



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

ANNUAL AUDIT REPORT

on the

PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)

For the Years Ended December 31, 2021 and 2020

EXECUTIVE SUMMARY

A. Introduction

1. On March 13, 2002, the Board of Directors (BOD) of Philippine National Oil Company (PNOC) passed Resolution No. 1393, approving the recommendation of PNOC Management for the creation of the PNOC New and Renewable Energy Sources Corporation (PNOC-NRES Corporation) resulting in the reactivation of the PNOC Dockyard and Engineering Corporation (PDEC) and the amendment of its corporate purposes to serve as the corporate vehicle for the creation of PNOC-NRES Corporation.
2. On October 17, 2007, PNOC reactivated the PDEC through its Board Resolution No. 1706 for the purpose of reorganizing it into PNOC Renewables Corporation (PNOC RC). The amended Articles of Incorporation was approved by the Securities and Exchange Commission on March 7, 2008.
3. PNOC RC's primary purpose is to promote and undertake research, development, utilization, manufacture, sale, marketing, distribution and commercial application of new, renewable, non-conventional and environment-friendly energy sources and systems including, but not limited to, solar, wind, water, heat, steam, ocean, tidal, biomass, biogas, chemical, mechanical, electrical, synthetic, agricultural, and other natural, fossil or non-fossil fuel based, artificial, organic or otherwise, and of energy systems that use new, renewable and any energy resources applying new and efficient energy conversion and/or utilization of technologies for commercial application and promote their efficient utilization.
4. Presently, the membership of the governing BOD of PNOC RC, as subsidiary of PNOC which is attached to Department of Energy, is consist of eight directors including the Secretary of Department of Energy as Chairman. PNOC RC is headed by its President and Chief Executive Officer.
5. PNOC RC operated at an approved corporate operating budget of P71.632 million for CY 2021.

B. Objectives and Scope of Audit

1. The audit was conducted to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
2. The audit covered the examination on a test basis of the accounts and financial transactions and operations of PNOC RC for the period January 1 to December 31, 2021 in accordance with ISSAIs. The audit also involved performing procedures to

ascertain the propriety of financial transactions and compliance of PNOC RC to prescribed laws, rules and regulations.

C. Financial Highlights (In Million Pesos)

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

Financial Position			
	2021	2020	Increase (Decrease)
Assets	801.044	845.789	(44.745)
Liabilities	51.246	61.130	(9.884)
Equity	749.798	784.658	(34.860)

Results of Operation			
	2021	2020	Increase (Decrease)
Total Income	24.625	33.561	(8.936)
Total Expenses	65.202	71.325	(6.123)
Profit/(Loss) Before Tax	(40.577)	(37.764)	2.813
Income Tax Expense	(0.052)	(0.145)	(0.093)
Comprehensive Loss	(40.629)	(37.909)	2.720

C. Auditor's Opinion

The Auditor rendered an unmodified opinion on the fairness of presentation of the 2021 and 2020 financial statements of PNOC RC as stated in the Independent Auditor's Report in Part I of this Report.

D. Status of Audit Suspensions, Disallowances and Charges as of Year-end

There was no Notice of Suspension, Notice of Disallowance and/or Notice of Charge issued to PNOC RC for the Calendar Year 2021 and as at year end.

E. Statement of Prior Years' Audit Recommendations

Out of the nine audit recommendations embodied in the previous years' Annual Audit Reports, two were fully implemented and seven were partially implemented wherein three of which were reiterated with updates, as shown in Part III of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

PNOC Renewables Corporation
Energy Center, Rizal Drive
Bonifacio Global City, Taguig City

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of PNOC Renewables Corporation (PNOC RC), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PNOC RC as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 3.3 to the financial statements which disclosed, among others, that PNOC RC had net loss of P40.629 million in 2021 and incurred accumulated net losses of P380.197 million from 2013 to 2021. Management believes that these conditions raise substantial doubt about the PNOC RC's ability to continue as a going concern within the

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next twelve months from the date the financial statements are available to be issued. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PNOC RC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PNOC RC's ability to continue as a going concern. If we conclude that a material

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uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PNOC RC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

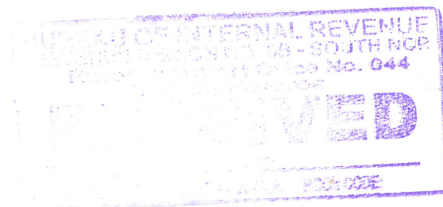
Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under the Revenue Regulations No. 15-2010 in Note 31 and the Revised Securities Regulation Code Rule 68 in Note 32 to the financial statements are presented for the purpose of filing with the Bureau of Internal Revenue and the Securities and Exchange Commission, respectively, and are not required parts of the basic financial statements. Such supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


JONATHAN B. JAVIER
OIC - Supervising Auditor

March 30, 2022



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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of PNOC Renewables Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended December 31, 2021, in accordance with prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

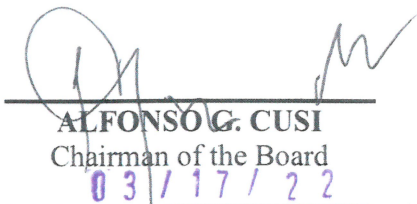
The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders or members.

Commission on Audit, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards of Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



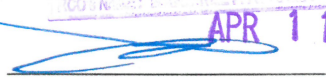
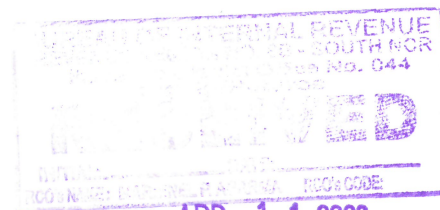
JAMES E. ZARAGOSA
Treasurer

Date Signed



ALFONSO G. CUSI
Chairman of the Board

Date Signed



JOHN J. ARENAS
President and CEO

Date Signed

SUBSCRIBED AND SWORN to before me this

Taguig, affiant exhibiting to me their respective Government issued IDs.

ATTY. KARL KRISTIAN B. MORO

Appointment No. 09 (2020-2021)

Notary Public for Taguig City

Until 31 December 2021

Extended till 30 June 2022 through BM 3795

PNOC Building VI, Energy Center, Rizal Drive

Bonifacio Global City, Taguig City

Roll of Attorneys No. 64581

IBP No. 199854/01.20.2022/ Makati

MCLE Compliance No. VI-0003924

PTR No. MKT 8883581/01.26.2022/ Makati

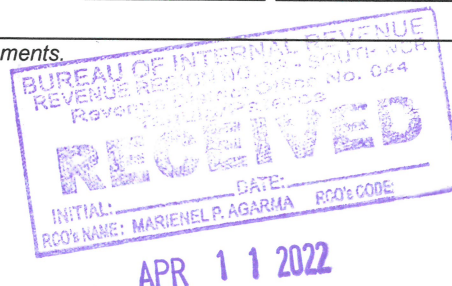
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PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 AND 2020

	<u>NOTE</u>	<u>2021</u>	<u>2020</u> (As restated)
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	8,428,702	103,784,353
Receivables	9	9,775,546	20,077,146
Other Current Assets	12	39,290,959	40,013,797
Total Current Assets		57,495,207	163,875,296
Non-Current Assets			
Financial Assets	8.1	127,567,850	53,624,828
Other Investments	8.2	161,841,400	161,841,400
Receivables	9	51,955,902	51,955,902
Investment Property	10	277,529,750	277,529,750
Property, Plant and Equipment	11	119,880,918	131,392,644
Other Non-Current Assets	12	4,772,782	5,568,783
Total Non-Current Assets		743,548,602	681,913,307
Total Assets		801,043,809	845,788,603
LIABILITIES			
Current Liabilities			
Financial Liabilities	13	3,454,629	6,026,720
Inter-Agency Payables	14	5,855,964	7,332,413
Trust Liabilities	15	10,641,318	10,646,934
Other Payables	18	8,927,775	14,045,577
Total Current Liabilities		28,879,686	38,051,644
Non-Current Liabilities			
Deferred Credits/Unearned Income	16	6,267,701	6,979,809
Deferred Tax Liabilities	17	16,098,840	16,098,840
Total Non-Current Liabilities		22,366,541	23,078,649
Total Liabilities		51,246,227	61,130,293
EQUITY			
Revaluation Surplus	19	252,215,149	252,215,149
Retained Earnings	19	122,610,433	157,471,161
Stockholders' Equity	19	374,972,000	374,972,000
Total Equity		749,797,582	784,658,310
Total Liabilities and Equity		801,043,809	845,788,603

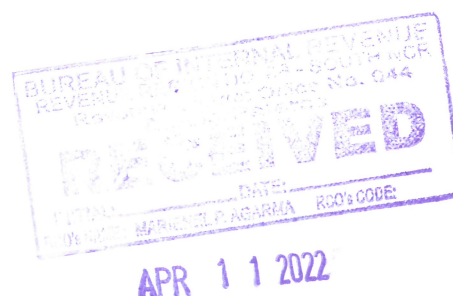
The notes on pages 9 to 42 form part of these financial statements.



PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>NOTE</u>	<u>2021</u>	<u>2020</u>
Income			
Service and Business Income	20	24,622,905	33,023,789
Other Non-Operating Income	21	2,454	537,588
Total Income		24,625,359	33,561,377
Expenses			
Personnel Services	22	(37,063,651)	(39,486,603)
Maintenance and Other Operating Expenses	23	(13,310,121)	(14,409,702)
Financial Expenses	24	(303,969)	(497,905)
Direct Costs	25	(11,284,827)	(12,520,272)
Non-Cash Expenses	26	(3,239,575)	(4,410,433)
Total Expenses		(65,202,143)	(71,324,915)
Loss Before Tax		(40,576,784)	(37,763,538)
Income Tax Expense	28	(51,817)	(145,039)
Comprehensive Loss		(40,628,601)	(37,908,577)

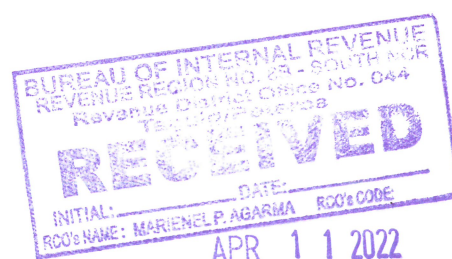
The notes on pages 9 to 42 form part of these financial statements.



PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

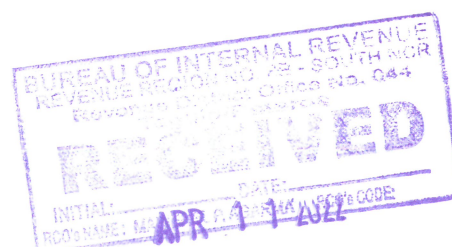
	Revaluation Surplus	Share Capital	Retained Earnings- Unappropriated (Restated)	TOTAL
BALANCE AT JANUARY 1, 2020	252,215,149	374,972,000	169,968,030	797,155,179
ADJUSTMENTS:				
Add/(Deduct):				
Other Adjustments	0	0	25,978,132	25,978,132
BALANCE AT DECEMBER 31, 2020 (As restated)	252,215,149	374,972,000	195,946,162	823,133,311
CHANGES IN EQUITY FOR 2020				
Add/(Deduct):				
Comprehensive Loss for the year	0	0	(37,908,577)	(37,908,577)
Other Adjustments:				
Prior Period Adjustments	0	0	(566,424)	(566,424)
BALANCE AT DECEMBER 31, 2020	252,215,149	374,972,000	157,471,161	784,658,310
CHANGES IN EQUITY FOR 2021				
Add/(Deduct):				
Comprehensive Loss for the year	0	0	(40,628,601)	(40,628,601)
Other Adjustments:				
Prior Period Adjustments	0	0	5,767,873	5,767,873
BALANCE AT DECEMBER 31, 2021	252,215,149	374,972,000	122,610,433	749,797,582

The notes on pages 9 to 42 form part of these financial statements.



PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Proceeds from Sale of Goods and Services	13,597,779	16,121,495
Collection of Income/Revenue	3,775,390	7,430,708
Other Receipts	2,454	537,588
Total Cash Inflows	<u>17,375,623</u>	<u>24,089,791</u>
Cash Outflows		
Payment of Expenses	(37,985,692)	(72,390,132)
Grant of Cash Advances	(50,000)	(8,600)
Remittance of Personnel Benefit Contributions and Mandatory Deductions	(8,055,641)	(9,763,133)
Total Cash Outflows	<u>(46,091,333)</u>	<u>(82,161,865)</u>
Net Cash Used in Operating Activities	<u>(28,715,710)</u>	<u>(58,072,074)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Inflows		
Receipt of Cash Dividends	8,000,000	7,000,000
Proceeds from Matured Investments/Redemption of Long-term Investments/Return on Investments	191,411,377	161,812,930
Total Cash Inflows	<u>199,411,377</u>	<u>168,812,930</u>
Cash Outflows		
Construction of Property, Plant and Equipment	(737,041)	(439,487)
Purchase of Investments	(265,314,277)	(20,377,184)
Total Cash Outflows	<u>(266,051,318)</u>	<u>(20,816,671)</u>
Net Cash Provided (Used In) By Investing Activities	<u>(66,639,941)</u>	<u>147,996,259</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(95,355,651)</u>	<u>89,924,185</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>103,784,353</u>	<u>13,860,168</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>8,428,702</u>	<u>103,784,353</u>



PNOC RENEWABLES CORPORATION
(A Wholly-Owned Subsidiary of Philippine National Oil Company)
Notes to Financial Statements

1. GENERAL INFORMATION/ENTITY PROFILE

The financial statements of PNOC Renewables Corporation (*herein referred to as PNOC RC*) was authorized for issue on March 17, 2022 as shown in the Statement of Management's Responsibility for Financial Statements signed by Secretary of Energy Alfonso G. Cusi, the Chairman of the Board of Directors, Mr. John J. Arenas, President and Chief Executive Officer, and Mr. James E. Zaragoza, Treasurer.

The reactivation of the PNOC Dockyard and Engineering Corporation (PDEC) and the amendment of its corporate purposes to serve as the corporate vehicle for the creation of PNOC New and Renewable Energy Sources Corporation (PNOC-NRES) was passed by the Board of Directors of Philippine National Oil Company (PNOC) on March 13, 2002 per Board Resolution No. 1393, approving the recommendation of PNOC Management for the creation of PNOC-NRES.

On October 17, 2007, PNOC reactivated the PDEC through its Board Resolution No. 1706 for the purpose of reorganizing it into PNOC RC. The amended Articles of Incorporation was approved by the Securities and Exchange Commission on March 7, 2008.

PNOC RC was created primarily to promote and undertake research, development, utilization, manufacture, sale, marketing, distribution and commercial application of new, renewable, non-conventional and environmental-friendly energy sources and system including but not limited to solar, wind, water, heat, steam, ocean, tidal, biomass, biogas, chemical, mechanical, electrical, synthetic, agricultural, and other natural, fossil or non-fossil fuel based, artificial, organic or otherwise, and of energy systems that use new, renewable and any energy resources applying new and efficient energy conversion and/or utilization of technologies for commercial application and promote their efficient utilization.

PNOC RC, a wholly-owned subsidiary of PNOC, is the primary vehicle of the government in promoting, developing and implementing new and renewable energy sources in the country. Through renewable energy, the country would be able to reduce its dependence on imported oil while mitigating climate change. It is an important component in the country's drive towards energy self-sufficiency, security and independence.

The principal and registered office address of PNOC RC is at 1st floor, PNOC Building 5, Energy Center, Bonifacio Global City, Taguig City.

2. STATUS OF OPERATIONS

A. Geothermal Projects

Maibarara Geothermal Power Project

The project is operated by Maibarara Geothermal, Inc. (MGI), a joint venture with 65 percent owned by PetroGreen Energy Corporation, 25 percent owned by PHINMA Energy Corporation (formerly Trans-Asia Oil and Energy Development) and 10 percent owned by PNOC RC.

The project started its commercial operations on February 8, 2014 and April 30, 2018 for the 20MW and 12MW respectively. This project is situated in Sto. Tomas, Batangas.

B. Hydropower Projects

The existing projects as of December 31, 2021 are as follows:

Name/Service Contract No.	Location	Capacity	Status
Pampanga River Irrigation System Main Canal (PRIS MC) Hydroelectric Power Project HSC No. 2013-12-346	Rizal, Nueva Ecija	1.00 MW	<p>The project was inaugurated last December 9, 2015. Testing and commissioning of the power plant was conducted in January to March 2016. The Energy Regulatory Commission released the Certificate of Compliance on June 30, 2016; thus, commercial operation was on July 1, 2016.</p> <p>The project is owned by PNOC RC and NDC with 50 percent share each.</p> <p>Ongoing Operation and Maintenance</p>
Kabayan-2 Hydroelectric Power Project (formerly Nalatang B Hydroelectric Power Project) HSC No. 2009-10-34	Kabayan, Benguet	52 MW	<p>In February 2015, PNOC RC signed a JV Agreement with Aboitiz Power Corporation (APC) for the development of the project that is now estimated to be 52MW (previously 44MW) based on APC's latest study. The DOE has approved the assignment of the service contract from PNOC RC to APC and later to Hedcor Cordillera, Inc., the Special Purpose Vehicle created by APC for the project. In June 2016, the DOE signed the amended service contract covering the increase in capacity to 52MW and the change in name to Kabayan 2 HEP. Further, the Project is now under Hedcor Kabayan Inc., formerly Hedcor Cordillera Inc.</p> <p>The project was put on hold due to the issues with the Distribution Utility and Indigenous People.</p>

Name/Service Contract No.	Location	Capacity	Status
			PNOC RC's share in this project is one percent of the gross revenue.

C. Solar and Wind

In 2015, PNOC RC launched a program to install solar rooftop Photovoltaic system in different government institutions. The primary objective of this program is to promote the use of renewable energy in the government.

The on-going projects as of December 31, 2021 are as follows:

Name/Service Contract No.	Location	Capacity	Status
Philippine International Convention Center (PICC) Reception, Secretariat, and Delegation Hall	Manila	1.20 MW	Date of MOA: Sep 15, 2017 Ongoing Operation and Maintenance
LGU Naga City - Enan Chiong Activity Center	Cebu	100 KW	Date of MOA: Sep 19, 2017 Ongoing Operation and Maintenance
Bangko Sentral ng Pilipinas (BSP) - Security Plant Complex	Quezon City	400 KW	Date of MOA: Feb 9, 2017 Ongoing Operation and Maintenance
Bangko Sentral ng Pilipinas (BSP) - Electronic Data Processing Center	Manila	200 KW	Date of MOA: Dec 29, 2016 Ongoing Operation and Maintenance
Commission on Audit (COA) - PIDS and Dormitory	Quezon City	200 KW	Date of MOA: May 30, 2016 Ongoing Operation and Maintenance
Philippine Coconut Authority (PCA) - R&D Building	Quezon City	80 KW	Date of MOA: Mar 29, 2016 Ongoing Operation and Maintenance
University of the Philippines – Diliman (UPD) - Palma, Melchor, and Quezon Hall	Quezon City	240 KW	Date of MOA: Mar 1, 2016 Ongoing Operation and Maintenance
Department of Environment and Natural Resources (DENR) - Environment Management Bureau	Quezon City	100 KW	Date of MOA: Dec 1, 2015 Ongoing Operation and Maintenance
Department of Science and Technology (DOST) - Science Heritage Building	Taguig	100 KW	Date of MOA: Jun 2, 2015 Ongoing Operation and Maintenance
Philippine Heart Center (PHC) - Medical Arts Building	Quezon City	100 KW	Date of MOA: May 11, 2015 Ongoing Operation and Maintenance

Wind

Further, in July 2013, Jobin Sgm Inc. (JSI) and PNOC RC signed a memorandum of agreement where PNOC RC will assist JSI in securing the service contracts for a 50 MW wind project and 100 MW solar project in Subic, Zambales. In return, PNOC RC shall receive five centavos for every kilowatt-hour of energy sold and collected. The service contract for the projects was awarded in October 2013. The project was later acquired by Emerging Power Inc. including JSI's responsibility under the Service Agreement. However, to date, only 7MW of solar facility has been constructed and there is no development yet on the wind farm component.

In 2021, Jobin Sgm Inc. (JSI) offered to pay PNOC RC its share for the termination of service contract agreements.

D. Energy Efficiency Lighting

PNOC RC launched the Energy Efficient Lighting (EEL) Program in 2015. There are options for EEL like the use of halogen incandescent, compact fluorescent lamps, and light-emitting diodes (LEDs). PNOC RC is proposing the use of LEDs, as they are the most energy-efficient in the market today.

As of December 31, 2020, PNOC RC have installed an aggregate of 3,725 bulbs at the Philippine Public Safety College in Silang, Cavite.

E. Ocean

PNOC-RC signed on October 27, 2016 a Memorandum of Understanding (MOU) with H&WB, which has three Service Contracts from the Department of Energy, mainly in San Bernardino Strait, with Sabella SAS of France, which is a global leader in the marine energy industry. H&WB had earlier performed ocean resource assessment, and preliminary in situ current measurements to determine the overall energy potential of San Bernardino Strait between Matnog in Sorsogon and Northern Samar.

The above-cited undertaking in ocean energy is in addition to the MOU with Bell Pirie Power Corp. and Akuo Energy signed in February 2015 for ocean thermal conversion. Bell Pirie Power Corp. is a holder of Ocean Energy Service Contract that covers 1,296 hectares of ocean site in Cabangan, Zambales. The project in Zambales is expected to generate 10 MW of power using ocean thermal energy conversion technology; however, the project is presently on-hold due to issues on feed-in-tariff for ocean.

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

3.1 Statement of Compliance

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

The accounting policies have been consistently applied throughout the year.

3.2 Basis of Preparation

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

The financial statements are presented in Philippine peso, which is the functional and presentation currency of the Philippines. Amounts are rounded off to the nearest peso, unless otherwise stated.

The preparation of financial statements in compliance with the adopted PFRS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 4.

3.3 Going Concern

The financial statements have been prepared on a going concern basis which assumes that PNOC RC will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. PNOC RC has a net loss of P40.629 million in the current year and had incurred accumulated net losses of P380.197 million from 2013 to 2021. Cash flows used in operations totaled P28.715 million for the year ended December 31, 2021.

Management believes these conditions raise substantial doubt about the PNOC RC's ability to continue as a going concern within the next twelve months from the date these financial statements are available to be issued. The ability to continue as going concern is dependent upon profitable future operations, positive cash flows and additional financing. To fund its new projects, PNOC RC's options include (1) taking out a loan from PNOC for each feasible project undertaken subject to PNOC's rules and guidelines on project funding (2) project financing through local banks and (3) partnering with government (NEA, NDC, etc.) and private entities. PNOC RC may also consider to divest some of PNOC RC's properties in order to do the different pre-development activities of the projects. In addition, the Management will be implementing cost cutting measures to minimize the impact of Negative Cash Flow condition. PNOC RC's ability to obtain new capital infusion from parent PNOC, and project financing through banks and partners are not known at this time.

Renewable Energy (RE) development requires high capitalization and long gestation. It is expected that companies developing renewable energy projects will be in the net loss position until the commercial operation of the projects. In line with this peculiarity of RE development, PNOC RC pursued Renewable Energy projects of lower capacity, low capital, and with short gestation period. Since 2013, PNOC RC has completed a total of about 2,970 kW of different renewable energy projects (1 MW Rizal Hydropower Project, 100 kWp Philippine Heart Center, 100 kWp Department of Science and Technology, 100 kWp Department of Environment and Natural Resources, 80 kWp Philippine Coconut Authority, 240 kWp UP Diliman, 200 kWp Commission on Audit, 600 kWp Bangko Sentral ng Pilipinas, 100 kWp LGU Naga

Cebu, 1050 kWp Philippine International Convention Center Solar Rooftop Projects, and Philippine Public Safety College Energy Efficiency Project). On the other hand, PNOC RC invested in the 32 MW Maibarara Geothermal Project that has been operational since 2014 for the 20 MW and 2018 for the 12 MW expansion.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 *Basis of accounting*

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

4.2 *Financial Instruments*

a. Financial assets

i. Classification and measurement

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

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

- a. At amortized cost - a financial asset is measured at amortized cost if both of the following conditions are met:
 - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- b. At FVOCI - a financial asset is measured at FVOCI if both of the following conditions are met:
 - the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- c. At FVPL - any financial assets that are not held in one of the two business models mentioned are measured at FVPL.

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

PNOC RC's financial assets include cash and cash equivalents, trade and other trade receivables and quoted and unquoted financial instruments. PNOC RC has no derivative financial instrument as at December 31, 2021.

ii. Derecognition

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

1. the contractual rights to the cash flows from the financial asset expired or waived; and
2. PNOC RC has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PFRS 9; and either the Corporation has:
 - transferred substantially all the risks and rewards of ownership of the financial asset; or
 - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iii. Impairment of financial assets

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

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty;
2. Default or delinquency in interest or principal payments;
3. The probability that debtors will enter bankruptcy or other financial reorganization; and

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

a. Financial assets carried at amortized cost

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

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

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

b. Financial liabilities

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

After initial recognition, any financial liability cannot be reclassified.

c. Derecognition

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially

modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

d. Offsetting of financial instruments

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

e. Fair value of financial instruments

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

4.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

4.4 Investment Property

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

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. PNOC RC uses the cost method for the measurement of investment property after initial recognition.

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

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

In calendar year (CY) 2016, an error occurred in disclosures to Notes to Financial Statements relative to the valuation model used for investment property that carried up to CY 2018. A fair value method was inadvertently written instead of cost method, this error caused the modification of audit opinions from CY 2018 and 2019. PNOC

RC reiterates that the company does not change its accounting policy pertaining to valuation of investment property from the time it was transferred from PPE in CY 2014. Aside from the fact that PNOC RC is not primarily engaged in real estate business, the company sees best to recognize this investment property under cost method due to some contingencies in the properties (see Notes 10 and 29).

4.5 Property, Plant and Equipment

a. Recognition

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

The characteristics of PPE are as follows:

- i. Tangible items;
- ii. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- iii. Are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- i. It is probable that future economic benefits or service potential associated with the item will flow to the entity;
- ii. The cost or fair value of the item can be measured reliably; and
- iii. The cost is at least P15,000.

b. Measurement at recognition

An item recognized as property, plant, and equipment is measured at cost.

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

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

Cost includes the following:

- i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- ii. Expenditure that is directly attributable to the acquisition of the items; and
- iii. Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during

a particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

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

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

d. Depreciation

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

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

i. Initial recognition of depreciation

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

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

ii. Depreciation method

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

iii. Estimated useful life

PNOC RC uses the life span of PPE based on the estimated useful lives of the assets as follows:

Category	Estimated Useful Life (in years)
Infrastructure Assets	5 to 15
Building and Other Structures	25
Transportation Equipment	5
Leased Asset Buildings and Other Structures	5

Category	Estimated Useful Life (in years)
Machinery and Equipment	3 to 10
Furniture, Fixtures and Books	3 to 5

iv. Residual value

PNOC RC implemented the residual value equivalent to at least five percent of the cost of the PPE except for Infrastructure Assets due to the contract provisions.

e. Impairment

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

f. Derecognition

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

4.6 Leases

PNOC RC as a lessee

PFRS 16 supersedes PAS 17, Leases. PNOC RC adopted PFRS 16 using modified retrospective approach, as a result of the adoption, the Corporation recognized right-of-use (ROU) assets of P8,142,899 and lease liability of P8,142,899, reported in Property, Plant and Equipment and Financial liabilities, respectively, on the statement of financial position.

The following table shows the movement in the ROU assets and lease liability for the year ended December 31, 2021:

	ROU Asset	Lease Liability
Balance as at January 1, 2020	8,142,899	8,142,899
Interest Expense	0	418,608
Rental payments	0	(2,995,593)
Depreciation	(2,791,851)	0
Balance as at December 31, 2020	5,351,048	5,565,914
Changes for 2021		
Interest Expense	0	257,993
Rental payments	0	(3,055,505)
Depreciation	(2,791,851)	0
Balance as at December 31, 2021	2,559,197	2,768,402

The PNOC RC incremental borrowing rate applied to lease liabilities as at January 1, 2021 was six percent.

Prior to adoption of PFRS 16, the Corporation classified Leases as operating lease.

4.7 Provisions, Contingent Liabilities and Contingent Assets

i. Provisions

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

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

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

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

ii. Contingent liabilities

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

iii. Contingent assets

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

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

4.8 Changes in Accounting Policies and Estimates

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

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

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

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

4.9 Foreign Currency Transactions

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

At each reporting date:

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

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

4.10 Revenue from Non-exchange Transactions

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

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

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

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

b. Recognition of revenue from non-exchange transactions

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

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

c. Measurement of revenue from non-exchange transactions

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

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

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

e. Fees and fines not related to taxes

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

Other non-exchange revenue are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

f. Gifts and donations

PNOC RC recognizes assets and revenue from gifts and donations when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

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

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

g. Transfers

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

h. Services in-kind

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

i. Transfers from other government entities

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

4.11 Revenue from Exchange Transactions

a. Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

b. Rendering of services

PNOC RC recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

c. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of

the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to PNOC RC.

d. Interest income

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

e. Dividends

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

4.12 Impairment of Non-Financial Assets

a. Impairment of cash-generating assets

At each reporting date, PNOC RC assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PNOC RC estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or the cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, PNOC RC estimates the asset's or cash-generating unit's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of

depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

b. Impairment of non-cash-generating assets

PNOC RC assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PNOC RC estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. PNOC RC classifies assets as cash-generating assets when those assets are held with the primary objective generating a commercial return. Therefore, non-cash-generating assets would be those assets from which PNOC RC does not intend (as its primary objective) to realize a commercial return.

4.13 Related Parties

PNOC RC regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over PNOC RC or vice versa.

Members of key management are regarded as related parties and comprise the members of the Board of Directors, the President and Chief Executive Officer and the members of the Management Committee.

4.14 Borrowing Costs

For loans borrowed directly by PNOC RC, the allowed alternative treatment is used. As of December 31, 2021, PNOC RC has no existing loan.

4.15 Employee Benefits

The employees of PNOC RC are members of the Social Security Services (SSS), which provides life and retirement insurance coverage.

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

4.16 Measurement Uncertainty

The preparation of financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of significant estimates include

the useful life of a capital asset, estimated employee benefits, rates for amortization, impairment of assets, etc.

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

5. CHANGES IN ACCOUNTING POLICIES

PNOC RC adopted the following new accounting policies:

5.1 Adoption of Revised Chart of Accounts (RCA)

As at December 31, 2017, PNOC RC adopted the conversion of accounts and account codes to the Revised Chart of Accounts in compliance with COA Circular No. 2015-010, *“Adoption of the RCA for Government Corporations (GCs) which consists of Government-Owned and Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), Government Instrumentalities with Corporate Powers (GICPs)/ Government Corporate Entities (GCEs), and their Subsidiaries and Water Districts”*, dated December 1, 2015 and COA Circular No. 2016-006, *“Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System”* per COA Circular No. 2004-008 dated September 20, 2004, as amended to the *“Revised Chart of Accounts for Government Corporations under COA Circular No. 2015-010 dated December 1, 2015, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof”*, dated December 29, 2016.

5.2 Preparation of Financial Statements and Other Financial Reports

Also as at December 31, 2020, PNOC RC implemented COA Circular No. 2020-002, *“Adoption of the Updated Revised Chart of Accounts for Government Corporation (2019)”*, dated January 28, 2020.

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

5.3 New PFRS, amended PFRS and improvements to PFRS

- i. The accounting policies adopted in the preparation of the financial statements are consistent with the previous years. Amendments to PFRS are as follows:

Effective on January 1, 2020

a. PFRS 16, Leases

PFRS 16 supersedes the following standards and interpretations:

- PAS 17, Leases

- International Financial Reporting Interpretations Committee (IFRIC 4), Determining whether an Arrangement contains a Lease
- Standing Interpretations Committee (SIC)-15, Operating Leases-Incentives; and
- SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for generally all leases under a single on-balance sheet model. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

- ii. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of PNOC RC.
 - a. Amendments to PFRS 9, *Prepayment Features with Negative Compensation*;
 - b. Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*;
 - c. Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

6. PRIOR PERIOD ADJUSTMENTS

In 2021, several adjustments pertaining to accruals and other current assets from prior years' transactions were made which resulted in a debit to Retained Earnings amounting to P5,767,873.

7. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2021	As at December 31, 2020
<i>Cash in Bank-Local Currency</i>	8,428,702	103,784,353
Total	8,428,702	103,784,353

Cash in Bank-Local Currency are cash deposits that earn interest at the respective bank deposit rates. PNOC RC depository banks include the Land Bank of the Philippines and Development Bank of the Philippines.

8. INVESTMENTS

8.1 Financial Assets

a. Reconciliation of the Non-Current Financial Assets

NON-CURRENT FINANCIAL ASSETS As at December 31, 2021		
Particulars	Financial Assets-Held to Maturity	Total

Beginning Balance as at January 1, 2021	53,624,828	53,624,828
Additional Investments made	265,314,278	265,314,278
Less: <i>Fair value decrease</i>		
<i>Amortization of premium on acquisition</i>	(250,096)	(250,096)
<i>Investments collected</i>	(191,121,160)	(191,121,160)
Balance as at December 31, 2021	127,567,850	127,567,850

NON-CURRENT FINANCIAL ASSETS		
As at December 31, 2020		
Particulars	Financial Assets- Held to Maturity	Total
Beginning Balance as at January 1, 2020	194,414,949	194,414,949
Less: <i>Fair value decrease</i>		
<i>Amortization of premium on acquisition</i>	(370,911)	(370,911)
<i>Investments collected</i>	(140,419,210)	(140,419,210)
Balance as at December 31, 2020	53,624,828	53,624,828

Financial Assets-Held to Maturity consist of Investment in Treasury bills and Investment in bonds which are made for varying periods of more than 90 days and earn interest at 1.20 percent to 3.40 percent deposit rates.

8.2 Other Investments – Non-Current

Particulars	As at December 31, 2021	As at December 31, 2020
Investment in Stocks		
PLDT Preferred Shares	21,200	21,200
Total Investment in Stocks	21,200	21,200
Other Investments		
Investment in Maibarara Geothermal, Inc.	161,820,200	161,820,200
Total Other Investments	161,820,200	161,820,200
Total	161,841,400	161,841,400

In May 2021, PNOC RC applied for the redemption of PLDT Preferred Shares and its proceeds and dividends were collected only in January 2022.

9. RECEIVABLES

9.1 Loans and Receivables

Accounts	2021			2020 (As restated)		
	Current	Non- Current	Total	Current	Non- Current	Total
Accounts Receivable	5,643,132	51,955,902	57,599,034	12,252,820	51,955,902	64,208,722
Interests Receivable	1,343,166	0	1,343,166	2,693,070	0	2,693,070
Total	6,986,298	51,955,902	58,942,200	14,945,890	51,955,902	66,901,792

In 2020, a restatement due to reversal of Allowance for Impairment Loss recognized in 2019 and a reclassification from current to non-current receivables were made relative to the implementation of the Barangay Electrification Project (Phase 3).

9.2 Aging of Receivables

As at December 31, 2021

Accounts	Total	Not past due	Past due		
			<30 days	30-60 days	> 60 days
Accounts Receivable	57,599,034	2,785,869	0	549,822	54,263,343
Interests Receivable	1,343,166	1,343,166	0	0	0
Inter-Agency Receivables	1,548,454	1,548,454	0	0	0
Other Receivables	1,240,794	1,240,794	0	0	0
Total	61,731,448	6,918,283	0	549,822	54,263,343

9.3 Inter-Agency Receivables

Accounts	2021	2020
Due from Joint Ventures	1,548,454	2,607,899
Total	1,548,454	2,607,899

Decrease in this account is due to the payment of expenses from joint venture operation on Rizal hydropower project.

9.4 Other Receivables

Accounts	2021		2020	
	Current	Total	Current	Total
Due from Officers and Employees	342,450	342,450	372,261	372,261
Other Receivables	898,344	898,344	2,151,096	2,151,096
Total	1,240,794	1,240,794	2,523,357	2,523,357

10. INVESTMENT PROPERTY

Particulars	2021			2020		
	Investment Property-Land	Investment Property-Buildings	Total	Investment Property-Land	Investment Property-Buildings	Total
Carrying Amount, January 1	277,529,750	0	277,529,750	277,529,750	0	277,529,750
Transfers from owner-occupied property	0	0	0	0	0	0
Carrying Amount, December 31 (As per Statement of Financial Position)	277,529,750	0	277,529,750	277,529,750	0	277,529,750
Gross Cost (Balance per Statement of Financial Position)	277,529,750	13,905,734	291,435,484	277,529,750	13,905,734	291,435,484

Accumulated Depreciation	0	(13,905,734)	(13,905,734)	0	(13,905,734)	(13,905,734)
Carrying Amount, December 31 (As per Statement of Financial Position)	277,529,750	0	277,529,750	277,529,750	0	277,529,750

The *Investment Property – Land* of PNOC RC consists of 12 land holdings totaling 166,416 square meters located in Brgy. Bolo, San Roque and Brgy. San Miguel in Bauan, Batangas. These properties were acquired from PNOC Dockyard and Engineering Corporation and PNOC Marine which were the predecessor companies of PNOC RC, as follows:

Location	Tax Declaration	Area	Carrying Value
San Miguel, Bauan, Batangas*	05-0032-00027	2,340	3,478,040
San Miguel, Bauan, Batangas*	05-0032-00119	5,302	7,880,584
San Miguel, Bauan, Batangas*	05-0032-00118	4,360	6,480,450
San Miguel, Bauan, Batangas*	05-0032-00117	5,175	7,691,819
San Miguel, Bauan, Batangas*	05-0032-00079	3,635	5,402,853
San Miguel, Bauan, Batangas*	T-76365	84,180	125,120,254
San Roque, Bauan, Batangas	05-0035-01610	1,202	4,447,400
San Miguel, Bauan, Batangas	05-0032-00042	899	1,348,500
Bolo, Bauan, Batangas	05-0011-01159	14,935	29,123,250
Bolo, Bauan, Batangas	05-0011-01161	2,322	4,527,900
Bolo Bauan, Batangas	05-0011-01160	16,215	31,619,250
Bolo, Bauan, Batangas	T-80536	25,851	50,409,450
Total		166,416	277,529,750

* Under litigation with issue on citizenship

Six of the properties in the above table are currently under litigation with Keppel Philippines Holdings, Inc.

Investment Property – Buildings consists of staff houses, guesthouse, clubhouse, maintenance quarter and guardhouse located on the same land properties.

11. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2021

	Leased Assets	Infrastructure Assets	Transportation Equipment	Furniture & Fixture and Books	Machinery & Equipment	Construction in Progress	Total
Carrying Amount, January 1, 2020	5,351,048	125,111,015	411,709	128,112	390,760	0	131,392,644
Additions/Capitalization	0	737,041	0	0	0	0	737,041
Total	5,351,048	125,848,056	411,709	128,112	390,760	0	132,129,685
Disposal	0	(225,708)	(34,000)	0	0	0	(259,708)
Depreciation (As per Statement of Financial Performance)	(2,791,851)	(8,975,192)	(108,400)	0	(113,616)	0	(11,989,059)
Carrying Amount, December 31, 2021 (As per Statement of Financial Position)	2,559,197	116,647,156	269,309	128,112	277,144	0	119,880,918
Gross Cost (Asset Account Balance per Statement of Financial Position)	8,142,899	159,737,989	1,528,085	7,088,073	7,624,008	0	184,121,054
Accumulated Depreciation	(5,583,702)	(43,090,833)	(1,258,776)	(6,959,961)	(7,346,864)	0	(64,240,136)
Carrying Amount, December 31, 2021 (As per Statement of Financial Position)	2,559,197	116,647,156	269,309	128,112	277,144	0	119,880,918

As at December 31, 2020

	Leased Assets	Infrastructure Assets	Transportation Equipment	Furniture & Fixture	Machinery & Equipment	Construction in Progress	Total
Carrying Amount, January 1, 2020	0	134,878,944	718,267	589,484	878,265	0	137,064,960
Additions/Capitalization	8,142,899	424,107	0	0	15,379	0	8,582,385
Total	8,142,899	135,303,051	718,267	589,484	893,644	0	145,647,345
Disposal	0	(347,767)	0	0	0	0	(347,767)
Depreciation (As per Statement of Financial Performance)	(2,791,851)	(9,844,269)	(306,558)	(461,372)	(502,884)	0	(13,906,934)
Carrying Amount, December 31, 2020 (As per Statement of Financial Position)	5,351,048	125,111,015	411,709	128,112	390,760	0	131,392,644
Gross Cost (Asset Account Balance per Statement of Financial Position)	8,142,899	159,345,984	2,208,085	7,088,073	7,624,008	0	184,409,049
Accumulated Depreciation	(2,791,851)	(34,234,969)	(1,796,376)	(6,959,961)	(7,233,248)	0	(53,016,405)
Carrying Amount, December 31, 2020 (As per Statement of Financial Position)	5,351,048	125,111,015	411,709	128,112	390,760	0	131,392,644

In 2020, as a result of application of PFRS 16, PNOC RC capitalized leased asset amounting to P 8,142,899.

In 2021, PNOC RC returned two units of service vehicles to Philippine National Oil Company due to lack of documentary receipts upon donation. As a result, an adjustment was debited to Retained Earnings by P34,000.

12. OTHER ASSETS

Current and Non-Current Assets

Particulars	2021			2020		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	50,000	0	50,000	8,600	0	8,600
Prepayments	37,999,850	0	37,999,850	38,696,802	0	38,696,802
Deposits	1,241,109	0	1,241,109	1,308,395	0	1,308,395
Deferred tax asset	0	64,460	64,460	0	64,460	64,460
Restricted Fund	0	4,708,322	4,708,322	0	5,504,323	5,504,323
Total	39,290,959	4,772,782	44,063,741	40,013,797	5,568,783	45,582,580

The *Restricted Fund* pertains to Escrow Account – DBP set aside for the Rizal hydropower plant operation.

Prepayments were consisting of the following accounts:

Particulars	2021	2020
Prepaid Insurance	0	958,541
Withholding tax at Source	1,583,178	990,505
Input Tax	36,292,455	36,411,802
Deferred Input Tax	26,641	125,714

Particulars	2021	2020
Other Prepayments	97,576	210,240
Total	37,999,850	38,696,802

13. FINANCIAL LIABILITIES

Particulars	2021	2020
Accounts Payable	252,443	65,971
Finance Lease Payable	2,768,402	5,565,914
Due to Officers and Employees	433,784	394,835
Total	3,454,629	6,026,720

As a result of application of PFRS 16, PNOC RC recognized P2,768,402 and P5,565,914 finance lease liability for 2021 and 2020.

14. INTER-AGENCY PAYABLES

Particulars	2021	2020
Due to BIR	1,141,247	1,329,614
Due to Pag-IBIG	4,350	2,150
Due to PhilHealth	46,777	52,115
Due to Parent Corporation	4,560,152	5,869,176
Due to SSS	103,438	79,358
Total	5,855,964	7,332,413

15. TRUST LIABILITIES

Particulars	2021	2020
Guaranty/Security Deposits Payable	10,641,318	10,646,934
Total	10,641,318	10,646,934

Guaranty/Security Deposits Payable pertains to retention on on-going Solar Rooftop Projects and Hydropower Projects.

16. DEFERRED CREDITS/UNEARNED INCOME

Particulars	2021	2020
Deferred Tax Credits	6,267,701	6,979,809
Total	6,267,701	6,979,809

Deferred Tax Credits consist of deferred output vat and deferred finance lease revenue.

17. DEFERRED TAX LIABILITIES

Particulars	2021	2020
Revaluation Increment in Investment Property	16,098,840	16,098,840
Total	16,098,840	16,098,840

Deferred Tax Liabilities arose from taxable temporary difference due to variation in carrying amounts in 2010 between the revalued assets and its tax base resulting in the unrealized gain on revaluation of investment property.

18. OTHER PAYABLES

Particulars	2021	2020
<i>Other Payables</i>	8,927,775	14,045,577
Total	8,927,775	14,045,577

This account pertains to Accruals from various suppliers. The decrease in *Other Payable* in CY 2021 is due to write-off of outstanding balance for more than two years in compliance to Section 3.1, 3.3 and 3.4 of DBM-COA Joint Circular No. 99-6 dated November 13, 1999.

19. EQUITY

a. Revaluation Surplus

The *Revaluation Surplus* pertains to the appraisal of the Investment property of PNOC RC located in Bauan, Batangas in the amount of P252,215,149.

b. Retained Earnings

	2021	2020 (As restated)
Unappropriated	122,610,433	157,471,161
Total	122,610,433	157,471,161

c. Share Capital

PNOC RC's shares of stocks are 100 percent owned by PNOC, details are as follows:

Accounts	2021	2020
Authorized Shares	500,000	500,000
Par Value per Share	1,000	1,000
Issued and Outstanding Shares	374,972	374,972

20. SERVICE AND BUSINESS INCOME

Particulars	2021	2020
Business Income		
Power Supply System Fees	15,810,890	18,003,929
<i>Sales Discounts</i>	(66,417)	(56,473)
Dividend Income	8,000,000	7,000,000
Interest Income	878,432	8,076,333
Total Business Income	24,622,905	33,023,789

Power Supply System Fees were derived from the sale of power generated from solar photovoltaic rooftop projects, hydropower project and revenue on energy saved from energy efficient lightings projects.

Dividend Income was obtained from investment in Maibarara Geothermal Inc.

Interest Income were gained from long-term and short-term investments.

21. OTHER NON-OPERATING INCOME

Particulars	2021	2020
Miscellaneous Income	2,454	537,588
Total Other Non-Operating Income	2,454	537,588

Miscellaneous income was derived from sale of bidding documents and proceeds from indemnities due to non-performance of contracts.

22. PERSONNEL SERVICES

22.1 Salaries and Wages

Particulars	2021	2020
Salaries and Wages-Regular	24,380,178	25,845,152
Salaries and Wages-Casual/Contractual	1,182,484	1,360,186
Total	25,562,662	27,205,338

22.2 Other Compensation

Particulars	2021	2020
Other Compensation	2,498,086	2,822,799
Year-End Bonus	2,322,932	2,451,839
Performance Based Bonus	78,504	0
Representation Allowance	922,546	938,234
Personnel Economic Relief Allowance	709,818	768,364
Transportation Allowance	857,071	736,016
Clothing/Uniform Allowance	168,500	186,500
Productivity Enhancement Incentive	139,500	160,000
Cash Gift	155,500	160,000
Overtime and Night Pay	12,417	75,886
Hazard Pay	92,500	329,500
Total	7,957,374	8,629,138

22.3 Personnel Benefit Contribution

Particulars	2021	2020
SSS Contributions	893,265	721,560
PhilHealth Contributions	310,611	334,479
Pag-IBIG Contributions	43,000	45,600
Employees Compensation Premiums	12,900	13,690
Total	1,259,776	1,115,329

22.4 Other Personnel Benefit

Particulars	2021	2020
Terminal Leave Benefits	2,283,839	2,536,798
Total	2,283,839	2,536,798

23. MAINTENANCE AND OTHER OPERATING EXPENSES

23.1 Taxes, Insurance Premium and Other Fees

Particulars	2021	2020
Taxes, Duties and Licenses	2,584,791	3,796,948
Insurance Expenses	1,369,790	1,243,346
Total	3,954,581	5,040,294

23.2 General Services

Particulars	2021	2020
Security Services	924,936	451,551
Janitorial Services	743,522	878,183
Other General Services	1,149,029	1,500,086
Total	2,817,487	2,829,820

23.3 Professional Services

Particulars	2021	2020
Auditing Services	1,127,151	814,933
Consultancy Services	51,107	154,143
Legal Services	14,244	8,650
Other Professional Services	22,940	57,398
Total	1,215,442	1,035,124

23.4 Communications Expenses

Particulars	2021	2020
Telephone Expenses	483,062	432,951
Internet Subscription Expenses	426,170	474,850
Total	909,232	907,801

23.5 Supplies and Materials Expenses

Particulars	2021	2020
Fuel, Oil and Lubricants Expenses	277,839	524,278
Office Supplies Expenses	184,971	180,407
Semi-Expendable Machinery and Equipment	0	8,129
Other Supplies and Materials Expenses	69,206	185,898
Total	532,016	898,712

23.6 Travelling Expenses

Particulars	2021	2020
Traveling Expenses-Local	434,933	272,554
Traveling Expenses-Foreign	0	0
Total	434,933	272,554

23.7 Utility Expenses

Particulars	2021	2020
Electricity Expenses	316,924	197,077
Water Expenses	40,108	29,185
Total	357,032	226,262

23.8 Repairs and Maintenance

Particulars	2021	2020
Repairs and Maintenance- Transportation Equipment	27,818	225,666
Repairs and Maintenance- Semi-Expendable Machinery and Equipment	196,726	167,774
Total	224,544	393,440

23.9 Training Expenses

Particulars	2021	2020
Training Expenses	91,178	12,143
Total	91,178	12,143

23.10 Confidential, Intelligence and Extraordinary Expenses

Particulars	2021	2020
Extraordinary and Miscellaneous Expenses	55,981	171,333
Total	55,981	171,333

23.11 Other Maintenance and Operating Expenses

Particulars	2021	2020
Rent/Lease Expenses	502,193	776,140
Directors and Committee Members' Fees	1,686,231	1,558,831
Subscription Expenses	335,831	225,690
Representation Expenses	98,890	30,879
Printing and Publication Expenses	67,398	0
Transportation and Delivery Expenses	11,856	25,926
Other Maintenance and Operating Expenses	15,296	4,753
Total	2,717,695	2,622,219

In 2020, due to application of PFRS 16, total rent expenses amounting to P2,995,593 was transferred to depreciation and interest expense.

24. FINANCIAL EXPENSES

Particulars	2021	2020
Bank Charges	39,976	76,557
Interest Expenses	257,993	418,608
Other Financial Charges	6,000	2,740
Total Other Non-Operating Income	303,969	497,905

25. DIRECT COSTS

Particulars	2021	2020
Cost of Sales	11,284,827	12,520,272
Total	11,284,827	12,520,272

These are costs recognized by PNOC RC which are directly related to the operations of the hydro, solar rooftop and energy efficiency projects of PNOC RC including depreciation, insurance and other directly attributable costs.

26. NON CASH EXPENSES

26.1 Depreciation

Particulars	2021	2020
Depreciation –Transportation Equipment	108,400	306,558
Depreciation – Machinery and Equipment	113,616	502,884
Depreciation – Furniture, Fixtures and Books	0	461,372
Depreciation – Leased Assets	2,791,851	2,791,851
Total	3,013,867	4,062,665

26.2 Losses

Particulars	2021	2020
Other Losses	225,708	347,768
Total	225,708	347,768

In 2021, Other losses arose from replacement of an asset in Solar rooftop project in DENR project while in 2020 losses pertains to losses incurred due to the derecognition of an asset in Rizal hydropower project on account of replacement of a major part.

27. RELATED PARTY TRANSACTIONS

27.1 Key Management Personnel

The key management personnel of PNOC RC are the President and Chief Executive Officer (CEO), the members of the Board of Directors, and the members of the senior

management group. The governing body consists of members appointed by the President of the Philippines. The senior management group consists of the chief executive officer, executive vice president and vice president for corporate services.

27.2 Key Management Personnel Compensation

The aggregate remuneration of the Senior Management Group:

Particulars	Aggregate Remuneration
Salaries and Wages	5,035,854
Other Compensation	2,203,091
Personnel Benefit Contributions	64,800
Total Other Personnel Benefits	7,303,745

Senior Management Group are composed of President, Executive Vice President and Vice President.

The Chairman of the Board which has supervision over PNOC RC is not remunerated by the Entity.

27.3 Remuneration and Compensation Provided to Close Family Members of Key Management Personnel

There are no close family members of key management personnel employed with the Corporation during the period.

28. INCOME TAX

The reconciliation on income tax expense computed at the statutory tax rate to the income tax expense as shown in the statements of comprehensive income is as follows:

	2021			2020		
	Exempt	Regular	Total	Exempt	Regular	Total
Revenues	1,990,508	13,753,965	15,744,473	1,866,905	16,080,551	17,947,456
Cost of Revenue	(2,675,488)	(8,609,338)	(11,284,826)	(3,154,090)	(9,366,182)	(12,520,272)
Gross Income (Loss)	(684,980)	5,144,627	4,459,647	(1,287,185)	6,714,369	5,427,184
Taxable Other Income	0	2,454	2,454	0	537,588	537,588
Gross Taxable Income	(684,980)	5,147,081	4,462,101	(1,287,185)	7,251,957	5,964,772
Non-Taxable Other Income						
Interest Income	0	878,432	878,432	0	8,076,333	8,076,333
Dividend Income	0	8,000,000	8,000,000	0	7,000,000	7,000,000
Total Non-Taxable Income	0	8,878,432	8,878,432	0	15,076,333	15,076,333
Total Gross Income	(684,980)	14,025,513	13,340,532	(1,287,185)	22,328,290	21,041,105
Deductions	(520,293)	(53,397,025)	(53,917,317)	(672,446)	(58,132,197)	(58,804,643)
Non-deductible Expenses						
Impairment loss-Receiveable	0	0	0	0	0	0
Net Loss Before Income Tax	(1,205,273)	(39,371,510)	(40,576,783)	(1,959,631)	(35,662,218)	(37,763,538)
Regular Corporate Income Tax	0	0	0	0	0	0
Minimum Corporate Income Tax	0	51,817	51,817	0	145,039	145,039
Income Tax Expense Reported in the Statement of Comprehensive Loss	0	51,817	51,817	0	145,039	145,039

29. AGREEMENT WITH NATIONAL IRRIGATION ADMINISTRATION PAMPANGA RIVER IRRIGATION SYSTEM (NIA PRIS) HYDROPOWER PROJECT

PNOC RC and National Development Company (NDC) signed a Memorandum of Agreement on July 1, 2014 to establish and enter into a partnership for the development, commercialization, operation and maintenance of the PRIS Project. PNOC RC and NDC contributed P45 million each, or a total of P90 million through an Escrow Agreement with the Development Bank of the Philippines – Trust Services Group for the administration of the project fund. See Note 2 (B).

30. COMPLIANCE WITH REPUBLIC ACT NO. 7656

PNOC RC did not declare dividends for PNOC for 2021 because of the net loss incurred for the year amounting to P40,628,601.

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

BIR issued on November 25, 2010 RR No. 15-2010, Amending Certain Provisions of RR No. 21-2002, as amended, Implementing Section 6 (H) of the Tax Code of 1997, authorizing the Commissioner 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 PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year.

A. Compliance with Tax Laws

a. Output VAT

Output VAT declared for the fiscal year ended December 31, 2021 and the revenues upon which the same was based consist of:

	Gross Revenue	Output VAT
Sale of Services Subject to 12% VAT	20,939,617	2,512,754
Zero Rated Sales	2,147,478	0
Total	23,087,095	2,512,754

b. Input VAT

The amounts of Input VAT claimed are broken down as follows:

Beginning of the year	36,411,802
Current year's domestic purchases for Goods and Services	1,346,556
Claims for tax credit/refund and other adjustments	(1,465,903)
Balance at the end of the year	36,292,455

c. Withholding Taxes

The withholding taxes paid for the year ended December 31, 2021 are as follows:

Particulars	Amount
Tax on Compensation and Benefits	4,961,932
Creditable withholding VAT	627,470
Creditable withholding Taxes	401,806
Total Withholding Taxes for the year	5,991,208

d. Tax Assessments

There is no tax assessment for the year 2020 and 2021, respectively.

B. The PNOC RC's taxes and licenses in 2021 shown as part of expenses in the statements of comprehensive income are as follows:

Particulars	Amount
Real Property Taxes	1,739,008
Business Permit	150,939
Documentary Stamp Tax	144,527
Motor Vehicle Registration	6,208
BIR Annual Registration	1,250
Total	2,041,932

32. SUPPLEMENTARY INFORMATION REQUIRED UNDER THE REVISED SECURITIES REGULATION CODE (SRC) RULE 68

The Schedule of Financial Soundness Indicators is presented below.

Ratio	2021	2020
Current ratio	1.99	4.99
Solvency ratio	(0.56)	(0.39)
Debt-to-equity ratio	0.06	0.08
Asset-to-equity ratio	1.07	1.08
Return on equity	(0.05)	(0.05)
Return on assets	(0.05)	(0.05)
Net profit margin	0.28	0.30
Cash ratio	0.29	2.73

33. COMPLIANCE WITH SOCIAL SECURITY SYSTEM (SSS), HOME DEVELOPMENT MUTUAL FUND (HDMF) or Pag-IBIG and PHILIPPINE HEALTH INSURANCE CORPORATION (PhilHealth) PREMIUM/DEDUCTIONS AND REMITTANCES

Premiums due to SSS, HDMF and PhilHealth for CY 2021 were deducted from the salaries of PNOC personnel in the amount of P756,309 and remitted within the prescribed period. The premiums deducted in December 2021 in the amount of P68,552 were remitted in January 2022 with details as follows:

Agency	Premiums collected and remitted in 2021(January to November 2021)	Premiums collected in December 2021 and remitted in January 2022	Total
SSS	433,665	39,240	472,905
Pag-IBIG	39,200	3,600	42,800
PhilHealth	283,444	25,712	309,156
Total	756,309	68,552	824,861

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. **The continuous recognition of Prepaid Assets and Other Deposits accounts with balance of P88,282.36 and P99,802.62, respectively, for several years after completion of the projects for which these were initially recognized is contrary to Philippine Accounting Standard (PAS) 1, thereby, creating doubt on the validity of said prepayments and deposits in the financial statements.**

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

1.2 Pursuant to its mandate, PNOC RC disbursed funds in 2010 as advance payment and deposits to contractors for the installation of solar streetlights at PNOC compound amounting to P88,282.36, and in 2013 and 2014 for the lease of properties while its hydropower project was being constructed totaling P99,802.62. While the solar streetlights were already installed and are being utilized, and the hydropower project were generating revenues for several years, PNOC RC still carries in its books said prepayments and deposits.

1.3 Verification of documents disclosed the following details and status of the abovementioned prepayments and deposits recorded as assets in the books of PNOC RC:

Account	Amount	Particulars	Remarks from PNOC RC/Status
a. Prepaid Assets	88,282.36	Deferred Charges	Pertains to the advance payment made to suppliers for the installation of solar streetlights at PNOC compound in 2010. As of December 31, 2021, there is no project that PNOC RC is engaged in for same solar streetlights.
b. Other Deposits	41,039.73	Payment for deposit on warehouse no. 5; payment for rental of warehouse and utilities and additional deposits.	PNOC RC no longer rent the properties.

Account	Amount	Particulars	Remarks from PNOC RC/Status
c. Other Deposits	58,762.89	Payment for deposit and two months advance for Staff House rental in Rizal, Nueva Ecija and adjustment for payment of Staff House.	The staff house rental has been terminated after the construction of the hydropower plant.

- 1.4 Foregoing considered, the validity of Prepaid Assets and Other Deposits accounts amounting to P88,282.36 and P99,802.62, respectively, is doubtful, that necessitates review of pertinent documents including contracts of lease to determine if PNOC RC has rightful claim from its contractors/lessors to enforce collection thereof, or the necessary adjusting entries that should be taken up in the books.
- 1.5 **We recommended that PNOC RC Management require the Accounting Department to review the related transactions and corresponding documents and contracts, to establish the validity of the Prepaid Assets and Other Deposits accounts amounting to P88,282.36 and P99,802.62, respectively, and take up the required adjusting entries or enforce collection of outstanding deposits to contractors and lessors deemed warranted.**
- 1.6 During the exit conference, PNOC RC Management informed that they are inclined to adjust the Prepaid Assets account amounting to P88,282.36 and confirmation letters will be sent to lessors to claim the deposits totaling P99,802.62.

B. Other Audit Observations

2. **The non-adoption of property identification system for the property items under Infrastructure Assets located in the Rizal Hydro Power Plant is contrary to COA Circular No. 2020-006 dated January 31, 2020, providing guidelines and procedures in the conduct of physical count of Property, Plant and Equipment (PPE).**
- 2.1 Section 5.6 of COA Circular No. 2020-006 requires each government agency to adopt a uniform property identification system for PPE wherein a unique Property Number shall be assigned for each PPE item using codes that correspond to those provided in the Revised Chart of Accounts.
- 2.2 Review of the Report on Physical Count of PPE (RPCPPE) disclosed that eighteen (18) items found in Rizal Hydro Power Plant classified under Infrastructure assets with carrying amount of P116,647,156.00 have no property numbers.
- 2.3 In the absence of property numbers, the said properties were not easily identified during the conduct of physical count. Also, this implies weakness of control over PPE items which may result in the loss of assets through negligence or theft of government properties.

- 2.4 **We recommended and PNOC RC Management agreed to require the Property Unit to assign property numbers to all PPE items, to be indicated in the succeeding RPCPPEs, in accordance with the format prescribed in COA Circular No. 2020-006.**
3. **The Gender and Development (GAD) Plan and Budget (GPB) for CY 2021 amounting to P50,000 or merely 0.007 per cent of the approved Corporate Operating Budget (COB) for CY 2021, was below the required budget of five per cent pursuant to Section 36 (a) of Republic Act (RA) No. 9710. In addition, the non-submission of the CY 2021 GPB to the Philippine Commission on Women (PCW) within the deadline set and the lack of fully established sex-disaggregated data as bases for its GAD planning, budgeting, programming and policy formulation did not conform to Section 4 of PCW Memorandum Circular No. 2020-05 and Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01, respectively.**
- 3.1 Section 36(a) of RA No. 9710 provides that the cost of implementing GAD programs shall be the agency's GAD budget which shall be at least five percent of the agency's total budget appropriations. On the submission of GPB, Section 4 of the PCW Memorandum Circular No. 2020-05 provides that the deadline of encoding and submission to PCW of FY 2021 GPB of GOCCs through the Gender Mainstreaming Monitoring System (GMMS) is on November 10, 2020. Also, Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes that the agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data¹ that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation.
- 3.2 For CY 2021, the corporate operating budget of PNOC RC amounted to P71,632,016.00. A portion thereof was allotted for projects and programs on GAD. Without an approved GPB, PNOC RC was able to conduct a seminar on Gender Sensitivity and Attribution using the Harmonized Gender and Development Guidelines incurring a total expenditure of P49,815.25. In continuing operations, PNOC RC maintains database of its personnel including information on gender of each.
- 3.3 Verification disclosed that the budget for GAD amounted to P50,000.00 or merely 0.07 per cent of the total (COB) for 2021. PNOC RC Management explained that failure to submit the GPB to PCW for approval is due to the abolition status that the entity is facing. As regards the GAD database, the only information available are statistics on gender and level of position of the personnel of the entity.
- 3.4 PNOC RC, pending the result of recommendation for abolition, is required by law to implement GAD and has projects for which GAD, by attribution can be achieved without directly allotting and disbursing from its total budget, in order to conform to the required GAD budget of at least five per cent of the COB. As regards the GAD database, the insufficient sex-disaggregated data denotes that PNOC RC has no evidence-based data in their GAD planning and budgeting whereby the activities it could carry out may not directly address the existing gender issues and concerns of its personnel.

¹Pursuant to NAMRIA Memorandum No. 2019-021 or the Policy on the Collection, Generation, and Maintenance of GAD Database, sex-disaggregated data are information collected and analyzed separately on males and females which shall be stored in the agency's GAD database and is essential in the formulation of gender issues. The GAD database shall aid in gender analysis of PNOC RC by surfacing gender gaps or issues faced by men and women in terms of their access to basic services and facilities and enjoyment of rights and benefits.

3.5 We recommended that PNOC RC Management:

- a. Attribute GAD in the programs, activities and projects of PNOC RC to attain the required amount of GAD budget in conformity with RA No. 9710;**
- b. Direct the concerned personnel including the GAD Focal Person to submit the annual GPB for endorsement to PCW within the deadline set pursuant to Section 4 of PCW Memorandum Circular No. 2020-05; and**
- c. Include other areas in the sex-disaggregated data information such as employee's identified necessity for assistance, training and career development for an effective implementation of GAD planning and budgeting in accordance with Section 4.4 of PCW-NEDA-DBM Joint Circular 2012-01.**

3.6 During the exit conference, PNOC RC informed that they would strive to comply with the five per cent requirement for GAD Budget and ensure submission of the GPB and GAD Accomplishment Report within the deadline set by the PCW. They also committed to establish the GAD sex-disaggregated data.

C. Compliance with Tax Laws

Taxes withheld and due to the BIR for CY 2021 were recorded and remitted within the prescribed period.

D. Compliance with Rules on the Government Mandatory Deductions

PNOC RC has been compliant with Republic Act (RA) No. 8282 and RA No. 9679 on the policies relative to the collection and remittance of contributions/loan amortization to the Social Security System and the Home Development Mutual Fund or Pag-IBIG Fund, respectively. Likewise, PNOC RC remits payment in accordance with RA No. 7875 for the national health insurance premium contribution to the Philippine Health Insurance Corporation.

E. Insurance of Property

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

F. Compliance with Revised Securities Regulation Code (SRC) Rule 68

PNOC RC complies with SRC Rule 68 on the requirements of the Securities and Exchange Commission.

G. Status of Audit Suspensions, Disallowances and Charges

There were no balances of Audit Suspensions, Disallowances and Charges as of December 31, 2021 and no Notice of Suspension, Notice of Disallowance and Notice of Charge were issued in CY 2021.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the nine audit recommendations embodied in the previous years' Annual Audit Reports, two were fully implemented, and seven were partially implemented wherein three of which were reiterated with updates, as shown in the following table:

Reference	Observation	Recommendations	Status/ Actions Taken
2019 AAR Observation No. 3, pages 54-56	The reliability, accuracy and validity of the balances of Accounts Payable and Other Liabilities of P2.985 million and P33.592 million, respectively, as of December 31, 2019 is doubtful due to the inclusion of accruals for various payees amounting to P7.398 million that were already paid, unmatched debit entries of P397,009.86 in the Accounts Payable account, the presence of unmatched debit entries of P2.188 million in the Other Payable account, and non-accrual of expenses amounting P0.811 million, which are contrary to Section 119 of P.D. No. 1445 and paragraph 13 of PAS 1 on the fair presentation of financial statements.	1. Develop a system for monitoring the accrual and payment of liabilities and expenses to avoid errors.	Partially Implemented Accounting Department will closely monitor accrued expenses on quarterly basis.
2019 AAR Observation No. 6, pages 60-63 2018 AAR Observation No. 8, pages 72-74	The GAD Plan and Budget (GPB) for the Calendar Year 2019 in the amount of P2.575 million was below the required five percent of the approved Corporate Operating Budget, and was not submitted to	2. Attribute at least five per cent of the total corporate operating budget on the GAD;	Partially Implemented <i>Reiterated in Observation No. 3, Part II-B of this Report.</i>

Reference	Observation	Recommendations	Status/ Actions Taken
2017 AAR Observation No. 5, pages 43-45	Philippine National Oil Company on time and to Philippine Commission on Women (PCW) for review/endorsement, contrary to Section 36 (a) of RA No. 9710 dated August 14, 2009, Rule IV, Section 37(A)(1)(f) of the Magna Carta of Women Implementing Rules and Regulations (MCW IRR) and Section 7 (iii) and (v) of PCW-NEDA-DBM Joint Circular No. 2012-01. Likewise, GAD Programs, Activities, and Projects (PAPs) were not fully implemented since only P0.652 million or 25.33 percent of the budgeted amount was utilized for FY 2019 and no GAD database was in place.	<p>3. Closely monitor implementation of GAD PAPs with an immediate alternative course of action if implementation could not be made;</p> <p>4. Institutionalize the GAD database with adequate and systematically gathered sex-disaggregated data which will provide bases for gender analysis, planning, programming and policy information and undertake gender analysis to identify and confirm existing gender issues; and</p> <p>5. Formulate the GPB within the context of PNOC RC mandates to mainstream gender perspectives in their policies, programs and projects to maximize the use of allocated funds to address GAD issues and concerns.</p>	<p>Fully Implemented</p> <p>Partially Implemented</p> <p><i>Reiterated in Observation No. 3, Part II-B of this Report.</i></p> <p>Partially Implemented</p> <p><i>Reiterated in Observation No. 3, Part II-B of this Report.</i></p>
2018 AAR Observation No. 2, pages 53-54	Ten parcels of land property of PNOC RC located in Batangas with an area of 56,385 square meters and book value of P102.000 million were not supported with Transfer Certificate of Title (TCT), thus, their	6. Secure copy of TCTs.	<p>Partially Implemented</p> <p>The properties were transferred to PNOC RC by virtue of the reorganization of its predecessor</p>

Reference	Observation	Recommendations	Status/ Actions Taken
	absolute ownership cannot be ascertained. Moreover, PNOC RC did not re-measure its Investment Property at current fair value for 10 years after the last valuation at fair market value in 2008 contrary to Section 55 of PAS 40 on Investment Property resulting in understatement of Investment Property and Net Income estimated at P396.247 million.		company, PNOC Dockyard and Shipping Corporation. The only documents turned over to PNOC RC were the two titles of land and photocopy of the assessment of the real property tax by the Municipal Treasurer of Bauan, Batangas. Only tax declarations from the properties mentioned above were forwarded to PNOC RC in December 2017. In 2019, the Administration Department requested from the Board of Directors (BOD) for the disposal of these properties, however this was deferred by BOD due for coordination to PNOC with regard to plan for Bauan properties.
2018 AAR Observation No. 4.1, pages 57-60	Eight transportation equipment, one desktop and four laptops used by PNOC RC were counted during the physical inventory but were not recorded in the books contrary to Sections 63, 76 and 77 of PD 1445 resulting in the	7. File and pay Donor's tax, including surcharges and interest to the Bureau of Internal Revenue.	Fully Implemented

Reference	Observation	Recommendations	Status/ Actions Taken
	understatement of PPE and Retained Earnings.		
2016 AAR Observation No. 1, pages 31	<p>The validity and accuracy of the year-end account balances of Trade Receivables from PNOC of P51.956 million was doubtful as the entire amount was not acknowledged by the PNOC.</p> <p>On the other hand, the balance of Due to PNOC registered a year-end balance at P8.071 million, lower by P2.385 million compared with the P10.456 million balance appearing in the books of PNOC RC per confirmation with PNOC.</p>	8. Coordinate with PNOC-HO and reconcile the account balances of Trade Receivables from PNOC and Due to PNOC accounts to determine reasons for the discrepancies and make the necessary adjustments where appropriate.	<p>Partially Implemented</p> <p>Treasury Department is constantly reminding PNOC of its obligation. Coordination meetings with PNOC, PNOC RC, COA and DOE were already conducted.</p>
2018 AAR Observation No. 7.4, page 71	PPE items with acquisition cost of P672,842 and other semi-expendable items located in the warehouse were recognized as for disposal since 2017 and were still not disposed in 2018 contrary to Item A Paragraph 2 of Part I of the National Budget Circular (NBC) No. 425, dated January 28, 1992.	9. Expedite disposal of unserviceable/ unnecessary PPE items in accordance with NBC No. 425.	<p>Partially Implemented</p> <p>A bidding was conducted last November 24, 2021 for the disposal of unserviceable assets, however, it was declared a failure bidding due to technical issues. On January 26, 2022, another bidding was scheduled but also declared a failure of bidding since no bids were received. The company plans</p>

Reference	Observation	Recommendations	Status/ Actions Taken
			to re-appraise the assets and offer to sell them again.