relevant lease.

Income Taxes

The income tax expense represents the sum of the tax currently payable and deferred.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are neither taxable or deductible. The Company's liability for current tax is calculated using the tax rates and tax laws applicable to the periods to which it relates.

Deferred income tax is accounted for using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to: (a) temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) net operating loss carryover, (NOLCO); and (c) the carry forward benefit of the excess of the minimum corporate income tax, over the regular corporate income tax. Deferred tax assets and liabilities are measured using the tax rates applicable in the years in which those temporary differences are expected to be recovered or settled and NOLCO are expected to be applied provided such tax rates have been enacted or substantially enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income

taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on net basis.

Current and deferred taxes are recognized as an expense or income in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After Reporting Date

Post-year-end events that provide further evidence of existing conditions affecting Company's financial position at reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are indicative of conditions that arose subsequent to the reporting date are disclosed in the notes to the financial statements when material.

4. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2015 | 2014 |
|---------------------------|--------------------|----------------------|
| Cash on hand and in banks | 2,383,918 | 2,790,282 |
| Cash equivalents | 95,382,170 | 504,050,879 |
| Short-term investments | 154,000,000 | 1,356,687,296 |
| | 251,766,088 | 1,863,528,457 |

Cash in banks earns interest at the respective bank deposit rates. PNOC depository banks include the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Philippine National Bank (PNB) and Philippine Veterans Bank.

Cash equivalents consists of money market placements or short-term time deposits, which are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Short-term Investments are peso placements maturing one year or less from value date.

5. RECEIVABLES

This account consists of:

| | 2015 | 2014 |
|------------------|-------------|-------------|
| Trade receivable | 112,543,142 | 112,543,142 |
| Loan receivable | 58,839,496 | 37,252,936 |
| | 171,382,638 | 149,796,078 |

The trade receivable of P112,543,142 represents the unpaid Value Added Tax from Power Sector Assets and Liabilities Management Corporation (PSALM) for the banked gas drawn in November 2013 for a total quantity of 4,605,117.06 gigajoules amounting to P1,050,402,657. On October 13, 2014, PNOC received the amount of P928,480,930 (net of tax withheld of P9,378,595) from PSALM as payment for its account.

6. HELD-TO-MATURITY INVESTMENTS

This account consists of investments in Treasury Notes with the Bureau of Treasury, LBP, DBP and PNB with a total amount of **P6,991,016,206** in **2015** and P7,309,178,894 in 2014. These investments have bond terms from 1.25 years to 25 years from value date and interest rates ranging from 2.125 to 6.125 per cent.

7. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

This account consists of the following:

| | Percentage of Ownership | 2015 | 2014 |
|--|-------------------------------|---------------|---------------|
| Investment in operating subsidiaries/affiliates: | | | |
| PNOC Alternative Fuels Corporation | 100 | 2,400,000,000 | 2,400,000,000 |
| PNOC Exploration Corporation | 99.79 | 2,019,188,332 | 2,019,188,332 |
| PNOC Renewables Corporation | 100 | 374,972,000 | 374,972,000 |
| PNOC Development & Management Corp. | 98.08 | 65,614,724 | 65,614,724 |
| Gulf Oil Philippines, Inc. | 35 | 54,978,000 | 54,978,000 |
| Philippine Mining Development Corp. | 36 | 45,000,000 | 45,000,000 |
| | | 4,959,753,056 | 4,959,753,056 |
| Investment in non-operating subsidiaries: | | | |
| PNOC Coal Corporation | 100 | 427,067,950 | 427,067,950 |
| PNOC Shipping and Transport Corporation | 100 | 190,000,000 | 190,000,000 |
| PNOC Oil Carriers, Inc. | 100 | 101,615,343 | 101,615,343 |
| PNOC Tankers Corporation | 100 | 50,000,000 | 50,000,000 |
| | | 768,683,293 | 768,683,293 |
| Allowance for impairment | | (768,683,293) | (551,615,343) |
| | | 0 | 217,067,950 |

| | Percentage of Ownership | 2015 | 2014 |
|--------------------------|-------------------------------|----------------------|----------------------|
| Other investments | | | |
| Goodyear Philippines | 11 | 96,453,350 | 96,453,350 |
| Talisay Bioenergy, Inc. | | 57,685,382 | 57,685,382 |
| | | 154,138,732 | 154,138,732 |
| Allowance for impairment | | (57,685,382) | (57,685,382) |
| | | 96,453,350 | 96,453,350 |
| Total Investments | | 5,056,206,406 | 5,273,274,356 |

In a Memorandum from the Executive Secretary Paquito N. Ochoa dated September 8, 2014, His Excellency President Benigno Simeon C. Aquino III had approved the recommendation of the Governance Commission on GOCCs (GCG) to abolish PNOC Development and Management Corporation (PDMC) and PNOC Alternative Fuels Corporation (PAFC). The same Memorandum directed that a "Technical Working Group (TWG) shall be created, composed of representatives from the Department of Energy, PNOC and Securities and Exchange Commission (SEC), to coordinate with the GCG and implement the following activities:

- a. Winding down of the operations, disposition of assets and settlement of liabilities of PDMC and PAFC;
- b. Transfer of PDMC and PAFC's functions and programs, as well as its remaining assets; and
- c. Settlement of the retirement/separation benefits of affected employees of PDMC and PAFC.

The Governance Commission has coordinated with PNOC regarding the creation of the TWG and the implementation of the foregoing activities.

On July 30, 2015, the GCG confirmed the acceptability of the mode of involuntary dissolution under the Corporation Code, as recommended by the TWG in consultation with SEC. As such the GCG directed the full assumptions by PNOC of PDMC and PAFC's functions, programs and activities in accordance with Board approved Transition and Approval Plans and the completion of the dissolution of winding down process targeted to be completed by 2021.

Thus, pursuant to the approved Transition and Turn-over Plans, the turnover and assumption of functional activities of both PDMC and PAFC that were completed on December 31, 2015 are as follows:

- a. Budget and planning
- b. Treasury
- c. Real Property Management
- d. Human Resource Management
- e. Legal Services
- f. Procurement, Inventory and Property Management
- g. General Services

- h. Information Technology
- i. Internal Control; and
- j. Industrial Park Management (for PAFC is with PNOC)

On February 7, 2013, in the special PSTC stockholders' meeting joined by all the PNOC Board of Directors, the PNOC Board passed Resolution No. 2111, Series of 2013, approving the recommendation to shorten the corporate life of PNOC Shipping and Transport Corporation (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 BIR effective March 15, 2013 to be able to be given a tax clearance as requirement to the SEC dissolution.

On December 26, 2013, a Deed of Assignment of Assets and Assumption of Liabilities were executed between PSTC being the Assignor and PNOC as the Assignee.

Effective May 31, 2002, the PNOC Coal Corporation ceased to operate due to continued losses. The PNOC Board under Board Resolution No. 1392, S'2002 shortened the corporate life of the company by amending its Articles of Incorporation. Its coal trading activities were absorbed by the PNOC Exploration Corporation effective June 1, 2002.

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.

Dividend income received from the Company's investment in subsidiaries and affiliates amounted to P1,507,889.673 in 2015 and P3,022,856,455 in 2014 (see Note 15).

8. INVESTMENT PROPERTIES

The investment properties consist of properties held for lease and future development.

Details and movements of this account are presented below:

| | Land and Land Improvements | Building | Total |
|-----------------------------|-------------------------------|-------------|----------------|
| COST | | | |
| January 1, 2014 | 11,530,696,512 | 110,331,805 | 11,641,028,317 |
| Additions | 0 | 6,869,794 | 6,869,794 |
| Disposal | (1,307,670) | 0 | (1,307,670) |
| Reclassification/Adjustment | (68,303) | 0 | (68,303) |
| December 31, 2014 | 11,529,320,539 | 117,201,599 | 11,646,522,138 |
| Additions | 0 | 4,470,224 | 4,470,224 |
| December 31, 2015 | 11,529,320,539 | 121,671,823 | 11,650,992,362 |

| | Land and Land Improvements | Building | Total |
|---------------------------------|-------------------------------|------------|----------------|
| ACCUMULATED DEPRECIATION | | | |
| January 1, 2014 | 217,671 | 56,728,304 | 56,945,975 |
| Depreciation | 215,754 | 4,536,428 | 4,752,182 |
| December 31, 2014 | 433,425 | 61,264,732 | 61,698,157 |
| Depreciation | 216,323 | 4,837,947 | 5,054,270 |
| December 31, 2015 | 649,748 | 66,102,679 | 66,752,427 |
| Net book value | | | |
| December 31, 2015 | 11,528,670,791 | 55,569,144 | 11,584,239,935 |
| December 31, 2014 | 11,528,887,114 | 55,936,867 | 11,584,823,981 |

Each of the leases contains a lease period of either 25 or 30 years. Upon expiration of the contract, the lease may be renewed for another year upon the mutual agreement of the parties under such terms and conditions as may be agreed upon by them.

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

Rental income earned from the investment properties amounted to P281,561,159 in 2015 and P258,617,785 in 2014.

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

The fair value of investment properties amounted to P14,197,701,120 as of December 31, 2015.

9. PROPERTY AND EQUIPMENT, NET

The roll forward analysis of this account follows:

| | Land, Building and Improvements | Machinery & Equipment | Communication Equipment | Transportation Equipment | Furniture Fixtures and Equipment | Total |
|---------------------------------|---------------------------------------|--------------------------|----------------------------|-----------------------------|--|---------------|
| COST | | | | | | |
| January 1, 2015 | 383,494,873 | 480,791 | 3,630,501 | 34,664,212 | 55,069,236 | 477,339,613 |
| Additions | 11,053,035 | 61,886 | 47,253 | 0 | 2,326,549 | 13,488,723 |
| Disposals | 0 | 0 | 0 | (6,751,135) | (9,088,911) | (15,840,046) |
| Reclassifications/Adjustments | 0 | 0 | (80,676) | 0 | (1,222,692) | (1,303,368) |
| December 31, 2015 | 394,547,908 | 542,677 | 3,597,078 | 27,913,077 | 47,084,182 | 473,684,922 |
| ACCUMULATED DEPRECIATION | | | | | | |
| January 1, 2015 | (194,263,765) | (402,689) | (3,558,685) | (19,932,913) | (47,745,832) | (265,903,884) |
| Depreciation | (15,010,000) | (32,077) | (22,814) | (3,751,605) | (3,737,864) | (22,554,360) |
| Disposals | 0 | 0 | 0 | 5,694,568 | 9,084,212 | 14,778,780 |
| Reclassifications/adjustments | 0 | 0 | 79,967 | 0 | 1,195,254 | 1,275,221 |
| December 31, 2015 | (209,273,765) | (434,766) | (3,501,532) | (17,989,950) | (41,204,230) | (272,404,243) |
| NET CARRYING AMOUNT | | | | | | |
| December 31, 2015 | 185,274,143 | 107,911 | 95,546 | 9,923,127 | 5,879,952 | 201,280,679 |
| December 31, 2014 | 189,231,108 | 78,102 | 71,816 | 14,731,299 | 7,323,404 | 211,435,729 |

Depreciation charged to operating expenses amounted to P22,554,360 in 2015 and P26,020,966 in 2014.

PNOC disposed some of its unserviceable equipment through donations, sale and transfer. A total of 13 sets of computers were donated to various government agencies and educational institutions while four units of transportation equipment were transferred to PNOC Renewables Corporation. Total cash received for the disposal of equipment amounted to P1,760,377.

In 2015, fully depreciated properties that are unserviceable with a cost of P1,680,441 were transferred to other assets account.

10. BANKED GAS INVENTORY

This account pertains to the banked gas bought by PNOC from the Department of Energy in September 2009 amounting to P14.4 billion which is equivalent to 108,600,000 Gigajoules. The banked gas is an accumulation of the volume of natural gas that has been paid for but not yet taken by the Ilijan Power Plant of the National Power Corporation (NPC). The NPC and PSALM entered into a Gas Sale and Purchase Agreement (GSPA) with SC 38 Consortium, whereby NPC is committed to take a minimum volume of gas every year or take-or-pay commitment. Any unconsumed gas, but has been paid for, goes to the banked gas.

In November 2013, PSALM has drawn a total quantity of 4,605,117.06 Gigajoules amounting to P1.050 billion. As of December 31, 2015, the banked gas has a remaining volume of 103,994,882.94 Gigajoules.

11. OTHER ASSETS

This account consists of:

| | 2015 | 2014 |
|--------------------------------------|----------------------|----------------------|
| Due from subsidiaries and affiliates | 1,289,532,902 | 1,301,275,762 |
| Deferred charges | 272,778,672 | 378,677,995 |
| Special deposits | 221,538,764 | 214,729,539 |
| Prepaid expenses | 29,726,096 | 32,509,466 |
| Non-trade receivable | 9,130,796 | 18,758,418 |
| Available-for-sale (AFS) investments | 2,400,000 | 3,625,000 |
| Investment in shares of stocks | 179,100 | 179,100 |
| Others | 388,307 | 372,807 |
| | 1,825,674,637 | 1,950,128,087 |

Due from subsidiaries and affiliates consists of the following:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Due from subsidiaries and affiliates | | |
| PNOC Shipping and Transport Corp. | 1,322,892,599 | 1,308,412,286 |
| PNOC Oil Carriers, Inc. | 158,571,769 | 158,571,769 |
| PNOC Renewables Corporation | 10,043,531 | 9,641,477 |
| PNOC Exploration Corporation | 3,809,071 | 2,781,520 |
| PNOC Coal Corporation | 1,659,522 | 1,659,522 |
| PNOC Alternative Fuels Corporation | 1,078,009 | 302,854 |
| PNOC Development and Management Corp. | 1,210,952 | 1,145,602 |
| | 1,499,265,453 | 1,482,515,030 |
| Allowance for impairment | (186,942,190) | (158,448,907) |
| | 1,312,323,263 | 1,324,066,123 |
| Due to affiliated companies | | |
| PNOC Tankers Corporation | (22,790,361) | (22,790,361) |
| | 1,289,532,902 | 1,301,275,762 |

Deferred charges pertain mainly to the prepaid interest on Retail Treasury coupon bonds and deferred withholding taxes on rental.

Special deposits account consists mainly of cash of dissolved subsidiaries reserved against future claims and other deposits for utilities.

Prepaid expenses consist mainly of prepaid real property tax, insurance and Input VAT.

Non-trade receivables consist mainly of receivables from officers and employees, and lessee's share in utilities.

Available-for-sale (AFS) investments consist of:

| | 2015 | 2014 |
|---|--------------------|------------------|
| At Cost | | |
| Quoted equity shares | 2,025,000 | 2,025,000 |
| Unquoted equity shares | 1,600,000 | 1,600,000 |
| | 3,625,000 | 3,625,000 |
| Changes in fair value | | |
| Beginning balance | 0 | 0 |
| Changes in fair value during the year-net | (1,225,000) | 0 |
| Ending balance | (1,225,000) | 0 |
| At fair value | 2,400,000 | 3,625,000 |

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

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

During the year, unrealized gain on changes in fair value of AFS investments recognized and presented as part of Other Comprehensive Income amounted to P1,051,250 in 2015, net of deferred tax of P173,750.

There was no impairment provision on investments for the year ended December 31, 2015.

Investment in shares of stocks represents the cost of investment in cumulative preferred shares at Philippine Long Distance Telephone Co.

Others consists mainly of fully depreciated assets that are unserviceable and subject for disposal.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

| | 2015 | 2014 |
|------------------------|--------------------|--------------------|
| Accrued expenses | 40,633,552 | 38,626,971 |
| Accounts payable | 32,640,795 | 19,672,971 |
| Other accounts payable | 212,172,769 | 195,569,231 |
| | 285,447,116 | 253,869,173 |

Accrued expenses account is comprised mainly of expenses/services already incurred but not paid as of year-end.

Other accounts payable consists mainly of funds (P175,707,790) for the Decentralized Energy Systems (DES) Project. The fund was transferred by Energy Development Corporation (EDC) to PNOC, in accordance with the provision in the Deed of Assignment dated May 28, 1993. The Deed of Assignment states that in the event of PNOC EDC's partial or full privatization, the project shall be transferred to another institution such as Foundation under PNOC. On July 29, 2010, PNOC and EDC jointly executed a Turnover Certificate where the authorized representatives of each party certified the delivery and receipt of all the assets and instruments evidencing the same as well as the contracts and documents in connection with the DES Project.

Other accounts payable also includes salaries payable, taxes withheld and other liabilities to the Philippine Government.

13. OTHER CREDITS

This account includes non-current items of other deferred income and other deferred credits amounting to P271,412,833 and P478,044,395 for 2015 and 2014, respectively.

14. EQUITY

a. Capital Stock

The Company's authorized capital stock is divided into 10,000,000 no par value shares, of which 2,000,000 shares were initially subscribed and paid for by the Philippine 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 per share. From 1975 to 1988 additional shares of 6,029,191 were subscribed by the Philippine Government at P500 per share.

b. Retained Earnings

Pursuant to Republic Act 7656, PNOC declared a total cash dividend of P1,022,967,631 for 2015 net earnings, which includes the amount of P751,168,448 that was remitted directly to the Bureau of Treasury by PNOC subsidiaries: PNOC Exploration Corporation of P750,168,448 and PNOC Alternative Fuels Corporation of P1,000,000.00. As of December 31, 2015, the Company has an outstanding dividend payable due to the National Government amounting to P271,799,184.

On April 30, 2015, July 23, 2015 and December 22, 2015, PNOC remitted a total of P2.0 billion as extraordinary dividend per letter dated April 8, 2015 from the Department of Finance. Likewise, PNOC remitted on December 22, 2015 P1,073,899,265 based on the Company's net income for 2014.

15. DIVIDEND INCOME

This account consists of dividends from the following:

| | 2015 | 2014 |
|---------------------------------------|---------------|---------------|
| PNOC Exploration Corporation | 1,500,336,895 | 3,000,673,791 |
| Gulf Oil Philippines, Inc | 5,552,778 | 5,552,778 |
| PNOC Alternative Fuels Corporation | 2,000,000 | 1,000,000 |
| PNOC Development and Management Corp. | 0 | 15,629,886 |
| | 1,507,889,673 | 3,022,856,455 |

16. OPERATING EXPENSES

This account consists of:

| | 2015 | 2014 |
|----------------------------------|------------|------------|
| Employee Costs | 86,642,008 | 82,145,523 |
| Purchased Services and Utilities | 73,079,970 | 62,841,410 |
| Bad Debts | 28,493,283 | 0 |
| Depreciation | 27,608,630 | 30,773,716 |
| Business Expenses | 19,536,254 | 28,408,918 |

| | 2015 | 2014 |
|---------------------------|--------------------|--------------------|
| Rentals/ Insurance/ Taxes | 15,042,014 | 16,136,606 |
| Materials and Supplies | 6,979,625 | 7,963,744 |
| Maintenance and Repairs | 3,104,398 | 2,570,708 |
| Miscellaneous Charges | 3,252,557 | 2,758,788 |
| | 263,738,739 | 233,599,413 |

17. FOREIGN EXCHANGE GAIN

This account pertains to realized foreign exchange gain from the Company's dollar account amounting to **P5,554** in **2015** and **P229** in 2014.

18. OTHER INCOME

This account consists of the following:

| | 2015 | 2014 |
|---|-------------------|--------------------|
| Adjustment on prepayment of loan | 179,567,633 | 0 |
| Income on the disposal of shares | 21,504,600 | 0 |
| Reversal of liabilities with accounts of more than two years | 14,821,032 | 0 |
| Unrecorded cumulative Input VAT | 14,418,771 | 0 |
| Gain on Transfer of Malangas Coal Corporation's assets | 5,611,990 | 0 |
| Gain on disposal of assets | 699,679 | 6,961,547 |
| Impairment loss on investment | (217,067,950) | 0 |
| Maturity of Purchase Price Adjustment from Petron's privatization | 0 | 809,757,306 |
| Interest and penalties on VAT deficiency | 0 | (6,407,707) |
| Other income | 3,606,961 | 2,052,575 |
| | 23,162,716 | 812,363,721 |

Adjustment on prepayment of loan in the amount of P179,567,633 pertains to Petron's prepayment of its Asian Development Bank (ADB) loan #726 to PNOC on March 15, 1995 due to its privatization in 1994. Due to the provision on Premium Prepayment wherein percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the loan, said prepayment was lodged to deferred credits or liability to ADB 726. However, this account was not reversed when the loan matured and fully paid in 1999.

Income on the disposal of shares in the amount of P21,504,600 refers to the disposal, with various dates, of 2,986,750 excess Petron shares of stocks returned by former employees of various PNOC subsidiaries under the Employee Stock Ownership Plan (ESOP).

Impairment loss on investment represents 100 per cent provision for decline in investment for PNOC Shipping & Transport Corporation amounting to P190,000,000 and PNOC Coal Corporation amounting to P27,067,950 (see Note 7).

19. INCOME TAX EXPENSE

Components of income tax expense are as follows:

| | 2015 | 2014 |
|---------------------|-------------------|-------------------|
| Current income tax | 22,495,670 | 4,278,561 |
| Deferred income tax | (3,173,154) | 7,920,128 |
| | 19,322,516 | 12,198,689 |

The reconciliation between the profit before tax and taxable profit as presented in the Statement of Comprehensive Income and in the Income Tax Return is presented as follows:

| | | |
|---|--------------------|-----------------|
| Net profit before tax | 1,819,696,546 | 5,018,652,739 |
| Non-taxable items | | |
| Dividend income | (1,507,889,673) | (3,022,856,455) |
| Interest income | (247,413,491) | (1,158,413,962) |
| Unearned rent income | 10,799,795 | (8,182,800) |
| Matured Purchase Price Adjustment from | | |
| Petron Corp. privatization | 0 | (809,757,306) |
| Gain on sale of land | 0 | (4,838,379) |
| Non-deductible items | | |
| Impairment loss on investment | 217,067,950 | 0 |
| Bad debts | 28,493,283 | 0 |
| Tax penalty | 5,000 | 0 |
| Deficiency tax | 0 | 6,466,357 |
| Net taxable profit before Net Operating | | |
| Loss Carry Over (NOLCO) | 320,769,410 | 21,070,194 |
| Less: NOLCO | (2,824,447) | (21,070,194) |
| Taxable profit | 317,944,963 | 0 |

PNOC's income tax for 2015 was computed based on the Regular Corporate Income Tax rate of 30 per cent. The current year's tax due of P22,495,670 was net of P56,453,536 cumulative prior year's excess credits as reported in the 2014 Annual Income Tax Return and P16,434,284 unexpired Minimum Corporate Income Tax (MCIT) for 2012, 2013 and 2014. In 2014, the Company computed its income tax based on MCIT of 2 per cent of the gross income as the MCIT was higher than RCIT. Under R.A. No. 8424 entitled "An Act amending the National Internal Revenue Code, as Amended and For Other Purposes," the MCIT shall be imposed whenever a domestic corporation has zero taxable income or whenever the amount of MCIT is greater than the normal income tax due from such corporation.

20. DEFERRED TAX

The components of deferred tax assets are as follows:

| | 2015 | 2014 |
|---|------------------------|------------------------|
| Deferred tax assets: | | |
| Tax effect of temporary differences | 331,083,983 | 256,630,515 |
| Unrealized gain on changes in fair value of Available-for-sale investments | 175,000 | 0 |
| NOLCO | 0 | 847,334 |
| MCIT | 0 | 16,434,283 |
| | 331,258,983 | 273,912,132 |
| Deferred tax liabilities: | | |
| Revaluation increment on investment property | (2,788,777,981) | (2,788,777,981) |
| Unrealized loss on changes in fair value of Available-for-sale investments | (1,250) | 0 |
| Accrued rent income | 0 | (2,454,840) |
| | (2,788,779,231) | (2,791,232,821) |

Deferred tax asset is recognized for the tax benefit from deductible temporary differences between the financial reporting bases of assets and liabilities and their related tax bases in compliance with PAS No. 12. The tax effect of temporary differences consists mainly of the allowance for doubtful accounts and allowance for impairment of investments.

Deferred tax asset has been recognized for the NOLCO and MCIT, in accordance with PAS 12. As of December 2015, the Company has fully applied the accumulated MCIT of P16,434,284 and NOLCO of P2,824,447 against the regular income tax due.

Movement of the NOLCO is as follows:

| Year Incurred | Amount | Applied In 2013 | Applied In 2014 | Applied In 2015 | Balance |
|---------------|------------|--------------------|--------------------|--------------------|---------|
| 2012 | 39,634,845 | 15,740,204 | 21,070,194 | 2,824,447 | 0 |

Deferred tax liability was recognized for the tax liabilities arising from the Company's revaluation increment of its investment properties as of December 31, 2015 (see note 8).

21. RATIONALIZATION PROGRAM

As of December 31, 2015, the PNOC Rationalization Program has been shelved and a Reorganization Program is being put in place as mandated by the Governance Commission for GOCC's (GCG) for PNOC to take on the operations of two of its subsidiaries and likewise transform the organization into an operating company.

The PNOC engaged the services of the Development Academy of the Philippines (DAP) in September of 2015 to assist management in preparing the new table of organization and other documents required by the GCG. As of December 31, 2015, the DAP has conducted preliminary studies and gathered relevant materials.

22. CONTINGENCIES

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

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

This is a petition filed last June 2008 by members of the party list representatives and other Congressmen to have the Joint Venture Marine Seismic Undertaking (JSMU) among CNOOC, PNOC and Petro Vietnam, to be declared unconstitutional and to enjoin the parties from further implementation of the agreement.

The case is submitted for decision.

Status: Awaiting for the resolution of the Supreme Court.

2. **Voltaire Rovira vs. PNOC**
Civil Case No. 5947
CA-GR CV No. 80608
Court of Appeals, Cagayan de Oro
RTC Branch 5, Iligan City

For: Specific Performance and Damages

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 P34,701.49. Plaintiff Rovira filed Notice of Appeal. PNOC on the other hand filed a Motion for Partial Reconsideration of the Decision as the full amount of damages prayed for was not awarded by the court.

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

Status: On December 2, 2015, the Court of Appeals (Mindanao Station) required Appellant to file his Brief within 45 days from notice.

3. Keppel Philippines Shipyard, Inc. vs. PNOC/PDEC

CA G.R. CV No. 86830
Court of Appeals, Manila
G.R. No. 202050
Supreme Court
For: Specific Performance

Court of Appeals issued resolution affirming RTC decision. A Motion for Reconsideration was filed but denied by the CA. PNOC filed an appeal thru Petition for Review on Certiorari last July 16, 2012 with the Supreme Court. On November 11, 2012, Keppel filed Comments on the Petition and PNOC filed Reply on Keppel's Comments.

A Motion for early resolution of the case has already been filed by Keppel.

Status: Awaiting for the resolution of the Supreme Court.

4. Republic of the Philippines (represented by DPWH) vs. Spouses Manuel T. Lim, PNOC et. al.

Civil Case No. CEB-25019
RTC Branch 13, Cebu City

For: Expropriation

On September 2, 2015, PNOC informed DPWH Cebu the availability of the Transfer Certificate of Title of PNOC with annotation of the RTC decision of the expropriated portion in favor of DPWH. PNOC then requested DPWH Cebu to pay the balance of the just compensation.

Status: Awaiting for DPWH reply and payment.

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

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

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

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

Parties filed the respective Briefs at the Court of Appeals.

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

6. PNOC vs. Antonio Bulatao
Civil Case No. 9292
RTC Branch 11, Tarlac City

For: Ejectment

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

For: Petition for Review on Certiorari

Judgment was issued by MTC in favor of PNOC. Defendant appealed the case to the RTC but denied by the court. On March 12, 2014, Antonio Bulatao filed before the Court of Appeals a Petition for Review praying for the reversal of the decision of the RTC.

On December 19, 2014, PNOC filed its Comments on the Petition. On July 15, 2015 and August 13, 2015, PNOC and Antonio Bulatao submitted their respective Memorandum.

Status: Awaiting for the decision of the Court of Appeals.

7. 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 per square meter. In Civil case 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 Order denying the Motion for Reconsideration filed by PNOC.

On October 15, 2015, PNOC filed Notice of Appeal in the RTC.

Status: On appeal to the Court of Appeals and PNOC is waiting for the Notice from the Court of Appeals, Cebu.

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

For: Expropriation

Status: PNOC filed a motion/manifestation informing the court that the subject lot is a forest land. Court issued an order for the defendant Willie Vestil to comment on PNOC's Motion. The defendant did not file any Comments.

9. PNOC vs. Margie Leila Maglasang

Civil Case No. 3298

RTC Branch 12, Ormoc City

For: Expropriation

The case is still at the trial stage for the determination by the Board of Commissioner of the just compensation on the expropriated lot. On November 14, 2014, the court issued order granting the Motion to Discharge Commissioner Clinton Nuevo as member of the Board Commissioner and directed the parties to submit nominee to substitute Board Commissioner Nuevo.

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

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

Status: For clarificatory hearing on the selection of member of the Board Commissioner.

10. PNOC vs. Heirs of Flaviano Maglasang

Civil Case No. 3268-0

RTC Branch 35, Ormoc City

For: Expropriation

The case is still at the trial stage for the determination of the amount of just compensation. Another issue raised by the 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 September 5, 2014, the Court appointed Board of Commissioners has issued order for PNOC to formally offer documentary evidence in support of the valuation of the subject expropriated lot. On October 14, 2014, PNOC filed a Motion for Reconsideration on the Board of Commissioners' order, assailing the order to be not in accord with the applicable rules on the matter (Section 6, Rule 67 of the Rules of Court).

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

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

Status: Awaiting the report of the Board Commissioner on the determination of the just compensation.

11. PNOC vs. Flasalie Maglasang

Civil Case No. 3276

RTC Branch 35, Ormoc City

For: Expropriation

PNOC settled the payment of the just compensation and six per cent interest amounting to P57,141,430.56. Thereafter, the court issued an order of the full settlement of the case last July 2, 2013.

Pending issue: PNOC's Motion to issue a specific court order addressed to PNB Ormoc City, directing PNB Ormoc Branch to allow PNOC to withdraw the initial deposit of just compensation deposited in the name of Flasalie Maglasang last December 1994 amounting to P104,750 plus interest.

On May 8, 2015, the RTC issued Order granting PNOC's Motion directing the PNB Ormoc City Branch to release to the plaintiff the amount of P104,750 plus accrued interest thereon.

Status: On October 16, 2015, POC 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.

12. PNOC vs. Spouses Celso G. Garilva and Anita H. Garilva

Civil Case No. 1141

RTC Branch 62, Bago City

For: Expropriation

The member of the Board Commissioner submitted their report to the trial court recommending the estimated market value of the subject lot consisting of 26,898.35 square meters at P335,040 per hectare or a total of P901,202.32. EDC accepted and signified conformity to the report.

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

1. Pay the remaining balance of the just compensation in the amount of P739,812.22;
2. Pay the Commissioners fee at P45,000.00 each as Honorarium Fees; and
3. Reimburse the Commissioners the amount of P15,000 for the expenses they incurred in the performance of their duties.

13. PNOC vs. Pablita Maputi, et. al.

Civil Case No. 9787

RTC Branch 42, Dumaguete City

CA G.R CV-NO 02912

Court of Appeals, Cebu City

For: Expropriation

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

Pablita Maputi filed a Motion for Reconsideration.

Status: On July 02, 2015, the Court of Appeals issued resolution denying the motion for reconsideration.

14. PNOC and EDC vs. Jessie Manahon Toting, et. al.

Civil Case No. 10148

RTC Branch 40, Dumaguete City

CA G.R. CV-NO. 02958

Court of Appeals, Cebu City

For: Expropriation

Subject lot is determined by RTC as part of the timberland. Damages awarded to the defendants by the RTC is P64,192.00 plus 12 per cent interest. Defendant appealed the case to the Court of Appeals but subsequently denied by the CA. Thereafter a Motion for Reconsideration has been filed by the appellants.

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

For execution of judgment. The Court of Appeals will remand the case to the RTC Branch 40 for the execution. Awaiting notice from the RTC.

15. PNOC vs. Spouses Dominador and Minerva Samson and Tongonan Holdings & Development Corporation

Civil Case No. 3392-0

RTC Branch 35, Ormoc City

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 Land Bank of the Philippines.

Pending Issues to be resolved by RTC:

1. PNOC's Motion for Reconsideration on the order of the court lifting the order of Garnishment of EDC's account and dismissing all claims of PNOC against EDC;
2. PNOC's Urgent Motion to lift the Notice of Levy annotated on the TCTs of PNOC properties located in Tacloban City; and
3. Tongonan Holdings Urgent Motion seeking the issuance of an order directing the sheriff to re-compute the judgment award in its favor and demand the

difference from PNOC. PNOC filed its opposition on this Motion on February 7, 2013.

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

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

16. PNOC vs. Judge Apolinario Buaya, Tongonan Holdings Development Corporation and EDC

CA G.R. No. 05247
Court of Appeals, Cebu

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

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

Status: On January 30, 2015 the CA issued Resolution declaring the case submitted for decision.

17. Petron Corporation vs. Hon. Danilo P. Galvez, Presiding Judge RTC, Branch 24, Iloilo City and Sun Gas, Inc.

PNOC – Plaintiff, Intervenor
Civil Case No. 05-28475
RTC Branch 24, Iloilo City

For: Injunction and damages with Prayer for Temporary Restraining Order and Writ of Preliminary Injunction

CA-G.R. CEB SP. No. 04139
Court of Appeals, Cebu City

For: Petition for Certiorari and Prohibition with Prayer for Writ of Preliminary Injunction.

G.R. No. 215771
First Division, Supreme Court

Proceeding before the RTC:

Facts: Petron Corporation filed this case against Sun Gas, Inc. as the latter installed a swing barrier consisting of a steel and bamboo pole across the road lot

Petron and Shell used as ingress and egress from the main road to their respective bulk plants. The proceeding before the RTC Branch 24 is held in abeyance pending the petition for certiorari and prohibition filed by plaintiff Petron Corporation before the Court of Appeals.

Proceeding before the CA:

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

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

Proceeding in the Supreme Court:

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

Status: Awaiting resolution of the petition for review.

18. Pilipinas Shell Petroleum Corp. vs. Candelaria Dayot

PNOC, Petron Corporation & Iloilo Jar Corporation – Intervenor - Appellants

Civil Case No. 21424

RTC Branch 33, Iloilo City

CA-G.R. CEB CV No. 02250

Court of Appeals, Cebu City

For: Injunction and damages with Prayer for restraining order and preliminary injunction

G.R. No. 220070

Supreme Court

Shell Petroleum filed an action for injunction and damages against Candelario Dayot as they give notice to close the road lot titled in her name, which Shell uses as an access from the national road to its depot in Lapuz, Iloilo City. PNOC then intervened as closing the road lot will affect the means of ingress and egress from the main road to the PNOC's lot being leased to Petron in Iloilo City. RTC dismissed the case.

Petron/PNOC filed an appeal with the Court of Appeals and on September 12, 2014, the Court of Appeals denied the appeal of PNOC. Aggrieved, PNOC then filed a Motion for Reconsideration and on July 27, 2015, the Court of Appeals issued resolution denying PNOC and Petron's Motion for Reconsideration.

Status: On November 10, 2015 PNOC filed Petition for Review at the Supreme Court. Awaiting further orders from the Supreme Court.

19. Candelaria Dayot vs. The Register of Deeds, Iloilo City, Respondent

PNOC, Shell & Petron, Oppositor-Appellee

LRC Case No. 1

RTC Branch 29, Iloilo city

CA-G.R. CV No. 00949

Court of Appeals, Cebu City

For: Petition for Cancellation of Entry No. 65334 Annotated on TCT No. T-58200

Petitioner Candelaria Dayot filed a petition which seeks to transfer in her name the certificate of title over lot consisting of 17,000 square meters whereon PNOC's lot in Lapuz, Iloilo City is situated. PNOC opposed the Petition. The RTC then dismissed the petition and Candelaria Dayot appealed the case to the Court of Appeals.

In a decision dated November 18, 2014 which Office of the Solicitor General (OSG) received on January 2015, the CA denied the appeal of the petitioner-appellant Candelaria Dayot and affirmed the RTC Order. Candelaria Dayot then filed a Motion for Reconsideration.

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

20. Candelaria Dayot, et al. vs. Traders Royal Bank, PNOC, Petron Corporation and Shell

Civil Case No. 21957

RTC Branch 26, Iloilo

CA-G.R. CV No. 01221

Court of Appeals, Cebu City

(Consolidated with CA-G.R. No. 00949, above)

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

Sps. Candelaria Dayot and Edmundo Dayot filed a case against Traders Royal Bank, Petron Corporation, PNOC and Shell Chemical Company for recovery of reconveyance of the 17,000 square meters land owned by PNOC and damages. On April 18, 2005 RTC dismissed the complaint. Candelaria Dayot appealed the case to the Court of Appeals.

In a decision dated November 18, 2014 which OSG received on January 2015, the Court of Appeals denied the appeal of the petitioner-appellant Candelaria Dayot and affirmed the RTC Order. Candelaria Dayot then filed a Motion for Reconsideration.

Status: On December 03, 2015, the Court of Appeals issued resolution denying for lack of merit the motion for reconsideration filed by Candelaria Dayot.

21. National Transmission Corp. vs. PNOC

Civil Case No. -131-ML

RTC Branch 94

Mariveles Bataan

(Stationed at Balanga City)

For: Expropriation

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

During the August 13, 2015 pre-trial conference, the parties moved for the arbitration of the case.

Status: On September 22, 2015, the court issued Order granting the motion for mediation and/or Arbitration proceeding before the OSG.

22. National Transmission Corp. vs. PNOC

Civil Case No. CEB-41203

RTC Branch 14, Cebu City

For: Expropriation

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

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

Status: Upon query with the RTC on January 8, 2016, the said case has not yet been set for hearing as the court is having their inventory of cases.

23. Navnautics Philippines, Inc. vs. PSTC and PNOC

COA CP Case No. 2015-129

Commission on Audit

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

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

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

Status: PSTC filed an answer to the petition and Navnautics Phils, Inc. filed reply on November 6, 2015.

DECENTRALIZED ENERGY SYSTEMS (DES) Cases:

1. Bebiana Ybasan, Rafael Vincent Arellano, Maria Corazon Razon vs. PNOC EDC

Civil Case No. Q-02-46047
RTC Branch 85, Quezon City

For: Reconveyance and Damages

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

The plaintiff appealed to the Court of Appeals.

Status: Case submitted for decision.

2. In the matter of the Petition for Declaration of State of Suspension of payments, GO UNIQUE Products, Inc. Petitioner PNOC (Creditor – Oppositor)

SP Proceeding No. 27-V-08
RTC Branch 75, Valenzuela City

For: Special Proceeding

Petitioner submitted in Court their proposed rehabilitation plan. PNOC submitted its Comment/Opposition on the revised rehabilitation plan.

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

3. PNOC vs. Prose Trading and Construction and Abel Labarda

Civil Case No. 12-1074
RTC Branch 145
Makati City

For: Collection of Sum of Money

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

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

Status: Decision against Engr. Abel Labarda could not be served. The owner of the property mortgage (co-borrower) is negotiating with PNOC for the settlement of the obligation.

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

The BIR issued on November 25, 2010 RR 15-2010, Amending Certain Provisions of RR No. 21-2002, as amended, Implementing Section 6 (H) of the Tax Code of 1997, authorizing the Commissioner of 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 International Financial Reporting Standards (IFRS), 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.

In compliance with the requirements set forth by RR 15-2010, herewith are the information on taxes, duties and license fees paid or accrued during the taxable year.

A. Value Added Tax (VAT)

The Company is a VAT-registered entity with a VAT output tax declaration of P35,200,117 and VAT input taxes of P15,044,937 for 2015.

B. Withholding Taxes

| | |
|---|-------------------|
| <i>Withholding taxes paid/accrued for the year amounted to:</i> | |
| Tax on compensation and benefits | 11,703,898 |
| Creditable withholding taxes | 2,302,610 |
| VAT and other percentage taxes | 3,256,713 |
| | 17,263,221 |

C. All other Taxes (National and Local)

| | |
|--|-------------------|
| <i>Other taxes paid during the year recognized under</i> | |
| <i>"Taxes and licenses" account under operating expenses</i> | |
| Real estate taxes | 10,374,472 |
| Transfer tax and registration fees | 23,087 |
| Business taxes | 10,500 |
| Other taxes, fees and licenses | 68,333 |
| | 10,476,392 |

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

This Part II presents the following sections and tables.

| | | Page No. |
|---|---|----------|
| A | Financial and Compliance Issues | 52 |
| | Table 1: List of 19 Lots Costing P1.144 billion as Recorded in the Books of PNOC | 60 |
| | Table 2: List of 12 Lots Unrecorded in the PNOC Books | 62 |
| | Table 3: List of TCTs of 45 lots with an area of 250,022 square meters not registered under the name of PNOC and not found during the actual inventory of land titles and recorded in the books | 63 |
| | Table 4: Details of Idle Properties | 67 |
| | Table 5: List of 25 Lots Previously Offered for Sale and will be Re-offered for Sale | 72 |
| | Table 6: Management's activities to secure the TCTs of the 76 lots not registered under the name of PNOC | 76 |
| | Table 7: Status of the 12 lots found in the vault, not registered under the name of PNOC and not recorded in the books | 79 |
| B | Compliance with Tax Laws | 89 |
| C | Compliance with GSIS, PAG-IBIG and PHILHEALTH premium/loan amortization/ deductions and remittances | 89 |
| D | Status of Audit Suspension, Charges and Suspensions | 89 |

A. Financial and Compliance Issues

1. **No allowance for impairment loss was recognized for Long-term Loan Receivable from the Natural Resources Development Corporation (NRDC) in the amount of P37.253 million which was dormant for more than seven years contrary to PAS 39.**
 - 1.1 Paragraph 58 of PAS 39 states that *"an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired."*
 - 1.2 On the other hand, Paragraph 59 of the same PAS states that *"objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:*
 - a. *Significant financial difficulty of the issuer or obligor;*
 - b. *A breach of contract, such as a default or delinquency in interest or principal payments;*
 - c. *The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;*
 - d. *It becoming probable that the borrower will enter bankruptcy or other financial reorganization."*

- 1.3 NRDC is a government-owned and controlled corporation attached to the Department of Environment and Natural Resources. On March 12, 2004, PNOC – Energy Development Corporation (PNOC-EDC) extended to NRDC a loan amounting to P30 million as equity investment to the capital stock of Philippine Mining Development Corporation (PMDC), a subsidiary of NRDC, with interest of 6.0 percent per annum, net of any tax, payable within a period of seven years or until March 12, 2011. This loan, together with the accumulated interests amounting to P5,436,804.82, was transferred to PNOC on April 23, 2007 by virtue of the Deed of Assignment of Interests and Rights executed by and between PNOC-EDC and PNOC.
- 1.4 We noted that the Long-term Loan Receivable Account from NRDC had been dormant since February 29, 2008, and that no allowance for impairment loss was provided pursuant to PAS 39.
- 1.5 To verify the accuracy of the loan receivable balance, a confirmation request was sent to NRDC on January 18, 2016. In its reply, NRDC confirmed the balance of P58,819,840.70 as its payable to PNOC, thereby showing a variance of P21,566,904.25, as shown below:

| Particulars | Amount Per PNOC Books | Amount Per Confirmation | Variance |
|---|--------------------------|----------------------------|----------------|
| Principal Amount | P30,000,000.00 | P30,000,000.00 | 0 |
| Accumulated interest from March 12, 2004 to April 22, 2007 | 5,436,804.82 | 5,437,654.45 | P849.63 |
| Accumulated interest from April 23, 2007 to February 29, 2008 | 1,816,131.63 | 1,816,131.63 | 0 |
| Accumulated interest from March 1, 2008 to December 31, 2015 | 0 | 21,566,054.62 | 21,566,054.62 |
| Balance as of December 31, 2015 | P37,252,936.45 | P58,819,840.70 | P21,566,904.25 |

- 1.6 Our analysis disclosed the following:
- When the loan was transferred to PNOC, there was already an initial difference of P849.63 between PNOC and NRDC records on the accumulated interest for the period March 12, 2004 to April 22, 2007.
 - For the period March 1, 2008 to December 31, 2015, a difference of P21,566,054.62 was established, mainly because PNOC had been billing NRDC for accrued interest during the said period without recording the same in PNOC books while NRDC recorded the interest as payables in its books.
 - The amount of P1,816,131.63 pertaining to the accumulated interest from April 23, 2007 to February 29, 2008 was recorded in the books of PNOC as deferred credits instead of interest income, thus, understating the income for that period by the said amount. Under the accrual basis of accounting, income is recognized when earned regardless of when cash is received, while expense is recognized when incurred regardless of when the payment is made.

1.7 Management informed and we validated that the accrued interest income of P21,586,560.04 for March 1, 2008 to December 31, 2015, as well as the Deferred Credits of P1,816,131.63 was adjusted and reflected in the 2015 Financial Statements.

1.8 ***We recommended that Management:***

a. Evaluate the collectability of the loan receivable and recognize impairment loss if necessary, in compliance with the provisions of PAS 39; and

b. Take concrete action in collecting the overdue account.

1.9 Management commented that the Treasury Department was exerting efforts in collecting the long term loan receivables from NRDC. For the period 2012 to 2015, Management sent five follow-up letters to NRDC for the immediate settlement of the accounts.

2. **Found existing for reciprocal accounts between *Due from Subsidiaries* per PNOC books and *Due to PNOC* per subsidiaries' records was a variance of P4.684 million involving various reconciling items which remained unresolved for more than one to 13 years. Also, no Allowance for Impairment was recognized for the account *Due from Subsidiaries*, contrary to paragraphs 58 and 59 of PAS 39.**

2.1 This is a reiteration and an update of the observation cited in the Annual Audit Report for CY 2014.

2.2 Comparison of the accounting records of PNOC with those of its subsidiaries disclosed a variance of P4,683,799 due to various reconciling items as at December 31, 2015, as summarized below:

| Subsidiary | Per Books as of December 31, 2015 | Per Audit of Subsidiaries | Variance as of December 31, 2015 |
|--------------|--------------------------------------|------------------------------|-------------------------------------|
| PAFC | P1,078,009 | 0 | P1,078,009 |
| PDMC | 1,210,952 | 974,545 | 236,407 |
| PNOC-EC | 3,809,071 | 3,373,314 | 435,757 |
| PNOC RC | 10,043,531 | 7,625,728 | 2,417,803 |
| PSTC | 1,323,285,013 | 1,322,769,190 | 515,823 |
| Total | P1,339,426,576 | P1,334,742,777 | P4,683,799 |

- 2.3 Some of the reconciling items had been unresolved for many years as early as 2002 and had not been recorded either in the books of accounts of PNOC or its subsidiaries, details of which are shown below:

| Subsidiary | Reconciling Items | Amount | Year of Transactions | Age (Years) |
|-------------|--|----------------|----------------------|-------------|
| PAFC | Various charges for the month of December 2015, not yet recorded by PAFC | P234,222.72 | 2015 | 0 |
| | Overpayment by PAFC of Janitorial charges | (2,000.00) | 2015 | 0 |
| | Payments made by PAFC not yet recorded in PNOC's books | 845,786.10 | 2015 | 0 |
| | Total | 1,078,008.82 | | |
| PDMC | Share in security services, not yet recorded by PDMC | 236,406.58 | 2015 | 0 |
| PNOC-EC | Interest in EC PRIVACOM (Phase II) | 384,745.77 | 2002 | 13 |
| | Various charges in 2015 | 51,011.26 | 2015 | 0 |
| | Total | 435,757.03 | | |
| PNOC RC | PNOC Debits Not Booked by PNOC RC: | | | |
| | Share in Photocopying services for July 2010 | 5,643.19 | 2010 | 5 |
| | Lifeguard Securities (July to December 2011) | 70,028.40 | 2011 | 4 |
| | PLDT charges for January 2012 | 1,592.18 | 2012 | 3 |
| | Interest due from PRC's advances for Solar Home -September 2014 | 2,269,016.27 | 2014 | 1 |
| | Various charges for the month of October 2015 | 7,991.00 | 2015 | 0 |
| | Various Debits and Credits by PNOC RC, not booked by PNOC- Net | 1,534,008.99 | 2010 to 2013 | |
| | Various Adjustments by PNOC, not booked by PNOC RC | (1,061,835.87) | 2010 to 2013 | |
| | Various transactions-Jan 2014 (PNOC Credits not booked by PNOC RC) | (348,982.33) | 2014 | 1 |
| | Various adjustments in 2015 - net | (39,290.03) | 2015 | 0 |
| | Unaccounted Variance | (20,368.94) | | |
| | Total | 2,417,802.86 | | |
| PSTC | Reversal entry for supplies and materials transferred by PSTC to PNOC | 515,823.44 | 2015 | 0 |
| Grand Total | | P4,683,798.73 | | |

- 2.4 We noted the following:

- The outstanding balance of PNOC RC included transactions as early as 1997 to 2001. These transactions pertained to the account of PNOC Dockyard and Engineering Corporation, the former name of PNOC RC. Inquiry with the concerned personnel disclosed that PNOC had not yet recorded the PNOC RC reconciling items due to lack of supporting documents.
- PNOC Treasury Department was coordinating with PNOC RC regarding the reconciling item of P2.269 million interest due from PNOC RC's advances for Solar Home as this was being disputed by PNOC RC.
- The outstanding receivable from PSTC of P1.323 billion as of December 31, 2015, which pertained to Loans and Fund Transfer, including the accumulated interest from CY 2007 to 2015 was considered bad debts because of its closure effective March 15,

2013. As of December 31, 2015, the evaluation of the remaining assets of PSTC was on-going.

- 2.5 Further, no allowance for impairment losses had been provided for both the outstanding receivables from PSTC and PNOC RC, with the latter having items due as early as 1997. The unresolved reconciling items resulted in the overstatement of Other Assets--Due from Subsidiaries account.

2.6 ***We recommended that Management:***

- a. Coordinate with the Finance Managers/Accountants of the Subsidiaries, particularly PNOC RC, and settle the reconciling items;***
- b. Effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and***
- c. Provide allowance for impairment of receivables to present the net realizable value of Due from Subsidiaries in compliance with the provisions of PAS 39.***

2.7 Management submitted the following explanations/comments:

- a. The P1,078,009 variance on intercompany account between PNOC and PAFC pertained to the various charges not yet recorded in the PAFC books as of December 31, 2015 amounting to P1,080,009 (net of P2,000 overpayment made in July 2015 on the settlement of Janitorial fees). The payment made by PAFC amounting to P845,786.10 for the settlement of various intercompany charges was received and recorded in the books of PNOC in January 2016.

The variance of P226,029 represents PDMC's share on security services for October to December 2015 amounting to P236,407 net of P10,378 adjustment on share of water charges for PNOC-EC previously debited to PDMC's account. PNOC had already considered the adjustments in 2015 FS.

- b. The P435,757 variance on intercompany account between PNOC and PNOC-EC pertained to interest on EC Privacom amounting to P384,746 and various allocated charges for utilities, security and janitorial amounting to P51,011.26 recorded in PNOC books as of December 31, 2015 but not recorded in the books of PNOC-EC.
- c. The bulk of the variance of P2,417,803 between PNOC books and PNOC RC books on intercompany accounts pertained to the following:
 - Interest due from PNOC-RC's advances for Solar Home System Phase 2 for the period May 3, 2013 to August 31, 2014 amounted to P2,269,016.27. PNOC Treasury

Department was coordinating with PNOC RC regarding the said interest as this was being disputed by PNOC RC.

- The P1,534,008.99 intercompany charges of PNOC RC to PNOC pertained to various adjustments made by PNOC RC related to Barangay Electrification Project from 2010 to 2013. However, said amount was not booked by PNOC because there were no documents submitted by PNOC RC.
 - The various adjustment of P1,061,835.87 which pertained mainly to the P987,92.11 interest on fund transfer to PDEC prior to its closure was no longer booked by PDEC and not acknowledged by PNOC RC.
- d. The P515,823 variance on intercompany account between PNOC and PSTC pertained to the transfer of PSTC's supplies and materials to PNOC but was not reflected in PNOC FS because some items transferred to PNOC included items transferred to PAFC. PSTC issued a Credit Note dated February 29, 2016 for the corresponding share of PAFC on cost of supplies and materials transferred amounting to P123,408.25 booked in 2015.
- e. PSTC's winding-up process was still ongoing. However, as recommended, PNOC provided an allowance for bad debts amounting to P28.493 million based on the aging of receivables from PSTC.
- 2.8 We take note of the explanation and reply of the Management; however, we request that Management provide COA the results of Management's coordination with the Finance Managers or Accountants of the subsidiaries, particularly PNOC RC and PNOC-EC, regarding the long outstanding reconciling items.

3. **The ownership, accuracy, completeness and existence of Investment Properties amounting to P11.584 billion as of December 31, 2015 could not be ascertained due to:**
- a. **non-registration of certain lots under the name of PNOC;**
 - b. **unrecorded lots in PNOC books;**
 - c. **untitled lots not found during the actual inventory count; and**
 - d. **improper classification of land under the Investment Properties account.**

Also, PNOC incurred additional expenses of P10.476 million in CY 2015 for the payment of real property taxes and security services for various lots which remained idle or unutilized for years.

- 3.1 According to PAS 40, Investment Properties are properties (land or a building - or part of a building- or both) held by the owner or held on a finance lease to earn rentals and/or for capital appreciation, rather than for

use in producing or supplying goods or services or for administrative purposes or sale in the ordinary course of business.

- 3.2 A Transfer Certificate of Title (TCT) is the best evidence to prove ownership over a parcel of land. It is the evidence of the right of the owner or the extent of his interest, and by which he can maintain control and as a rule assert to exclusive possession and enjoyment of the property. It is therefore necessary that all TCTs are registered under the name of PNOC and properly kept in the PNOC's vault.
- 3.3 Management asserted that all existing properties of PNOC were properly recorded and that postings and accuracy of account balances as presented in the financial statements were completed.
- 3.4 During the audit, we inspected and verified the original TCTs kept in the vault of Estate Management Department (EMD) of PNOC and compared these with accounting records. We made the following observations which affected the accuracy, ownership, completeness and existence of the PNOC lots that were recorded in the books:
 - 3.4.1 ***TCTs of 31 lots with an area of 0.795 million square meters found in the vault were not registered under the name of the Company, casting doubt on the ownership of the lots and completeness of the accounting records.***
 - a. Out of the 31 lots, 19 lots costing P1,143,558,831.96 were recorded in the accounting records. Table 1 shows a list of the 19 lots costing P1.144 billion as recorded in the books of PNOC.
 - b. On the other hand, 12 lots were not booked up. Shown in Table 2 is a list of the 12 lots unrecorded in the PNOC books.
 - 3.4.2 ***TCTs of 45 lots with an area of 250,022 square meters were not registered under the name of PNOC; not found during the actual inventory of land titles; and recorded in the books.***
 - a. Table 3 lists down the 45 lots with an area of 250,022 sq. m. that were not registered under the name of PNOC, not found during the actual inventory of land titles but recorded in the books.
 - b. During the inventory, we noted that the enumerated 45 TCTs were not found in the EMD vault. The Accounting Department's Schedule of Investment Properties showed that these were not registered under the name of PNOC.
 - c. We reiterated the observation cited in the CY 2011 Annual Audit Report on Items 40-45 in Table 3 which pertained to the six parcels of lots carried in the books at P4,618,802.98 that remained registered in the name of the PNOC Coal Corporation (PCC).

Five parcels of lots had tax declarations as the only proof of ownership. Records show that the title for Item No. 36 in Table 3 was for reconstitution while the titles for Item Nos. 40-44 were for regional registration as of July 14, 1999. Moreover, included in the Schedule of Land-Investment Properties account was Item No. 45, a dry creek, with a book value of P1.028 million which was untitled. By law, creeks belong to the state and are therefore outside the commerce of men.

In CY 2011, we recommended that representations be made to concerned government agencies in order to have updated information on the status of the reconstitution/registration of the untitled lots.

Table 1: List of 19 Lots Costing P1.144 billion as Recorded in the Books of PNOC

| | TCT No. | Cost | Area | Location | Registered Name | Management's Comments |
|---|-----------|--------------|--------------|---------------------------------------|-----------------------|---|
| 1 | NT-122895 | P14,465.00 | 82,333 sq.m. | Buted, Talugtog (Cuyapo), Nueva Ecija | Petrophil Corporation | PNOC has conducted research at the Provincial Agrarian Reform Office (PARO) and Municipal Agrarian Reform Office (MARO); PNOC found out that 33,464 sq. m. was already acquired by the Dept. of Agrarian Reform (DAR) under the Comprehensive Agrarian Reform Program (CARP); PNOC has retrieved letter and claimed files from the Land Bank of the Phil. San Fernando City Branch to be the basis for claim compensation from DAR. |
| 2 | 78360 | 26,455.25 | 95,169 sq.m. | Gaunan, M'Lang, North Cotabato | Petrophil Corporation | There is a problem on peace and order in the area. PNOC has sought police assistance from the local government unit. Per notice erroneously sent by the Provincial Registry of Deeds to Petron on 1/20/2016, the property was already acquired by DAR under the CARP; for annotation in the TCT as basis for claim for compensation from the DAR. |
| 3 | 608 | 10,483.14 | 49,668 sq.m. | Sto. Nino, San Jose, Nueva Ecija | Petrophil Corporation | This is regarding the case of double-registration. PNOC has coordinated with the Department of Agrarian Reform Adjudication Board (DARAB) on the designation of the attorney-in-fact by the original owner, A. Gabriel, for reactivation of the case of double registration. The Attorney-in-fact was identified on 3/31/2016. PNOC has retrieved copy of the SPA and other documents for referral to their Legal Department. |
| 4 | T-254954 | 1,054,457.22 | 480 sq.m. | Sinalhan Bgy. XVII, Sta. Rosa, Laguna | Petrophil Corporation | Previous two contractors were unable to complete the survey in 2007, 2010 and 2012; Survey completed by 3rd contractor on 12/22/2015; for inscription of technical description on TCT; entry of documents to the office of the City Registry of Deeds scheduled on 4/25/16. |

| | TCT No. | Cost | Area | Location | Registered Name | Management's Comments |
|----|-----------|----------------|--------------|-----------------------------------|------------------------------|--|
| 5 | T-288304 | 134,203,500.00 | 29,823 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | Previous two contractors were unable to complete the survey in 2007, 2010 and 2012. The survey completed by 3rd contractor on 12/22/2015; for inscription of technical description on TCT. |
| 6 | T-288179 | 77,310,000.00 | 17,180 sq.m. | Wawa, Rosario, Cavite | Filoil Refinery Corporation | |
| 7 | T-288156 | 86,589,000.00 | 19,242 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 8 | T-288149 | 167,782,500.00 | 37,285 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 9 | T-288148 | 138,595,500.00 | 30,799 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 10 | T-288147 | 21,807,000.00 | 4,846 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 11 | T-288146 | 34,978,500.00 | 7,773 sq.m. | Noveleta, Cavite | Filoil Refinery Corporation | |
| 12 | T-288145 | 42,277,500.00 | 9,395 sq.m. | General Trias, Cavite | Filoil Refinery Corporation | |
| 13 | T-288141 | 4,716,000.00 | 1,048 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 14 | T-288140 | 245,619,000.00 | 54,582 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 15 | T-288139 | 5,040,000.00 | 1,120 sq.m. | Wawa, Rosario, Cavite | Filoil Refinery Corporation | |
| 16 | T-288137 | 183,420,000.00 | 40,760 sq.m. | Tejero, Rosario, Cavite | Filoil Refinery Corporation | |
| 17 | RT-95797 | 9,955.00 | 360 sq.m. | P.Tamo, Tandang Sora, Quezon City | Filoil Marketing Corporation | PNOC has completed research for annexes to the Deed of Sale between Petrophil and FILOIL (indicating the inclusion of the lot among those purchased by Petron from FILOIL) at the City Registry of Deeds, Revenue District Office, Quezon City Treasurer and Assessor's Offices, and Petron's former external auditor but failed to locate the same. |
| 18 | T-78361 | 28,123.35 | 101,208sq.m. | Gaunan, M'Lang, North Cotabato | Petrophil Corporation | There is a problem on peace and order in the area. PNOC sought police assistance from the local government unit. This is covered by CARP and official notice has yet to be issued by the Provincial Register of Deeds on its acquisition by DAR under the CARP |
| 19 | 02-208780 | 76,393.00 | 300 sq.m. | Bataan St. Sampaloc, Manila | Petrophil Corporation | PNOC has secured validated CAR on August 2015; Entry of documents at the City Reg. of Deeds was undertaken but was they were required to submit certified petition for the cancellation of the encumbrances annotated. Documentation is on-going with the assistance of Mr. Paul Mata, owner of the 35% portion of the property. |

Table 2: List of 12 Lots Unrecorded in the PNOC Books

| | TCT No. | Cost | Area | Location | Registered Name | Management's Comments |
|-------|-----------|--------------------|---------------|---|--------------------------------------|---|
| 20 | T-1089867 | 16,348,140 | 89,289 sq.m. | General Trias, Cavite | Filoli Refinery Corporation | PNOC is awaiting advice from PDMC regarding the result of coordination with the Revenue District Office on the validity of the certificate of registration previously issued; As of January 2016, PDMC is still resolving boundary issues with Costa Verde Subdivision. |
| 21 | 147729 | 4,549,680 | 25,276 sq.m. | Rosario, Cavite | The Export Processing Zone Authority | Previous two contractors were unable to complete the survey in 2007, 2010 and 2012; Survey completed by 3rd contractor on 12/22/2015; for inscription of technical description on TCT; As of January 2016, PDMC has yet to resolve the issue with PEZA regarding the land swap between FILOIL and PEZA. |
| 22 | 299988 | Data not available | 278.60 sq.m. | Quirino District, Quezon City | PNOC, Energy Development Corporation | <p>Eight foreclosed Decentralized Energy System (DES) properties turned over by the Energy Development Corp. (EDC), former PNOC subsidiary. Transfer tax already paid in 2012 to the local government unit of Iloilo City; based on the Deed of Assignment (DOA) and Revocation of Deed of Assignment (DORA) which were not accepted as basis for entry of documents in the Registry of Deeds.</p> <p>The individual deed of transfer of ownership (DOTO) required by the respective Registry of Deeds signed on 10/30/15; For negotiation with the City Treasurer as to validity of transfer tax paid in 2012.</p> |
| 23 | 299989 | Data not available | 155 sq.m. | San Bartolome Novaliches, Quezon City | | |
| 24 | R-5796 | Data not available | 147 sq.m. | Antipolo City, Rizal | | |
| 25 | T-96137 | Data not available | 54,093 sq.m. | Naujan, Oriental Mindoro | | |
| 26 | T-990618 | Data not available | 279 sq.m. | Imus, Cavite | | |
| 27 | PT-130515 | Data not available | 1,888 sq.m. | Pasig City, Metro Manila | | |
| 28 | T-141321 | Data not available | 21,931 sq.m. | Gusa, Cagayan de Oro City, Misamis Oriental | | |
| 29 | T-146788 | Data not available | 213 sq.m. | Jaro, Iloilo City | | |
| 30 | T-1298406 | Data not available | 3,125 sq.m. | Rosario, Cavite | Filoli Refinery Corporation | PNOC is awaiting advice from Atty. Literal of PDMC regarding the result of coordination with the Revenue District Office on the validity of the certificate of registration previously issued; PDMC still resolving boundary issues with Costa Verde Subdivision |
| 31 | 8985 | 105,000 | 15,000 sq.m. | Parang, Maguindanao | Filoli Refinery Corporation | There is a problem on peace and order in the area. The Deed of Sale between Petron and FRC is missing. PNOC completed research at the Registry of Deeds, Revenue District Office, Municipal Treasurer and Assessor's offices, Petron Corp.'s then hold-over personnel at then Property Management Office; PNOC Informed PDMC that it is not among the documents turned over to PNOC during transition completed on December 31, 2015. |
| Total | | | 211,674 sq.m. | | | |

Table 3: List of TCTs of 45 lots with an area of 250,022 square meters not registered under the name of PNOC and Not found during the actual inventory of land titles and Recorded in the books

| | TCT No. | Cost | Area | Location | Registered Name | Management's Comments |
|----|----------|---------------|--------------|---------------------------------|------------------------|---|
| 1 | 28099 | 650,322.82 | 198 sq.m. | Balagtas, Batangas City | Bats Services Inc. | TCTs were not transmitted by Petron. |
| 2 | 28101 | 663,264.56 | 205 sq.m. | Balagtas, Batangas City | Bats Services Inc. | |
| 3 | 28102 | 702,089.81 | 215 sq.m. | Balagtas, Batangas City | Bats Services Inc. | |
| 4 | 28104 | 650,322.81 | 190 sq.m. | Balagtas, Batangas City | Bats Services Inc. | |
| 5 | UNTITLED | 22,070,160.00 | 30,653 sq.m. | Lamoa, Limay, Bataan | Bataan Refinery Corp. | PNOC is still awaiting decree of registration as basis for issuance of title; Based on the updated plotting of the survey plan in the computerized system Patent and Isolated Survey clearances already issued on March 2015 by the Plan Examination Section of the Ordinary and Cadastral Decree Division of the Land Registration Authority. |
| 6 | UNTITLED | 989,083.21 | 38,069 sq.m. | Calamias, Mabini, Batangas | Petron Corporation | The properties are still untitled. EMD has completed research at the Provincial Environment and Natural Resources Office (PENRO) and the Community Environment and Natural Resources Office (CENRO) and secured copies of approved survey plans from the Land Management Service (LMS) and found that some portions of the properties are covered by titles to other private persons. Further action deferred so as not to jeopardize PNOC's ownership/occupancy of the properties. |
| 7 | UNTITLED | | 16,221 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 8 | UNTITLED | | 1,775 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 9 | UNTITLED | | 3,859 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 10 | UNTITLED | | 2,274 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 11 | UNTITLED | 1,820,455.28 | 19,377 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 12 | UNTITLED | | 5,000 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 13 | UNTITLED | | 6,305 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 14 | UNTITLED | | 7,537 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 15 | UNTITLED | | 804 sq.m. | Mainaga, Mabini, Batangas | Petron Corporation | |
| 16 | UNTITLED | | 13,382 sq.m. | San Francisco, Mabini, Batangas | Petron Corporation | |
| 17 | UNTITLED | 831,096.51 | 11,292 sq.m. | San Francisco, Mabini, Batangas | Petron Corporation | |
| 18 | UNTITLED | | 25,381 sq.m. | San Francisco, Mabini, Batangas | Petron Corporation | |
| 19 | UNTITLED | | 5,144 sq.m. | San Francisco, Mabini, Batangas | Petron Corporation | |
| 20 | UNTITLED | 30,766,500.00 | 6,837 sq.m. | Sapa, Rosario, Cavite | Filoli Refinery Corp. | The two previous contractors were unable to complete the survey in 2007, 2010 and 2012. The 3rd contractor completed the survey on 12/22/15 and found the same to be part of public domain being a portion of Manila Bay. |
| 21 | UNTITLED | 49,800.00 | 8,301 sq.m. | Opao, Looc, Mandaue City, Cebu | ESSO Std. Eastern Inc. | Per tax declaration, the owner is the City Government of Mandaue. |

| TCT No. | | Cost | Area | Location | Registered Name | Management's Comments |
|---------|--------------|----------------|---------------|--|-----------------------|--|
| 22 | UNTITLED | | 7,240 sq.m. | Lacuben, Balaybaboy, Badoc, Ilocos Norte | Petrophil Corporation | <p>As part of due diligence to validate ownership, EMD secured certification from the Provincial Register of Deeds of Ilocos Norte on June 27, 2015. This is to validate the findings during previous year's researches that there are no properties listed under the name of Petrophil Corp./ Esso Std. Eastern Inc. corresponding to the transfer certificates of titles indicated in the 1993 Deed of Conveyance between PNOC and Petron Corp. This will be the basis of updating the land account in PNOC's books. Also, to determine the boundaries of the properties, PNOC contracted out the survey of the 14 properties (in 1997, 2005 and 2008) but only 1 contractor took on the survey work. However, it failed to conduct an actual ground survey due to problem on peace and order in the area. The other 2 contractors did not proceed with the survey work for security reasons.</p> <p>In the 2012 AAR, management informed that they received the Decision of Regional Trial Court, Branch 7, Batangas City dated April 18, 2013 denying PNOC's Application for Original Registration of Title over the five lots in Bauan, Batangas.</p> <p>PNOC filed a Motion for Reconsideration on June 6, 2013 appealing to the court to reconsider the said Decision and render a new one granting the Application since based on the required service notice to the public as set forth in PD 1529, PNOC has fully complied with same based on the evidence presented.</p> <p>The PNOC-Legal Department submitted on November 3, 2014 the Reply-Brief with the Court of Appeals in compliance with the latter's Resolution dated September 29, 2014. All the required pleadings having been submitted, PNOC still waiting for the Court of Appeals issuance of Resolution/Decision which is still pending thereat as CA-G.R. CV No. 101876 PNOC vs. Republic of the Philippines.</p> <p>Regarding the dry creek with an area of 2,286 sq.m., Management informed that based on research conducted at the Provincial Environment and Natural Resources Office and Community Environment and Natural Resources Office in Batangas City, the creek cannot be titled under PNOC's name since it is part of the public domain.</p> |
| 23 | UNTITLED | | 4,225 sq.m. | Lacuben, Balaybaboy, Badoc, Ilocos Norte | Petrophil Corporation | |
| 24 | UNTITLED | | 124 sq.m. | Lacuben-Aring, Badoc, Ilocos Norte | Petrophil Corporation | |
| 25 | UNTITLED | | 2,180 sq.m. | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | |
| 26 | UNTITLED | | 4,573 sq.m. | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | |
| 27 | UNTITLED | | 4,279 sq.m. | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | |
| 28 | UNTITLED | 5,276.00 | 4,683 sq.m. | Paltit, Badoc, Ilocos Norte | Petrophil Corporation | |
| 29 | UNTITLED | | 900 sq.m. | Lacuben Suyoy, Badoc, Ilocos Norte | Petrophil Corporation | |
| 30 | UNTITLED | | 3,383 sq.m. | Aring, Badoc, Ilocos Norte | Petrophil Corporation | |
| 31 | UNTITLED | | 1,252 sq.m. | Saud, Badoc, Ilocos Norte | Petrophil Corporation | |
| 32 | UNTITLED | | 1,500 sq.m. | Lubigan, Badoc, Ilocos Norte | Petrophil Corporation | |
| 33 | UNTITLED | | 866 sq.m. | Aring, Badoc, Ilocos Norte | Petrophil Corporation | |
| 34 | UNTITLED | | 825 sq.m. | Lacuben Suyoy, Badoc, Ilocos Norte | Petrophil Corporation | |
| 35 | UNTITLED | | 789 sq.m. | Lacuben Suyoy, Badoc, Ilocos Norte | Petrophil Corporation | |
| 36 | N/A | | N/A | Badoc, Ilocos Norte | Petrophil Corporation | |
| 37 | N/A | | N/A | Badoc, Ilocos Norte | Petrophil Corporation | |
| 38 | N/A | | N/A | Badoc, Ilocos Norte | Petrophil Corporation | |
| 39 | N/A | | N/A | Badoc, Ilocos Norte | Petrophil Corporation | |
| 40 | TD 032-00265 | 9,532,627.39 | 2,862 sq.m. | San Miguel, Bauan, Batangas | PNOC Coal Corporation | |
| 41 | TD 032-00263 | 2,115,030.89 | 635 sq.m. | San Miguel, Bauan, Batangas | PNOC Coal Corporation | |
| 42 | TD 032-00264 | 1,408,910.34 | 423 sq.m. | San Miguel, Bauan, Batangas | PNOC Coal Corporation | |
| 43 | TD 032-00262 | 6,488,315.22 | 1,948 sq.m. | San Miguel, Bauan, Batangas | PNOC Coal Corporation | |
| 44 | TD 032-00261 | 6,828,052.47 | 2,050 sq.m. | San Miguel, Bauan, Batangas | PNOC Coal Corporation | |
| 45 | UNTITLED | 7,614,111.19 | 2,286 sq.m. | San Miguel, Bauan, Batangas | Untitled (Dry Creek) | |
| Total | | P93,185,418.50 | 250,022 sq.m. | | | |

- d. In the 2012 AAR, Management informed that they received the Decision of Regional Trial Court, Branch 7, Batangas City dated April 18, 2013 denying PNOC's Application for Original Registration of Title over the five lots in Bauan, Batangas.

PNOC filed a Motion for Reconsideration on June 6, 2013 appealing to the court to reconsider the said Decision and to render a new one granting the Application since based on the required service notice to the public as set forth in PD 1529, PNOC had fully complied with same based on the evidence presented.

The PNOC–Legal Department submitted on November 3, 2014 the Reply-Brief with the Court of Appeals in compliance with the latter's Resolution dated September 29, 2014. All the required pleadings having been submitted, PNOC was still awaiting for the Court of Appeals issuance of Resolution/Decision pending thereat as CA-G.R. CV No. 101876 PNOC vs. Republic of the Philippines.

- e. Regarding the dry creek with an area of 2,286 square meters, Management informed that based on research conducted at the Provincial Environment and Natural Resources Office and Community Environment and Natural Resources Office in Batangas City, the creek cannot be titled under PNOC's name since it is part of the public domain.

Further, an investigation is necessary to determine the nature of PCC's claim on the dry creek and the location thereof.

3.4.3 Discrepancies in land area of 17,053 square meters between the records of EMD and Accounting Department; and four lots in the books were not included in the EMD list.

- a. Extracted from Table 3 are items 22-35, where we noted differences in the data regarding the land areas provided by the EMD and Accounting Department as shown below. The reliability of the data is compromised considering that the TCTs of the lots were not registered under the name of PNOC and were not found during the actual inventory of land titles.

| | Location | EMD Inventory | Accounting Records | Difference |
|-----------|--|------------------|-----------------------|-------------|
| Land Area | | | | |
| 22 | Lacuben, Balaybaboy, Badoc, Ilocos Norte | 7,240 sq.m. | 7,240 sq.m. | 0 |
| 23 | Lacuben, Balaybaboy, Badoc, Ilocos Norte | 4,225 sq.m. | 2,115 sq.m. | 2,110 sq.m. |
| 24 | Lacuben-Aring, Badoc, Ilocos Norte | 124 sq.m. | 1,032 sq.m. | 908 sq.m. |
| 25 | La Virgen Milagrosa, Badoc, Ilocos Norte | 2,180 sq.m. | 590 sq.m. | 1,590 sq.m. |
| 26 | La Virgen Milagrosa, Badoc, Ilocos Norte | 4,573 sq.m. | 780 sq.m. | 3,793 sq.m. |
| 27 | La Virgen Milagrosa, Badoc, Ilocos Norte | 4,279 sq.m. | 1,050 sq.m. | 3,229 sq.m. |
| 28 | Paltit, Badoc, Ilocos Norte | 4,683 sq.m. | 3,317 sq.m. | 1,366 sq.m. |
| 29 | Lacuben Suyo, Badoc, Ilocos Norte | 900 sq.m. | 1,005 sq.m. | 105 sq.m. |

| | | | | |
|----|-----------------------------------|-------------|--------------|--------------|
| 30 | Aring, Badoc, Ilocos Norte | 3,383 sq.m. | 3,460 sq.m. | 77 sq.m. |
| 31 | Saud, Badoc, Ilocos Norte | 1,252 sq.m. | 1,830 sq.m. | 578 sq.m. |
| 32 | Lubigan, Badoc, Ilocos Norte | 1,500 sq.m. | 4,416 sq.m. | 2,916 sq.m. |
| 33 | Aring, Badoc, Ilocos Norte | 866 sq.m. | 19,408 sq.m. | 18,542 sq.m. |
| 34 | Lacuben Suyu, Badoc, Ilocos Norte | 825 sq.m. | 493 sq.m. | 332 sq.m. |
| 35 | Lacuben Suyu, Badoc, Ilocos Norte | 789 sq.m. | 17,842 sq.m. | 17,053 sq.m. |

- b. We also noted that there were four additional lots in the accounting records that were not included in the EMD List as cited in items 36-39 of Table 3 as listed below.

| | Location | Accounting Records | | | EMD Inventory List | Difference |
|----|---------------------|--------------------|--------|-------------|--------------------|-------------|
| | | TCT No. | Cost | Land Area | | |
| 36 | Badoc, Ilocos Norte | 624585 | 30.72 | 432 sq.m. | No Data | 432 sq.m. |
| 37 | Badoc, Ilocos Norte | 624586 | 67.20 | 945 sq.m. | No Data | 945 sq.m. |
| 38 | Badoc, Ilocos Norte | 624587 | 85.33 | 1,200 sq.m. | No Data | 1,200 sq.m. |
| 39 | Badoc, Ilocos Norte | 624588 | 493.50 | 6,940 sq.m. | No Data | 6,940 sq.m. |

3.4.4 PNOC incurred expenses of P10.476 million for various lots with an area of 1.881 million sq. m. that remained idle or unutilized for years resulting to undue loss to the Company.

- Shown in Table 4 are the details of Idle Properties.
- Lots numbering 115 were identified as idle by the EMD. These lots showed a total acquisition cost and fair market value of P76.141 million and P1.487 billion, respectively.
- In CY 2015, PNOC incurred expenses amounting to P5.682 million for real property taxes and P4.794 million for security services for a total of P10.476 million to safeguard the idle lots.

3.4.5 Entries numbering 41 were recorded under Investment Property instead of Assets Held for Sale or PPE contrary to PFRS 5, Assets Held for Sale and PAS 40, PPE.

- Table 5 shows the list of 25 lots previously offered for sale and will be re-offered for sale taken from Table 4.
- In response to our audit query on idle lots, Management explained that the 25 lots on Table 4 were previously offered for sale and will be re-offered for sale. Relative to this, we noted the need for Management to review the classifications on the following lots considering the criteria on Assets Held for Sale as discussed in PFRS 5.

Table 4: Details of Idle Properties

| | TCT No. | Acquisition Cost | FMV | Area | Location | Management's Comments |
|----|----------|------------------|----------------|-----------------|--|---|
| 1 | T-9242-A | P555,062.44 | P26,863,750.00 | 10,745.50 sq.m. | R. Calo St., Bgy. Bading, Butuan City, Agusan del Norte | The total area is 11,442 sq. m.; 697 sq.m. is affected by DPWH Floodwall Project; 10,745 sq. m. remaining area; flood prone; with about 40 families of informal dwellers; in coordination with DPWH/LGU for claim for compensation/housing for dwellers |
| 2 | 39888 | 188,608.81 | 15,476,400.00 | 8,598 sq.m. | Bgy. Gogon, Legaspi City, Albay | This was previously offered for sale, to be re-offered for sale. |
| 3 | T-167131 | 323,763.63 | 44,360,820.00 | 70,414 sq.m. | Ayam, Alangan, Limay, Bataan | These areas are with informal dwellers to be relocated thru LGU's resettlement program; future site of PNOC energy projects |
| 4 | T-167128 | 91,960.01 | 12,600,000.00 | 20,000 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 5 | T-167129 | 229,900.04 | 31,500,000.00 | 50,000 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 6 | T-167099 | 459,459.83 | 56,616,210.00 | 89,867 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 7 | T-75637 | 24,054.00 | 3,207,200.00 | 4,009 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 8 | T-75636 | 24,480.00 | 3,264,000.00 | 4,080 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 9 | T-77551 | 140,525.00 | 16,060,000.00 | 48,684 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 10 | T-78165 | 544,089.00 | 62,181,600.00 | 20,075 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 11 | T-78166 | 352,104.00 | 38,947,200.00 | 77,727 sq.m. | Ayam, Alangan, Limay, Bataan | |
| 12 | T-74619 | 740,460.00 | 77,266,700.00 | 123,410 sq.m. | Luz, Kitang, Limay, Bataan | |
| 13 | T-75635 | 35,994.00 | 4,799,200.00 | 5,999 sq.m. | Luz, Kitang, Limay, Bataan | |
| 14 | T-79844 | 351,984.00 | 21,840,000.00 | 27,300 sq.m. | Luz, Kitang, Limay, Bataan | |
| 15 | 28099 | 5,130.00 | | 198 sq.m. | Amihan Village, Balagtas, Batangas | |
| 16 | 28101 | 5,232.00 | | 205 sq.m. | Amihan Village, Balagtas, Batangas | |
| 17 | 28102 | 5,539.00 | 2,828,000.00 | 215 sq.m. | Amihan Village, Balagtas, Batangas | PNOC completed researches at the National Archives of the Philippines which issued a negative certification; Registry of Deeds of Batangas City, City Treasurer's & Assessor's Office. Coordination with the surviving heirs disclosed that they could not locate the DOSRP among the documents retrieved after the flood which inundated the area. |
| 18 | 28104 | 5,130.00 | | 190 sq.m. | Amihan Village, Balagtas, Batangas | |
| 19 | T-72827 | 11,000.00 | 2,700,000.00 | 22,500 sq.m. | Bgy. Natipuan, Nasugbu, Batangas | No status. |
| 20 | T-91949 | 1,618.30 | 1,562,500.00 | 625 sq.m. | Kayumanggi – Riverside Subd., Kayumanggi/ South, Lipa City, Batangas | Vacant; no structure; previously offered for sale, to be re-offered for sale |
| 21 | T-139744 | 3,499,432.35 | 31,516,700.00 | 7,687 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | Covered by proposed Land Swap Agreement with Keppel |
| 22 | T-139741 | 778,990.51 | 9,970,200.00 | 1,719 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |

| | TCT No. | Cost | FMV | Area | Location | Management's Comments |
|----|------------------|---------------|----------------|--------------|--|---|
| 23 | T-139742 | 19,539,296.25 | 320,832,000.00 | 53,742 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | Proposed for Masterplanning to be developed as site for PNOG Energy project |
| 24 | T-83679 | 2,688,600.00 | 51,979,600.00 | 8,962 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 25 | TD No. 032-00015 | 922,500.00 | 11,890,000.00 | 2,050 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 26 | TD No. 032-00016 | 876,600.00 | 11,298,400.00 | 1,948 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 27 | TD No. 032-00022 | 285,750.00 | 3,683,000.00 | 635 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 28 | TD No. 032-00024 | 190,350.00 | 1,734,300.00 | 423 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 29 | TD No. 032-00042 | 1,287,900.00 | 11,734,200.00 | 2,862 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 30 | T-139743 | 165,080.12 | 1,492,400.00 | 364 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | Covered by proposed Land Swap Agreement with Keppel |
| 31 | Dry Creek | 1,028,700.00 | N/A | 2,286 sq.m. | Bgy. San Miguel, Bolo and San Roque, Bauan, Batangas | |
| 32 | T-29247 | N/A | | 12,399 sq.m. | Banaba South, Batangas City | |
| 33 | T-29248 | N/A | 39,420,000.00 | 450 sq.m. | Banaba South, Batangas City | Covered by Deed of Assignment of assets and assumption of liabilities between PNOG and PSTC |
| 34 | T-29249 | N/A | | 291 sq.m. | Banaba South, Batangas City | |
| 35 | T-36922 | 133,943.98 | 14,411,100.00 | 4,367 sq.m. | Ubujaan, Tagbilaran City, Bohol | |
| 36 | T-36923 | 42,572.53 | 3,747,600.00 | 1,388 sq.m. | Ubujaan, Tagbilaran City, Bohol | Previously offered for sale, to be re-offered for sale/lease |
| 37 | T-71225 | 100,000.00 | 864,000.00 | 9,600 sq.m. | Bgy. Road, Bgy. Sta Ines, San Miguel, Bulacan | |
| 38 | T-71224 | 36,019.44 | 120,000.00 | 1,200 sq.m. | Lot 5 Undeveloped Subd., Bgy. Calumpang, San Miguel, Bulacan | This is a riceland with 4 structures/4 informal dweller families; under CARP. |
| 39 | T-71223 | 102,955.56 | 5,042,100.00 | 3,430 sq.m. | Purok Isla, Bgy. Poblacion, San Miguel, Bulacan | Vacant |
| 40 | T-244619 | 4,181.72 | 415,800.00 | 231 sq.m. | G. Dela Merced St., Purok 1, Bgy. Sto Nino, Baliuag, Bulacan | Fenced; to be offered for sale |
| 41 | T-71220 | 5,702.25 | 567,000.00 | 315 sq.m. | G. Dela Merced St., Purok 1, Bgy. Sto Nino, Baliuag, Bulacan | Fenced; previously offered for sale, to be re-offered for sale |
| 42 | T-71221 | 6,444.44 | 640,800.00 | 356 sq.m. | G. Dela Merced St., Purok 1, Bgy. Sto Nino, Baliuag, Bulacan | |
| 43 | RT-71222 | 21,976.28 | 3,277,800.00 | 1,214 sq.m. | Irrigation Road, Bgy. Tangos, Baliuag, Bulacan | |
| 44 | T-440381 | | | 353 sq.m. | Gen. Tirona Highway, Bgy. Binakayan, Kawit Cavite | Vacant; fenced |
| 45 | T-440382 | 125,683.00 | 12,464,200.00 | 261 sq.m. | Gen. Tirona Highway, Bgy. Binakayan, Kawit Cavite | |
| | | | | | | Previously offered for sale/lease, to be re-offered for sale/lease |

| | TCT No. | Cost | FMV | Area | Location | Management's Comments |
|----|---------------|-----------|--------------|--------------|---|---|
| 46 | T-208616 | 10,897.85 | 2,399,700.00 | 421 sq.m. | Mirador Cor. Iba St., Central Park Subd., Bgy. Talomo, Davao City | Vacant; fenced; previously offered for sale, to be re-offered for sale |
| 47 | T-208617 | 64,739.95 | 5,502,200.00 | 2,501 sq.m. | Uraya Road, Bgy. Catalunan Grande, Talomo, Davao City | With informal dwellers; PNOC previously negotiated with dwellers for voluntary eviction in consideration of financial assistance; previously offered for sale, to be re-offered for sale |
| 48 | 08-0014-01966 | 71.46 | | 7,240 sq.m. | Badoc, Ilocos Norte | As part of due diligence to validate ownership, EMD secured certification from the Provincial Register of Deeds of Ilocos Norte on June 27, 2015. This is to validate the findings during previous year's researches that there are no properties listed under the name of Petrophil Corp./Esso Std. Eastern Inc. corresponding to the transfer certificates of titles indicated in the 1993 Deed of Conveyance between PNOC and Petron Corp. This will be the basis of updating the land account in PNOC's books. Also, to determine the boundaries of the properties, PNOC contracted out the survey of the 14 properties (in 1997, 2005 and 2008) but only 1 contractor took on the survey work. However, it failed to conduct an actual ground survey due to problem on peace and order in the area. The other 2 contractors did not proceed with the survey work for security reasons. |
| 49 | 08-0014-01951 | 246.04 | | 4,225 sq.m. | Badoc, Ilocos Norte | |
| 50 | 08-0014-01774 | 130.13 | | 124 sq.m. | Badoc, Ilocos Norte | |
| 51 | 08-0015-00163 | 314.02 | | 2,160 sq.m. | Badoc, Ilocos Norte | |
| 52 | 08-0015-00146 | 1,380.10 | | 4,573 sq.m. | Badoc, Ilocos Norte | |
| 53 | 08-0015-00282 | 35.06 | | 4,279 sq.m. | Badoc, Ilocos Norte | |
| 54 | 08-0025-01221 | 1,268.74 | | 4,683 sq.m. | Badoc, Ilocos Norte | |
| 55 | 08-0014-00671 | 157.51 | 941,200.00 | 900 sq.m. | Badoc, Ilocos Norte | |
| 56 | 08-0006-00296 | 514.84 | 549,250.00 | 3,383 sq.m. | Badoc, Ilocos Norte | |
| 57 | 08-0028-01131 | 73.39 | 16,120.00 | 1,252 sq.m. | Badoc, Ilocos Norte | |
| 58 | 08-0016-02305 | 41.95 | 283,400.00 | 1,500 sq.m. | Badoc, Ilocos Norte | |
| 59 | 08-0006-00340 | 55.47 | 594,490.00 | 866 sq.m. | Badoc, Ilocos Norte | |
| 60 | 08-0014-00713 | 74.67 | 898,590.00 | 825 sq.m. | Badoc, Ilocos Norte | |
| 61 | 08-0014-0714 | 235.87 | 608,790.00 | 789 sq.m. | Badoc, Ilocos Norte | |
| 62 | N/A | N/A | | N/A | Badoc, Ilocos Norte | |
| 63 | N/A | N/A | | N/A | Badoc, Ilocos Norte | |
| 64 | N/A | N/A | | N/A | Badoc, Ilocos Norte | |
| 65 | N/A | N/A | | N/A | Badoc, Ilocos Norte | |
| 66 | T-13187 | 55,573.41 | 5,409,550.00 | 4,601 sq.m. | Magalolon Bgy. Road, Sitio Lunao, Kalayaan, Ilocos Norte | Reserved for PNOC energy project |
| 67 | T-13188 | | | 35,953 sq.m. | Magalolon Bgy. Road, Sitio Lunao, Kalayaan, Ilocos Norte | No status. |
| 68 | T-4097 | N/A | 5,999,970.00 | 63,333 sq.m. | Rizal, Kananga, Leyte | Covered by discussion with EDC on actual use of the properties |
| 69 | OCT-18869 | N/A | 8,838,540.00 | 98,206 sq.m. | Rizal, Kananga, Leyte | |
| 70 | OCT-P-22598 | N/A | 8,272,170.00 | 91,913 sq.m. | Rizal, Kananga, Leyte | |
| 71 | T-15283 | 4,830.78 | | 553 sq.m. | Gang Bo, Banubu, Sultan Kudarat, Maguindanao | With informal dwellers; with peace and order problem |
| 72 | T-15282 | 5,512.04 | | 631 sq.m. | Gang Bo, Banubu, Sultan Kudarat, Maguindanao | |
| 73 | T-15281 | 5,171.41 | 791,520.00 | 592 sq.m. | Gang Bo, Banubu, Sultan Kudarat, Maguindanao | |
| 74 | T-15280 | 4,821.64 | | 552 sq.m. | Gang Bo, Banubu, Sultan Kudarat, Maguindanao | |

| | TCT No. | Cost | FMV | Area | Location | Management's Comments |
|----|----------------|---------------|----------------|----------------|---|--|
| 75 | 8985 | 105,000.00 | 10,500,000.00 | 15,000 sq.m. | Magsaysay St., Poblacion, Parang, Maguindanao | There is a problem on peace and order in the area. The Deed of Sale between Petron and FRCI is missing. PNOC completed research at the Registry of Deeds, Revenue District Office, Municipal Treasurer's and Assessor's offices, Petron Corp.'s then hold-over personnel at then Property Management Office; PNOC informed PDMC that it is not among the documents turned over to PNOC during transition completed on December 31, 2015. |
| 76 | 134910 | 120,000.00 | | 256 sq.m. | Tankian St., San Rafael, Pasay City | |
| 77 | 134911 | 120,000.00 | 6,144,000.00 | 256 sq.m. | Liman St., San Rafael, Pasay City | Offered for sale thru public bidding |
| 78 | N-157534 | 19,508.24 | 1,450,000.00 | 500 sq.m. | Bgy. Bagong Silangan, Quezon City | |
| 79 | 216243 | 12,009.00 | 69,372,000.00 | 1,476 sq.m. | J. Nepomuceno St., Bgy. 386, Quiapo, Manila | With informal dwellers; previously offered for sale, to be re-offered for sale/CMP |
| 80 | 002-2012000387 | | | 459.60 sq.m. | Bataan St., Sampaloc, Manila | Previously offered for lease, to be re-offered for lease/JV |
| 81 | 002-2012000388 | | | 489 sq.m. | Bataan St., Sampaloc, Manila | |
| 82 | 002-2012000389 | | | 425.80 sq.m. | Bataan St., Sampaloc, Manila | |
| 83 | 002-2012000386 | | | 381.10 sq.m. | Bataan St., Sampaloc, Manila | |
| 84 | 002-2012000383 | | | 789.20 sq.m. | Bataan St., Sampaloc, Manila | |
| 85 | 002-2012000385 | | 265,881,000.00 | 1,100.20 sq.m. | V. Mapa St. Sampaloc, Manila | |
| 86 | 002-2012000384 | | | 3,651.70 sq.m. | V. Mapa St. Sampaloc, Manila | |
| 87 | 02-208780 | | | 300 sq.m. | V. Mapa St. Sampaloc, Manila | |
| 88 | 214496 | 27,496.53 | | 299 sq.m. | Palumpung St., Pandacan, Manila | Used as road right of way; for coordination with DPWH for claim for compensation |
| 89 | 214497 | 3,678.47 | 6,780,000.00 | 40 sq.m. | Palumpung St., Pandacan, Manila | |
| 90 | 272541 | N/A | N/A | 4,195 sq.m. | Anonas St. Sta. Mesa, Manila | Easement part of the Pasig River; for possible donation to Phil. Coast Guard/LGU of Manila/Pasig River Rehabilitation Project |
| 91 | RT-95797 | 9,955.00 | N/A | 360 sq.m. | Bgy. Pasong Tamo, Tandang Sora, Quezon City | With informal dwellers |
| 92 | T-10715 | 40,530.00 | 7,500,000.00 | 10,000 sq.m. | Bgy. Road, Bgy. Bubog, San Jose, Occidental Mindoro | Portions with informal dwellers; previously offered for sale, to be re-offered for sale |
| 93 | T-96238 | 35,730,000.00 | 43,670,000.00 | 133 sq.m. | Bgy. 39, Bacolod City | To be offered for lease |
| 94 | T-96239 | N/A | N/A | 1,852 sq.m. | Bgy. 39, Bacolod City | No Status |
| 95 | T-177690 | N/A | N/A | 145 sq.m. | Lacson St. Bgy. 21, Bacolod City | To be offered for lease |
| 96 | T-177691 | N/A | N/A | 452.12 sq.m. | Lacson St. Bgy. 21, Bacolod City | No Status |

| | TCT No. | Cost | FMV | Area | Location | Management's Comments |
|-----|-----------|----------------|-------------------|--------------------|--|---|
| 97 | T-78360 | 26,445.25 | | 95,169 sq.m. | Gaunan (Lepaga), M'Lang, North Cotabato | There is a problem on peace and order in the area. PNOC has sought police assistance from the local government unit. Per notice erroneously sent by the Provincial Registry of Deeds to Petron on 1/20/2016, the property was already acquired by DAR under the CARP, for annotation in the TCT as basis for claim for compensation from the DAR. |
| 98 | T-78361 | 28,123.35 | 2,552,901.00 | 101,208 sq.m. | Gaunan (Lepaga), M'Lang, North Cotabato | |
| 99 | NT-112895 | 14,465.17 | 1,811,326.00 | 82,333 sq.m. | Bgy. Buled, Talugtog, Nueva Ecija | Covered by CARP |
| 100 | NT-252636 | 40,060.90 | 4,560,380.00 | 228,019 sq.m. | Bgy. Conversion, Pantabangan, Nueva Ecija | Submerged by Pantabangan Dam; for coordination with NIA on the exact affected area |
| 101 | N-19164 | 30,593.79 | 5,224,020.00 | 174,134 sq.m. | Bgy. Cadacian, Pantabangan, Nueva Ecija | With farmers tilling the land, covered by CARP; documents for retrieval from the RD and PARO |
| 102 | N-32337 | 387,740.00 | 396,000.00 | 396 sq.m. | Bgy. Andalino, Poblacion, Talavera, Nueva Ecija | Previously offered for sale, to be re-offered for sale |
| 103 | 114825 | 47,157.57 | 1,310,400.00 | 117 sq.m. | San Roque, Cabanatuan City, Nueva Ecija | Previously offered for sale/lease, to be re-offered for sale/lease |
| 104 | 608 | 10,483.14 | 2,446,388.00 | 59,668 sq.m. | Bo. Sto Nino 3 rd , San Jose City, Nueva Ecija | This is regarding the case of double-registration. PNOC has coordinated with the Department of Agrarian Reform Adjudication Board (DARAB) on the designation of the attorney-in-fact by the original owner, A. Gabriel, for reactivation of the case of double registration. The Attorney-in-fact was identified on 3/31/2016. PNOC has retrieved copy of the SPA and other documents for referral to their Legal Department. |
| 105 | 100427 | 41,296.00 | 5,340,600.00 | 1,242 sq.m. | San Pablo St., New Valley Subd., Bgy. Balibago, Angeles City, Pampanga | With informal dwellers; previously offered for sale/CMP, to be re-offered for sale/CMP/donation |
| 106 | 100430 | 208,594.00 | N/A | 30,000 sq.m. | Bgy. Sapang Bato, Angeles City Pampanga | TCT already cancelled in favor of BCDA based on court decision declaring the property as part of Fort Stotsenberg Military Reservation, now Clark Economic Zone; for inclusion in the list of properties to update the land account on PNOC's books |
| 107 | T-78619 | 437,884.94 | 23,097,900.00 | 4,470 sq.m. | Bgy. Ibabanglyam, Lucena City, Quezon | No right-of-way; with informal dwellers; previously offered for sale; to be re-offered for sale |
| 108 | T-78620 | 639,586.30 | N/A | 6,529 sq.m. | Bgy. Ibabanglyam, Lucena City, Quezon | |
| 109 | 261035 | 12,413.00 | 540,000.00 | 300 sq.m. | Bgy. Cupang, Antipolo City, Rizal | For survey; previous surveyor unable to locate the property |
| 110 | 261036 | 12,413.00 | N/A | 300 sq.m. | Bgy. Cupang, Antipolo City, Rizal | |
| 111 | 260843 | 15,191.00 | 1,297,600.00 | 1,622 sq.m. | Sitiolitaas Labahan, Bgy. Githang Bayan, San Mateo, Rizal | Previous surveyors were unable to locate the property |
| 112 | 448431 | 40,685.00 | 961,400.00 | 209 sq.m. | National Highway Cor., Tarlac-Victoria Provincial Road, Bgy. Salapungan, Tarlac City | With ejectment case; previously offered for sale, to be re-offered for sale |
| 113 | 448433 | 3,275.69 | 370,500.00 | 95 sq.m. | National Highway Cor., Tarlac-Victoria Provincial Road, Bgy. Salapungan, Tarlac City | Corner lot; previously offered for sale, to be re-offered for sale |
| 114 | 448435 | 1,482.68 | 167,700.00 | 43 sq.m. | National Highway Cor., Tarlac-Victoria Provincial Road, Bgy. Salapungan, Tarlac City | With ejectment case; previously offered for sale, to be re-offered for sale |
| 115 | 283861 | 70,974.00 | 7,877,100.00 | 3,751 sq.m. | Bgy. Sto Domingo, Capas, Tarlac | Portions with informal dweller families; previously offered for sale/CMP, to be re-offered for sale/CMP |
| | Total | P76,141,266.50 | P1,487,145,085.00 | 1,381,654.22 sq.m. | | |

Table 5: List of 25 Lots Previously Offered for Sale and will be Re-offered for Sale

| | TCT No. | Cost | FMV | Area | Location | Registered Name |
|--------------|----------|----------------------|------------------------|---------------------|-------------------------------------|-----------------|
| 1 | 39888 | P188,608.81 | P15,476,400.00 | 5,598 sq.m. | Gogon, Legaspi City, Albay | PNOC |
| 2 | T-91949 | 1,618.30 | 1,562,500.00 | 625 sq.m. | Lipa City, Batangas | PNOC |
| 3 | T-36922 | 133,943.98 | 14,411,100.00 | 4,367 sq.m. | Ubujaan, Tagbilaran City, Bohol | PNOC |
| 4 | T-36923 | 42,572.53 | 3,747,600.00 | 1,388 sq.m. | Ubujaan, Tagbilaran City, Bohol | PNOC |
| 5 | T-71223 | 102,955.56 | 5,042,100.00 | 3,430 sq.m. | Poblacion, San Miguel, Bulacan | PNOC |
| 6 | T-244619 | 4,181.72 | 415,800.00 | 231 sq.m. | Sto. Nino Baliuag, Bulacan | PNOC |
| 7 | T-71220 | 5,702.25 | 567,000.00 | 315 sq.m. | Sto. Nino Baliuag, Bulacan | PNOC |
| 8 | T-71221 | 6,444.44 | 640,800.00 | 356 sq.m. | Sto. Nino Baliuag, Bulacan | PNOC |
| 9 | T-440381 | 125,683.00 | 12,464,200.00 | 353 sq.m. | Binakayan, Kawit, Cavite | PNOC |
| 10 | T-440382 | | | 261 sq.m. | Binakayan, Kawit, Cavite | PNOC |
| 11 | T-208616 | 10,897.95 | 2,399,700.00 | 421 sq.m. | Talomo, Davao City | PNOC |
| 12 | T-208617 | 64,739.95 | 5,502,200.00 | 421 sq.m. | Talomo, Davao City | PNOC |
| 13 | 134910 | 120,000.00 | 6,144,000.00 | 256 sq.m. | San Rafael, Pasay City | PNOC |
| 14 | 134911 | 120,000.00 | | 256 sq.m. | San Rafael, Pasay City | PNOC |
| 15 | N-157534 | 19,508.24 | 1,450,000.00 | 500 sq.m. | Bagong Silangan, Quezon City | PNOC |
| 16 | 216243 | 12,009.00 | 69,372,000.00 | 1,476 sq.m. | Quiapo, Manila | PNOC |
| 17 | T-10715 | 40,530.00 | 7,500,000.00 | 10,000 sq.m. | Bubod, San Jose, Occidental Mindoro | PNOC |
| 18 | N-32337 | 387,740.00 | 396,000.00 | 396 sq.m. | Poblacion Talavera Nueva Ecija | PNOC |
| 19 | 114825 | 47,157.57 | 1,310,400.00 | 117 sq.m. | San Roque, Cabanatuan City | PNOC |
| 20 | 100427 | 41,296.00 | 5,340,600.00 | 1,242 sq.m. | Ballibago, Angeles City, Pampanga | PNOC |
| 21 | 78619 | 437,884.94 | 23,097,900.00 | 4,470 sq.m. | Ibabang Iyam, Lucena City, Quezon | PNOC |
| 22 | 78620 | 639,586.30 | | 6,529 sq.m. | Ibabang Iyam, Lucena City, Quezon | PNOC |
| 23 | 448431 | 40,685.00 | 961,400.00 | 209 sq.m. | Salapungan, Tarlac City | PNOC |
| 24 | 448433 | 3,275.69 | 370,500.00 | 95 sq.m. | Salapungan, Tarlac City | PNOC |
| 25 | 448435 | 1,482.68 | 167,700.00 | 43 sq.m. | Salapungan, Tarlac City | PNOC |
| Total | | P2,598,503.91 | P178,339,900.00 | 43,355 sq.m. | | |

c. We invited the attention of Management to PFRS 5 which they may consider in reclassifying the lots offered for sale to Assets Held for Sale. Paragraphs 6 to 8 of PFRS 5 states that in general, the following conditions must be met for an asset to be classified as held for sale:

- a. *management is committed to a plan to sell*
- b. *the asset is available for immediate sale*
- c. *an active programme to locate a buyer is initiated*
- d. *the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)*
- e. *the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value*
- f. *actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn*

It also states that assets held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the Statement of

Financial Position. Specific disclosures are also required for disposals of non-current assets.

- d. The land in Rizal Drive, Bonifacio Global City, Taguig where PNOC's main office is located was recorded under Investment Property instead of PPE, contrary to the criteria for Investment Property as discussed in PAS 40.

| | TCT No. | Cost | FMV | Area | Location | Registered Name |
|-------|----------------|-------------------|-------------------|--------------|---------------------------|-----------------|
| 1 | 164-2010000385 | P1,127,745,000.00 | P2,138,243,000.00 | 19,785 sq.m. | Taguig City, Metro Manila | PNOC |
| 2 | 164-2010000639 | 541,842,000.00 | | 9,506 sq.m. | Taguig City, Metro Manila | PNOC |
| Total | | P1,669,587,000.00 | | 29,291 sq.m. | | |

Attention of Management was invited to PAS 40, Paragraph 10 which discusses the classification of Investment Property highlighting "partial own use".

Partial own use. If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. Therefore the part that is rented out is investment property. If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant.

- e. Some portions of the land and buildings were leased out to its subsidiaries and affiliates.

Management should consider this standard to accurately classify the land in Bonifacio Global City.

- f. Idle lots totaling 14 were proposed and/or reserved as future sites of PNOC Energy Projects, meeting the requirements for PPE classification. Details shown on the table:

| | TCT No. | Cost | FMV | Area | Location | Registered Name |
|-------|----------|---------------|-----------------|---------------|-------------------------------|-----------------|
| 1 | T-167131 | P323,763.63 | P44,360,820.00 | 70,414 sq.m. | Limay, Bataan | PNOC |
| 2 | T-167128 | 91,960.01 | 12,600,000.00 | 20,000 sq.m. | Limay, Bataan | PNOC |
| 3 | T-167129 | 229,900.04 | 31,500,000.00 | 50,000 sq.m. | Limay, Bataan | PNOC |
| 4 | T-167099 | 459,459.83 | 56,616,210.00 | 99,926 sq.m. | Limay, Bataan | PNOC |
| 5 | T-75637 | 24,054.00 | 3,207,200.00 | 4,009 sq.m. | Limay, Bataan | PNOC |
| 6 | T-75636 | 24,480.00 | 3,264,000.00 | 4,008 sq.m. | Limay, Bataan | PNOC |
| 7 | T-78165 | 140,525.00 | 16,060,000.00 | 20,075 sq.m. | Limay, Bataan | PNOC |
| 8 | T-78166 | 544,089.00 | 62,181,600.00 | 77,727 sq.m. | Limay, Bataan | PNOC |
| 9 | T-77551 | 352,104.00 | 38,947,200.00 | 48,684 sq.m. | Limay, Bataan | PNOC |
| 10 | T-74619 | 740,460.00 | 77,266,700.00 | 123,410 sq.m. | Limay, Bataan | PNOC |
| 11 | T-75635 | 35,994.00 | 4,799,200.00 | 5,999 sq.m. | Limay, Bataan | PNOC |
| 12 | T-79844 | 351,984.00 | 21,840,000.00 | 27,300 sq.m. | Limay, Bataan | PNOC |
| 13 | T-13187 | 55,573.41 | 5,409,550.00 | 4,601 sq.m. | Siteo Lanao, Kalayaan, Laguna | PNOC |
| 14 | T-13188 | | | 35,953 sq.m. | Siteo Lanao, Kalayaan, Laguna | PNOC |
| Total | | P3,374,346.92 | P378,052,480.00 | 592,106 sq.m. | | |

Under Paragraph 5 and Paragraph 9 of PAS 40, Investment Properties, the following **are not Investment Property** and, therefore, are outside the scope of PAS 40:

- *property held for use in the production or supply of goods or services or for administrative purposes; and*
 - *owner-occupied property (PAS 16: Property, Plant and Equipment), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal.*
- g. Proper classification of assets and liabilities is necessary; otherwise the Balance Sheet may fail to provide accurate and meaningful information that may mislead the users of Financial Statements.

3.5 We recommended that Management:

- a. ***Exert efforts in the processing of the titles of 76 lots to ensure the proper transfer of ownership to PNOC;***
- b. ***Make a documentary inventory of the lands 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 the status of the land if these are not public domain and therefore, not outside the commerce of men;***
- c. ***Confirm the ownership on the 12 lots with 211,674 square meters found in the vault but were not registered under the name of the Company and not recorded in the accounting records;***
- d. ***Immediately require the person/s responsible for the custody of the TCTs to account for the 45 TCTs of the 250,022 square meters of land not found during the actual inventory of land titles for the safeguarding and security of PNOC assets;***
- e. ***Require the coordination of EMD and Accounting Department to compare data and come up with a reconciled and properly grouped list of Investment Properties;***
- f. ***Maximize the use of idle lots and exert extra efforts to clear the area of unauthorized settlers in coordination with concerned government agencies;***

- g. Study PNOC's marketing strategy to hasten the disposal of these idle assets and to explore possibilities to generate income out of these assets in the meantime that these are not disposed of for the purpose of optimizing their values and/or to at least recover the amount invested by PNOC;***
- h. Require the coordination of EMD and Accounting Department to review the intended purposes and use of the lots for proper classification;***
- i. Prepare the necessary reclassification entries, if applicable; and***
- j. Include adequate disclosures/information in the Notes to Financial Statements.***

3.6 Management submitted the following comments:

- a. EMD had been exerting efforts to transfer ownership and register the TCTs to PNOC. Table 6 shows Management's activities to secure said TCTs of the 76 lots.
- b. EMD will consider COA's recommendation to make a documentary by taking photographs of the properties, consolidating certifications and other documents secured from concerned government agencies to substantiate status of the land.
- c. The status of the 12 lots found in the vault, not registered under the name of PNOC and not recorded in the books are as follows:
 - a. Eight lots pertain to the Decentralized Energy System (DES) transferred by EDC.
 - b. The remaining four lots are actually recorded in PNOC books. However, the TCT Numbers indicated in the accounting records were not updated, thus using the old TCTs.

Shown in Table 7 is the status of the 12 lots. These items had already been updated in the accounting's list of properties.

Table 6: Management's activities to secure the TCTs of the 76 lots not registered under the name of PNOC

| TCT No. | Area | Location | Registered Name | EMD Activity | Status of Registration |
|---------|-----------|---|--------------------------------------|--|------------------------|
| 1 | NT-122895 | Buted, Talugtog (Cuyapo), Nueva Ecija | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 2 | 78360 | Gaunan, M'Lang, North Cotabato | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 3 | 608 | Sto. Nino, San Jose Nueva Ecija | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 4 | T-288304 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | The properties are registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of titles. | Ongoing |
| 5 | T-288179 | Wawa, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 6 | T-288156 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 7 | T-288149 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 8 | T-288148 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 9 | T-288147 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 10 | T-288146 | Novelela, Cavite | Filoli Refinery Corporation | | Ongoing |
| 11 | T-288145 | General Trias, Cavite | Filoli Refinery Corporation | | Ongoing |
| 12 | T-288141 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 13 | T-288140 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 14 | T-288139 | Wawa, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 15 | T-288137 | Tejero, Rosario, Cavite | Filoli Refinery Corporation | | Ongoing |
| 16 | T-254954 | Sinahan, Bgy. XVII, Sta. Rosa, Laguna | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 17 | RT-95787 | P. Tamo, Tandang Sora, Quezon City | Filoli Marketing Corporation | Complete the research and coordinate with appropriate government entities to determine whether or not the lot can be registered under PNOC's name. | Pending |
| 18 | T-78361 | Gaunan, M'Lang, North Cotabato | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Pending |
| 19 | 02-208780 | Bataan St., Sempaloc, Manila | Petrophil Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 20 | T-1089867 | General Trias, Cavite | Filoli Refinery Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 21 | 147729 | Rosario, Cavite | The Export Processing Zone Authority | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 22 | 295988 | Quirino District, Quezon City | PNOC, Energy Development Corp | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of titles. | Ongoing |
| 23 | 299889 | San Bartolome, Novaliches, Quezon City | PNOC, Energy Development Corp | | Ongoing |
| 24 | R-5796 | Antipolo City, Rizal | PNOC, Energy Development Corp | | Ongoing |
| 25 | T-96137 | Naujan, Oriental Mindoro | PNOC, Energy Development Corp | | Ongoing |
| 26 | T-990618 | Imus, Cavite | PNOC, Energy Development Corp | | Ongoing |
| 27 | PT-130515 | Pasig City, Metro Manila | PNOC, Energy Development Corp | | Ongoing |
| 28 | T-141321 | Gusa, Cagayan de Oro City, Misamis Oriental | PNOC, Energy Development Corp | | Ongoing |
| 29 | T-146788 | Jaro, Iloilo City | PNOC, Energy Development Corp | | Ongoing |

| TCT No. | Area | Location | Registered Name | EMD Activity | Status of Registration |
|---------|-----------|--|-----------------------------|--|------------------------|
| 30 | T-1298406 | Rosario, Cavite | Filoli Refinery Corporation | The property is registrable/transferable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 31 | 8985 | Parang, Maguindanao | Filoli Refinery Corporation | Complete the research and coordinate with appropriate government entities to determine whether or not the lot can be registered under PNOC's name. | Ongoing |
| 32 | 28099 | Balagtas, Balangas City | Bats Services Inc. | Complete the research and coordinate with appropriate government entities to determine whether or not the lot can be registered under PNOC's name. | Pending |
| 33 | 28101 | Balagtas, Balangas City | Bats Services Inc. | | Pending |
| 34 | 28102 | Balagtas, Balangas City | Bats Services Inc. | | Pending |
| 35 | 28104 | Balagtas, Balangas City | Bats Services Inc. | | Pending |
| 36 | UNTITLED | Lamao, Limay, Bataan | Bataan Refinery Corp. | The property is registrable/transferable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 37 | UNTITLED | Calamias, Mabini, Batangas | Petron Corporation | The properties are covered by Lease Agreement. As part of due diligence, EMD will seek advice from PNOC's Legal Department. | Pending |
| 38 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 39 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 40 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 41 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 42 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 43 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 44 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 45 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 46 | UNTITLED | Mainaga, Mabini, Batangas | Petron Corporation | | Pending |
| 47 | UNTITLED | San Francisco, Mabini, Batangas | Petron Corporation | The properties are covered by Lease Agreement. As part of due diligence, EMD will seek advice from PNOC's Legal Department. | Pending |
| 48 | UNTITLED | San Francisco, Mabini, Batangas | Petron Corporation | | Pending |
| 49 | UNTITLED | San Francisco, Mabini, Batangas | Petron Corporation | | Pending |
| 50 | UNTITLED | San Francisco, Mabini, Batangas | Petron Corporation | | Pending |
| 51 | UNTITLED | Sapa, Rosario, Cavite | Filoli Refinery Corp. | | Ongoing |
| 52 | UNTITLED | Opao, Loo, Mandaue City, Cebu | ESSO Std. Eastern Inc. | | Pending |
| 53 | UNTITLED | Lacuben, Balaybabo, Badoc, Ilocos Norte | Petrophil Corporation | Certifications were already secured from various government entities which will serve as basis for proposing for dropping/updating PNOC records. | Pending |
| 54 | UNTITLED | Lacuben, Balaybabo, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 55 | UNTITLED | Lacuben-Aring, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 56 | UNTITLED | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 57 | UNTITLED | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 58 | UNTITLED | La Virgen Milagrosa, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 59 | UNTITLED | Pallit, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 60 | UNTITLED | Lacuben Suyu, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 61 | UNTITLED | Aring, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 62 | UNTITLED | Saud, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 63 | UNTITLED | Lubigan, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 64 | UNTITLED | Aring, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |

| TCT No. | Area | Location | Registered Name | EMD Activity | Status of Registration |
|---------|--------------|-----------------------------------|-----------------------|---|------------------------|
| 65 | UNTITLED | Lacuben Suyo, Badoc, Ilocos Norte | Petrophil Corporation | Certifications were already secured from various government entities which will serve as basis for proposing for dropping/updating PNOC records. | Pending |
| 66 | UNTITLED | Lacuben Suyo, Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 67 | UNTITLED | Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 68 | UNTITLED | Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 69 | UNTITLED | Badoc, Ilocos Norte | Petrophil Corporation | | Pending |
| 70 | UNTITLED | Badoc Ilocos Norte | Petrophil Corporation | | Pending |
| 71 | TD 032-00265 | San Miguel, Bauan, Batangas | PNOC Coal Corporation | The property is registrable/transferrable with pending resolution of concerns or issue. EMD shall continue its effort in the processing of title. | Ongoing |
| 72 | TD 032-00263 | San Miguel, Bauan, Batangas | PNOC Coal Corporation | | Ongoing |
| 73 | TD 032-00264 | San Miguel, Bauan, Batangas | PNOC Coal Corporation | | Ongoing |
| 74 | TD 032-00262 | San Miguel, Bauan, Batangas | PNOC Coal Corporation | | Ongoing |
| 75 | TD 032-00261 | San Miguel, Bauan, Batangas | PNOC Coal Corporation | | Ongoing |
| 76 | UNTITLED | San Miguel, Bauan, Batangas | Untitled (Dry Creek) | | Ongoing |

Table 7: Status of the 12 lots found in the vault, not registered under the name of PNOC and not recorded in the books

| | Location | Area | TCT No. | Management's Comments | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------|---|--------------|-----------|---|----------------|------|--------------|--------|---------------|-------|--------|----------------|--------|--------|---------------|-------|--------|----------------|-------|--------|---------------|-------|--------|---------------|-------|--------|----------------|--------|----------|---------------|--------|-------|-----------------|--------|
| 1 | General Trias, Cavite | 89,289 sq.m. | T-1089867 | <p>This is recorded in the Accounting Department per old TCTs as follows:</p> <table><tr><th>OLD TCT Number</th><th>Cost</th><th>Area (sq.m.)</th></tr><tr><td>288303</td><td>25,479,000.00</td><td>5,662</td></tr><tr><td>288144</td><td>121,752,000.00</td><td>27,056</td></tr><tr><td>288153</td><td>6,061,500.00</td><td>1,347</td></tr><tr><td>288138</td><td>23,418,000.00</td><td>5,204</td></tr><tr><td>288142</td><td>35,136,000.00</td><td>7,808</td></tr><tr><td>288151</td><td>17,379,000.00</td><td>3,862</td></tr><tr><td>288178</td><td>102,762,000.00</td><td>22,836</td></tr><tr><td>RT-20300</td><td>69,322,500.00</td><td>15,405</td></tr><tr><td>TOTAL</td><td>P557,721,000.00</td><td>89,180</td></tr></table> | OLD TCT Number | Cost | Area (sq.m.) | 288303 | 25,479,000.00 | 5,662 | 288144 | 121,752,000.00 | 27,056 | 288153 | 6,061,500.00 | 1,347 | 288138 | 23,418,000.00 | 5,204 | 288142 | 35,136,000.00 | 7,808 | 288151 | 17,379,000.00 | 3,862 | 288178 | 102,762,000.00 | 22,836 | RT-20300 | 69,322,500.00 | 15,405 | TOTAL | P557,721,000.00 | 89,180 |
| OLD TCT Number | Cost | Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288303 | 25,479,000.00 | 5,662 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288144 | 121,752,000.00 | 27,056 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288153 | 6,061,500.00 | 1,347 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288138 | 23,418,000.00 | 5,204 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288142 | 35,136,000.00 | 7,808 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288151 | 17,379,000.00 | 3,862 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288178 | 102,762,000.00 | 22,836 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| RT-20300 | 69,322,500.00 | 15,405 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL | P557,721,000.00 | 89,180 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | Rosario, Cavite | 25,276 sq.m. | 147729 | This is recorded in the Accounting records with the same TCT and description. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | Quirino District, Quezon City | 278.60 sq.m. | 299988 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | San Bartolome, Novaliches, Quezon City | 155 sq.m. | 299989 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | Antipolo City, Rizal | 147 sq.m. | R-5796 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 | Naujan, Oriental Mindoro | 54,093 sq.m. | T-96137 | These are foreclosed Decentralized Energy System (DES) properties from EDC. Deed of Transfer of Ownership (DTO) was already signed by PNOC and EDC for individual properties. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | Imus, Cavite | 279 sq.m. | T-990618 | The ownership is still to be confirmed through Legal Department. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | Pasig City, Metro Manila | 1,888 sq.m. | PT-130515 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | Gusa, Cagayan de Oro City, Misamis Oriental | 21,931 sq.m. | T-141321 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | Jaro, Iloilo City | 213 sq.m. | T-146788 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 | Rosario, Cavite | 3,125 sq.m. | T-1298406 | <p>This is recorded in the Accounting Department per old TCTs as follows:</p> <table><tr><th>OLD TCT Number</th><th>Cost</th><th>Area (sq.m.)</th></tr><tr><td>288143</td><td>P423,000.00</td><td>94</td></tr><tr><td>288150</td><td>3,177,000.00</td><td>706</td></tr><tr><td>288154</td><td>10,471,500.00</td><td>2,327</td></tr><tr><td>TOTAL</td><td>P14,071,500.00</td><td>3,127</td></tr></table> | OLD TCT Number | Cost | Area (sq.m.) | 288143 | P423,000.00 | 94 | 288150 | 3,177,000.00 | 706 | 288154 | 10,471,500.00 | 2,327 | TOTAL | P14,071,500.00 | 3,127 | | | | | | | | | | | | | | | |
| OLD TCT Number | Cost | Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288143 | P423,000.00 | 94 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288150 | 3,177,000.00 | 706 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 288154 | 10,471,500.00 | 2,327 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL | P14,071,500.00 | 3,127 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12 | Parang, Maguindanao | 15,000 sq.m. | 8985 | This is recorded in the Accounting records but was erroneously described in the Accounting records as located in Nueva Ecija. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

- d. EMD was not in possession of the original copies of the 45 TCTs, however, these TCTs were included among the properties conveyed by Petron as property dividends and these lots were included in the inventory of EMD and being reported in the Accounting records. EMD's account is as follows:

| No. of Properties | Location | PNOC not in possession of the title | Untitled | Remarks |
|-------------------|-------------------------|-------------------------------------|----------|--|
| 4 | Balagtas, Batangas City | X | | TCTs not transmitted by Petron |
| 1 | Lamiao, Limay, Bataan | | X | Awaiting decree of registration |
| 14 | Mabini, Batangas | | X | PNOC in possession of TDs as basis for payment of annual RPT |
| 1 | Rosario, Cavite | | X | Part of public domain |
| 1 | Mandaue City, Cebu | X | | TCT not transmitted by Petron |
| 18 | Badoc, Ilocos Norte | | X | Non-existent; Not listed among the registered properties in the Registry of Deeds |
| 6 | Bauan, Batangas | | X | PNOC in possession of TDs as basis for payment of annual RPT, subject of appealed case (Court of Appeals) for original registration. |

- e. PNOC's EMD and Accounting Department records on properties were being reconciled as recommended.
- f. The recommendation to maximize the use of idle lots and exert extra effort to clear the area of unauthorized settlers in coordination with concerned government agencies were being implemented as shown in the efforts of EMD on the following locations:

| Location | EMD Activity |
|-------------------------------|---|
| Agusan del Norte, Butuan City | EMD will continue coordination with LGU and DPWH for the relocation of the Informal dwellers and or possible purchase by DPWH since the area was rendered useless by the DPWH Flood Control project. |
| Limay, Bataan | EMD will continue coordination with the Office of the Governor of Bataan, among others, regarding the institutionalization of the Provincial Housing Board which will relocate informal dwellers. Pending relocation, the informal dwellers are barred by PNOC security guards from undertaking any improvement or repair using concrete materials for their existing structures. |
| Badoc, Ilocos Norte | The properties are occupied by tillers or farmers designated by private parties which were already issued emancipation patents and approved survey plans prior to conveyance of the same to PNOC; hence, they cannot be considered as informal dwellers; These properties will be proposed for the update of PNOC land account. |

| Location | EMD Activity |
|--|---|
| Pasong Tamo and Bagong Silangan, Quezon City | The number of informal dwellers cannot be determined to date due to their violent reactions (even with the assistance of the local police force) during inspection or survey of the status of the properties. |
| Bubog, Mindoro Occidental | Notices to vacate previously served to 29 informal dwellers; PNOC already coordinated with the LGU to seek their assistance in resolving issues with informal dwellers. |

- g. The recommendation to study PNOC's marketing strategy to hasten the disposal of idle assets and to explore possibilities to generate income out of these assets in the meantime that these are not disposed of for the purpose of optimizing their values and/or to at least recover the amount invested by PNOC had been implemented through the following:
- Public bidding is the approved mode of offering the sale or lease of properties. PNOC is updating the market values of properties, through 3rd party appraisers, identified for sale and shall offer them anew for sale or lease through public bidding. Notably, the two Pasay lots were already sold through public bidding in 2015.
 - For the Energy Center properties, income from lease shall continue to be generated from leasable areas.
 - PNOC will continue the research/study and master planning on possible energy-related projects for the properties reserved for such purpose.
- h. Accounting will coordinate with EMD regarding the purpose of each Investment property so that same shall be recorded properly whether Investment Property, PPE or Assets Held for Sale.
- i. Any adjustments or reclassifications of entries shall be reflected in 2016 Financial Statements since it does not have an effect in the Balance Sheet.
- j. EMD will coordinate with Accounting Department to clarify the above concern or issue and reconcile information.

3.7 We take note of the Management's comments. However, with regard to item 3.6.c, we further recommend that Management:

a. Reconcile with EMD the area and the cost of the old TCTs with the new TCTs as shown below:

- The table below shows that TCT No. 1089867 shows a difference in the cost amounting to P541,372,860 (P557,721,000 less P16,348,140) and a difference in area totaling 109 square meters (89,289 square meters less 89,180 square meters).

| OLD TCT | | | NEW TCT | | |
|----------------|------------------------|---------------|----------------|----------------|--------------|
| OLD TCT Number | Cost | Area (sq.m.) | NEW TCT Number | Cost | Area (sq.m.) |
| 288303 | 25,479,000.00 | 5,662 | 1089867 | P16,348,140.00 | 89,289 |
| 288144 | 121,752,000.00 | 27,056 | | | |
| 288153 | 6,061,500.00 | 1,347 | | | |
| 288138 | 23,418,000.00 | 5,204 | | | |
| 288142 | 35,136,000.00 | 7,808 | | | |
| 288151 | 17,379,000.00 | 3,862 | | | |
| 288178 | 102,762,000.00 | 22,836 | | | |
| RT-20300 | 69,322,500.00 | 15,405 | | | |
| TOTAL | P557,721,000.00 | 89,180 | | | |

- The table below shows that the cost for TCT No. 1098406 is not available per EMD records and upon comparison of the two TCTs; there is a difference of two square meters in the lot area.

| OLD TCT | | | NEW TCT | | |
|----------------|-----------------------|--------------|----------------|--------------------|--------------|
| OLD TCT Number | Cost | Area (sq.m.) | NEW TCT Number | Cost | Area (sq.m.) |
| 288143 | P423,000.00 | 94 | 1098406 | Data not available | 3,125 |
| 288150 | 3,177,000.00 | 706 | | | |
| 288154 | 10,471,500.00 | 2,327 | | | |
| TOTAL | P14,071,500.00 | 3,127 | | | |

b. Explain why the DES properties are not recorded in the books and provide basis thereof.

4. The accuracy, existence and completeness of PPE with net book value of P201.281 million as of December 31, 2015 could not be ascertained due to non-submission of Physical Inventory Report, inconsistent asset classification, inconsistent capitalization policy, non-recognition of depreciation expense on PPE received and improper recognition of assets, contrary to existing laws, rules and regulations.

4.1 The balance of PPE as of December 31, 2015 with net book value of P201,280,680 is shown in the table:

| Account Code | Account Name | Acquisition Cost | Accumulated Depreciation | Net Book Value |
|--------------|-----------------------------------|---------------------|--------------------------|---------------------|
| 306-19 | Land, Building and Improvements | P394,547,908 | P209,273,765 | P185,274,143 |
| 306-06 | Machinery & Equipment | 542,677 | 434,766 | 107,911 |
| 306-08 | Communication Equipment | 3,597,078 | 3,501,531 | 95,547 |
| 306-25 | Transportation Equipment | 27,913,077 | 17,989,949 | 9,923,128 |
| 306-31 | Furniture, Fixtures and Equipment | 47,084,183 | 41,204,232 | 5,879,951 |
| Total | | P473,684,923 | P272,404,243 | P201,280,680 |

4.2 The accuracy, completeness and existence of the PPE account as of year-end cannot be ascertained due to the following:

4.2.1 *No Physical Inventory Report for CY 2015 was submitted to substantiate the reported balance of the PPE accounts.*

- a. The Physical Inventory Report of PPE items for CY 2014 was submitted to this Office on January 5, 2016, while no Physical Inventory Report for CY 2015 was submitted as the inventory taking for CY 2015 was still ongoing as of this writing.
- b. The timing of the inventory count caused delay on the reconciliation of Accounting Department and Property and Supply Management Division to reflect the correct balance of PPE in the financial statements.
- c. Inquiry disclosed that the Company did not have written policy on physical inventory. The physical inventory for the past years was done once a year which usually starts in March of the following year. Management informed that it will undertake two inventory counts in 2016, one for the year ended December 2015 and another on October 2016 for the year ending December 2016. Management decided that effective 2017, inventory taking shall be done starting October until December of the Calendar Year under audit.

4.2.2 There was confusion in the classification of properties such as office equipment and information technology equipment, resulting in inconsistencies in depreciation and useful lives of the properties.

- a. Sample items classified under Information Technology that were not depreciated according to the useful life indicated in the Company policy as stated in the 2014 Notes to FS are shown in the table:

| PPE item | Asset Tag | Estimated Useful Life (Years) | | Difference |
|------------------------------------|------------------|-------------------------------|-----------|------------|
| | | Per Policy | Per Books | |
| Tablet Computer | 0031-0612-000011 | 3 | 5 | 2 |
| Memory Card 64GB (Transcend) | 0031-0615-000002 | 3 | 5 | 2 |
| Memory Card 64GB (Transcend) | 0031-0615-000003 | 3 | 5 | 2 |
| Graphics Tablet | 0031-0615-000005 | 3 | 5 | 2 |
| Interactive Digital Signage System | 0031-0715-000001 | 3 | 5 | 2 |
| All-In-One Ink Tank Printer | 0031-0815-000153 | 3 | 5 | 2 |
| Computer Program/Software (H | 0031-1111-000002 | 3 | 5 | 2 |
| ID Card Production Software | 0031-1215-000001 | 3 | 5 | 2 |
| Color Laser Jet Printer | 0031-0611-000003 | 3 | 5 | 2 |
| DOT Matrix Printer | 0031-0611-000004 | 3 | 5 | 2 |
| Barcode Printer | 0031-0611-000005 | 3 | 5 | 2 |
| LexLibris Update (Batch 2) | 0031-0813-000003 | 3 | 2 | 1 |
| DOT Matrix Printer | 0031-0811-000002 | 3 | 5 | 2 |
| Notebook Computer | 0031-1211-000002 | 3 | 5 | 2 |
| Electronic Typewriter | 0031-0412-000003 | 3 | 5 | 2 |
| Free Server standing cabinet | 0031-1212-000032 | 3 | 3 | 2 |
| Scanner | 0031-1212-000033 | 3 | 5 | 2 |
| 2014 Bulletin (Batch 3) | 0031-0615-000011 | 3 | 1 | 2 |
| 2015 Bulletins (Batch 1-4) | 0031-1214-00015 | 3 | 1 | 2 |

- b. According to Management, the Company did not have written policy on depreciation. The straight-line method on depreciation over estimated useful lives of the property has been in use for years, which is also stated in the Notes to Financial Statements, as follows:

| | |
|-------------------------------------|----------|
| • Building and improvements | 25 years |
| • Machinery and equipment | 5 years |
| • Communication equipment | 5 years |
| • Transportation equipment | 5 years |
| • Furniture, fixtures and equipment | 5 years |
| • Information technology equipment | 3 years |

- c. Management further stated that the information technology equipment was estimated to have useful lives of three years considering the frequent upgrading of both software and hardware acquisitions by PNOC. Likewise, based on the information gathered from the National Computer Center's Plans

Review and Monitoring Office through the Information Systems Strategic Plans, for most government corporations in a web-based/network environment, the period within which their existing IT equipment are to be phased out is three years due to obsolescence.

- d. However, for the above IT equipment, Management's computation was based on five-year estimated useful life because the equipment are construed to be Office Equipment.
- e. We also noted that the Company depreciated some PPE items over one or two year period which was not mentioned in the Management Policy statement above regarding the useful lives of the different classifications of PPE.
- f. Management recomputed the depreciation expenses for Information Technology which resulted in under-depreciation of P34,823.26. The amount will be reflected in 2016 FS.

4.2.3 *Properties like Furniture, Fixtures and Equipment were capitalized regardless of the amount.*

- a. Upon checking the detailed lapsing schedule of PPE, we noted that the Company capitalizes properties like Furniture, Fixtures and Equipment, regardless of the amount.
- b. Pursuant to Section 2.2.1 of COA Circular No. 2005-002 dated April 14, 2005, small tangible items with estimated useful life of more than one year shall be recorded as inventories upon acquisition and expense upon issuance. These small items are issued to end-users through the Inventory Custodian Slip (ICS).
- c. Per inquiry, Management disclosed that the Company had no written policy on PPE but instead followed COA Circulars particularly, COA Circular Nos. 97-003 and 97-005 wherein Information Technology Equipment and Furniture, Fixtures and Equipment and Books, which cost P10,000 and above shall be capitalized and classified as Fixed Assets.
- d. However, contrary to the said COA Circulars adopted by Management, we noted that some examples of assets with cost below P10,000 were classified as PPE as shown in the table below.
- e. According to Management, acquisition of PPE items that were included in the CAPEX budget was capitalized, regardless of the amount. In the CAPEX Budget Utilization Report (BUR), PPE items were budgeted as one lot, i.e. computer accessories. These PPE items were assigned an individual Asset Tag

Numbers, as reflected in the lapsing schedule, for proper identification in case of donation or disposal.

| Asset | Asset Tag | Cost |
|--------------------------------|------------------|-----------|
| IPAD Case | 0031-1010-000004 | P3,247.51 |
| IPAD Dock | 0031-1010-000005 | 2,086.79 |
| IPAD 10 with USB Power Adapter | 0031-1010-000007 | 1,997.51 |
| APPLE Earphone with Remote A | 0031-1010-000011 | 4,173.60 |
| LCD Monitor | 0031-1108-000071 | 6,517.86 |
| Iwork Software | 0031-1210-000046 | 6,150.79 |
| Typewriter table | 0031-0000-001269 | 1,520.00 |
| Plant box | 0031-0000-001340 | 100.00 |
| Whiteboard | 0031-1193-000006 | 2,400.00 |
| Calculator | 0031-0705-000013 | 293.59 |
| Compact Flash Drive | 0031-0309-000003 | 955.36 |
| Memory Card 64GB (Transcend) | 0031-0615-000002 | 3,293.64 |
| Background Clipset | 0031-1015-000003 | 446.42 |
| Microphone | 0031-1202-000018 | 4,727.28 |
| Push cart B | 0031-0197-000015 | 5,698.98 |
| Caliper | 0031-0296-000014 | 1,650.00 |
| Fire Extinguisher | 0031-0705-000031 | 100.00 |
| Cassette recorder, Sanyo | 0031-0793-000013 | 850.00 |
| Instrument tray | 0031-0895-000004 | 280.00 |
| Plastic Pallets | 0031-0713-000010 | 1,937.50 |
| Financial calculator | 0031-0596-000007 | 2,400.00 |

- f. Aside from being contrary to existing rules, laws and accounting standards, record keeping and maintenance of books may prove to be inefficient and time consuming.

4.2.4 PNOC did not record depreciation expense in 2015 for the PPE items received from PSTC.

- a. Transfers of PPE were done throughout the year- May 18, August 8, September 17 and 18- but records show that depreciation was not recognized for the remaining months of 2015 upon receipt of the following PPE from PSTC:

| PPE | Carrying Value |
|-----------------------------------|---------------------|
| Furniture, Fixtures and Equipment | P 89,588.54 |
| Communication Equipment | 1,034.26 |
| Machinery and Equipment | 61,885.90 |
| Total | P 152,508.70 |

- b. Management commented that they will start depreciating the PPE items in January 2016.

4.3 During the exit conference on March 18, 2016, we invited their attention to the recording by the PSTC of the transportation equipment previously derecognized in PSTC books. Among the three transportation equipment is Nissan Cefiro 2007 with plate number ZHJ 272. This vehicle was still included in the PNOC lapsing schedule among the Furniture and Fixtures list transferred by PSTC.

4.4 ***We recommended that Management:***

- a. Consider conducting the inventory near year-end to give ample time for any contingencies and/or deficiencies that may arise and submit the Physical Inventory Report within the target deadline;***
- b. Establish a distinct description for each PPE classification to avoid confusion in the future;***
- c. Implement Section 2.2.1 of COA Circular No. 2005-002 on small tangible items with estimated useful life of more than one year to be recorded as inventories upon acquisition and expense upon issuance;***
- d. Consider developing and/or updating a written accounting policy/manual incorporating COA Rules and Circulars and PAS, to standardize the Company's accounting and operating policies and procedures; and***
- e. Prospectively monitor completeness and accuracy of journal entries on transfers from subsidiaries including depreciation of assets received.***

4.5 Management replied that:

- a. PNOC will undertake inventory starting October 2016 of the calendar year under audit;
- b. As recommended, PNOC will take into consideration the designing of distinct description for each PPE;
- c. Prospectively, PNOC will apply COA Circular No. 2005-002 dated April 14, 2005 - Small tangible items with estimated useful life of more than one year shall be recorded as inventories upon acquisition and expense upon issuance;
- d. PNOC will revisit the existing accounting manuals and incorporate COA rules, circulars and PAS particularly PPE;
- e. As recommended, PNOC will see to it that transfer of PPE from subsidiaries including depreciation is complete and properly recorded; and

- f. PNOC will reverse the entry made for the transfer/receipt of Nissan Cefiro 2007, but this will be reflected in the 2016 Financial Statements.
5. **PNOC was unable to implement the activities in the GAD Plan and Budget as it was not endorsed by the Philippine Commission for Women (PCW) to the DBM for approval.**
 - 5.1 Sections 2.4 and 5.1 of Joint Circular No. 2004-1 of DBM, NEDA and PCW states:

"Pursuant to the annual General Appropriations Act, agencies are tasked to formulate a GAD plan and to implement the same by utilizing at least five percent (5%) of their total budget appropriations."

"Agencies shall submit their annual GAD plans and budgets to the NCRFW for review and endorsement prior to the submission of the agency budget proposal. Agencies shall submit to the DBM their NCRFW-endorsed annual GAD plans and budgets along with the agency budget proposals in accordance with the budget call. The DBM shall return to the agencies their annual GAD plans and budgets if they do not have the endorsement of the NCRFW."
 - 5.2 Verification showed that for the year 2015, no activities related to GAD were undertaken by PNOC and no expenses were incurred for the same purpose.
 - 5.3 Interview with Management revealed that the GAD Plan and Budget (GPB) was submitted to PCW through an electronic filing system under Gender Mainstreaming Monitoring System (GMMS), in order to ensure that GAD programs and activities are sanctioned by the PCW. PNOC's GPB for CY 2015 was first submitted to DOE for consolidation, subsequently to PCW through GMMS.
 - 5.4 Management prepared its GAD Plan and Budget (GPB) for CY 2015 and submitted to the PCW as prescribed under Section 5.1 of the abovementioned Joint Circular. However, there was no feedback from PCW whether it was finally received, as the GAD focal person encountered difficulties using the electronic filing system. Management should have made a follow-up with the PCW on the status of the GPB.
 - 5.5 Verification with PCW staff disclosed that the submission of GPB by agencies through electronic filing system under GMMS took effect only in 2015 for 2016 GPBs and onwards. We also learned that PNOC GPB for 2015 was manually submitted to their office in 2014; however, there was no endorsement by the PCW Executive Director.
 - 5.6 In December 2015, Management conducted a Training Needs Assessment among PNOC officers and employees upon the recommendation of PCW to determine the appropriate training/seminar intervention that the PCW will conduct as an initial step in mainstreaming the GAD at PNOC.

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

- 5.7 *We recommended that Management coordinate with PCW and discuss the difficulties encountered in using the PCW electronic filing system and how these could be resolved to facilitate the preparation and approval of GAD Plans and Budget and subsequently implement GAD activities in the agency.*
- 5.8 Management will implement the actions as suggested and find even better ways to implement GAD activities timely and effectively.

| |
|------------------------------------|
| B. Compliance with Tax Laws |
|------------------------------------|

Taxes withheld and due to the Bureau of Internal Revenue for CY 2015 were recorded and remitted within the prescribed period.

| |
|--|
| C. Compliance with GSIS, PAG-IBIG and PHILHEALTH premium/loan amortization/deductions and remittances |
|--|

Premiums and loan amortizations due to GSIS, PAG-IBIG and PHILHEALTH for CY2015 were recorded and remitted within the prescribed period.

| |
|--|
| D. Status of Audit Disallowances, Charges and Suspensions |
|--|

There were no Notice of Disallowances, Notice of Charge and Notice of Suspensions issued during the year. There were also no outstanding suspension, disallowance and charges pertaining to prior years as of December 31, 2015.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 16 audit recommendations embodied in the previous years' Annual Audit Reports, eight were fully implemented and eight were partially implemented, as shown in the following table:

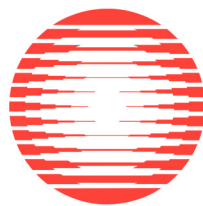
| Reference | Audit Observations | Recommendations | Status of Implementation |
|-------------------------------------|--|--|---|
| 2011 AAR Observation No. 3, page 42 | 1. Six parcels of lots carried in the books at P4.618 million are still registered in the name of PNOC Coal Corporation (PCC). | Make representations with the concerned government agencies in order to have updated information on the status of the reconstitution/ registration of the untitled lots. Further, an investigation should be conducted to determine the nature of PCC's claim on the dry creek and the location thereof. | <p>Partially Implemented</p> <p>The PNOC – Legal Department submitted on November 3, 2014 the Reply-Brief with the Court of Appeals in compliance with the latter's Resolution dated September 29, 2014. All the required pleadings having been submitted, PNOC is still awaiting for the Court of Appeals' issuance of Resolution/ Decision which is still pending thereat as CA-G.R. CV No. 101876 PNOC vs. Republic of the Philippines.</p> <p>As for the creek lot, based on research conducted at the Provincial Environment and Natural Resources Office and Community Environment and Natural Resources Office in Batangas City, the 2,286 sq. m. "creek" cannot be titled under PNOC's name since it is part of the public domain.</p> <p><i>Reiterated in Observation No. 3 in Part II of this Report.</i></p> |

| Reference | Audit Observations | Recommendations | Status of Implementation |
|-------------------------------------|--|---|---|
| 2013 AAR Observation No. 1, page 20 | 2. The existence of PNOC Alternative Fuels Corporation (PAFC) and PNOC Development and Management Corporation (PDMC) has lost its essence as the primary mandate for their creation has become inconsistent to their real estate business activities, to which the PNOC is also engaged in. PNOC Renewables Corporation (PNOC RC), on the other hand, has been in existence for six years but to this date, its projects are still in the pre-development stage and no substantial benefit therefrom has been derived. The benefit gained, if there be any, from their operation is not commensurate to the costs incurred by the government to maintain their operations. | a) Conduct cost-benefit analysis to evaluate if shortening the corporate life of its subsidiaries will be more economically feasible or yield better return for PNOC's investments. | <p>Partially Implemented</p> <p>The Governance Commission for GOCCs (GCG) had already issued notices of abolition/dissolution to PDMC and PAFC in October 2014.</p> <p>A Technical working Group was created which is composed of representatives from the Department of Energy, PNOC and Securities and Exchange Commission to coordinate with the GCG and implement the following activities:</p> <ul style="list-style-type: none"> a. Winding down of the operations, disposition of assets and settlement of liabilities of PDMC and PAFC; b. Transfer of PDMC and PAFC functions and programs, as well as their remaining assets; and c. Settlement of the retirement/ separation benefits of affected employees of PDMC and PAFC <p>The GCG directed the full assumptions by PNOC of PDMC and PAFC's functions, programs and activities in accordance with the Board approved Transition and Turnover Plans and the</p> |

| Reference | Audit Observations | Recommendations | Status of Implementation |
|-------------------------------------|--|--|---|
| | | <p>unserviceable property to Other Assets account; Retain under the Property and Equipment accounts the fully depreciated but still serviceable assets; and</p> <p>d) Prepare the necessary adjusting entries including the unused office supplies as prepayments.</p> | Fully implemented |
| 2013 AAR Observation No. 3, page 26 | 4. The P13.027 million Accounts Payable and Accrued Expenses remained dormant for two to more than 10 years contrary to Section 3.2 of COA Circular No. 99-004. | Require the Accounting Department to go over the old files, review pertinent documents, analyze the transactions, and prepare the necessary adjusting entries. | <p>Fully Implemented</p> <p>The P13.027 million Accounts Payable and Accrued Expenses were already reversed as of August 31, 2015.</p> |
| 2013 AAR Observation No. 4, page 27 | 5. The validity and existence of P2.414 million Special Deposit and Funds could not be substantiated due to the absence of proof of payments and supporting documents. | Explore other alternative methods of obtaining information to substantiate the account balance. | <p>Partially Implemented</p> <p>PNOC had already traced/located the documents on P2.197 million. It is continuously looking for the files/documents to substantiate the remaining balance of P217,150, which pertains mostly to deposits with PLDT.</p> |

| Reference | Audit Observations | Recommendations | Status of Implementation |
|-------------------------------------|---|--|---|
| 2014 AAR Observation No. 3, page 26 | 8. Long-outstanding reconciling items of P3.627 million aged more than 10 years between the PNOC records and the subsidiaries' books of accounts indicated that the year-end balance of <i>Due from Subsidiaries</i> account was unreliable. Moreover, the non-recognition of allowance for impairment loss for these receivables was not in conformity with paragraphs 58 and 59 of PAS 39, resulting in the overstatement of <i>Other Assets – Due from Subsidiaries</i> account. | <p>1. Determine if PSTC has remaining assets to pay for its outstanding accounts;</p> <p>2. Coordinate with the Finance Managers/Accountants of the Subsidiaries to settle the reconciling items and effect the necessary adjusting journal entries in the books so that reliable information is presented in the financial statements; and</p> <p>3. Provide allowance for impairment loss on dormant receivables to determine the net realizable value of <i>Due from Subsidiaries</i> and comply with the provisions of PAS 39.</p> | <p>Partially implemented</p> <p>PSTC is still in the process of winding up.</p> <p>Partially implemented</p> <p>Monthly reconciliation of Intercompany accounts between PNOC and Subsidiaries is being done regularly.</p> <p>PNOC Treasury Department is coordinating with PNOC RC on the P2.26 million interest due from PRC's advances for Solar Home Phase 2 for the period May 3, 2013 to August 31, 2014 because it is being disputed by PRC.</p> <p>Partially implemented</p> <p>Review of the remaining assets of PSTC is still ongoing as the subsidiary is in the process of winding up.</p> <p><i>Reiterated in Observation No. 2 in Part II of this Report.</i></p> |

| Reference | Audit Observations | Recommendations | Status of Implementation |
|-------------------------------------|---|---|--|
| 2014 AAR Observation No. 4, page 29 | 9. The Gender and Development (GAD) Plan and Budget for the year 2014 were not fully implemented, resulting in the underutilization of funds allotted for it. | We recommended that Management exert best efforts to accomplish the Philippine Commission for Women (PCW) - endorsed GAD Plan and Budget for the year and integrate its GAD plan to the company's projects/activities/programs to address gender equality and issues. | <p>Partially implemented</p> <p>Management is still coordinating with institutions that can provide/ conduct trainings/ seminars on Gender and Development issues and concerns relevant to PNOC needs.</p> <p>While still awaiting PCW's approval on the submitted PNOC GAD Plan and Budget, Management shall conduct other GAD-related activities for Implementation in the last quarter of the year so as to comply with the requirement.</p> <p><i>Reiterated in Observation No. 5 in Part II of this Report.</i></p> |



PNOC
The Energy Company

PHILIPPINE NATIONAL OIL COMPANY