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Fig. 1



Philippine National Oil Company
Annual Report, year two thousand and nineteen

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2020

Philippine National Oil Company
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About the Cover

PNOC, a company established by the government to combat the energy crisis of the 70s, has received the fresh mandate of being an operating company.

With more challenging roles in supporting the government's thrust towards energy security and sustaining investor confidence in energy projects development, what could PNOC do?

It improves itself - using both its original and new mandates to formulate new and better solutions for the country.

Company Profile

The Philippine National Oil Company was created in 1973, through Presidential Decree No. 334 in response to the oil crisis of the 70s, for the government to assume a more active role in ensuring adequate supply of oil. As a government-owned and -controlled corporation, the Company is mandated to provide and maintain an adequate and stable supply of oil and petroleum products for domestic requirements, promote the exploration, exploitation and development of local oil and petroleum sources; and foster oil or petroleum operation conditions conducive to a balanced and sustainable growth of the company.

Presidential Decree 927 issued in 1976 broadened the scope of PNOC's Charter to include exploration and development of non-oil and indigenous energy resources. Thus, PNOC expanded its operation to include geothermal and other alternative energy source exploration.

As PNOC moves forward, it remains anchored on its original mandate, and at the same time continues to pursue extensive research on the development of new energy sources and forging strategic partnerships, to carry out projects and infrastructures, to realize its vision.

Mission & Vision

Our Vision

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

Our Mission

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

1. Develop and implement projects and programs in a financially prudent and responsible manner aimed at increasing the country's self-sufficiency level in oil, gas and other energy sources;
2. Foster sustainable and environment-friendly sources of energy and promote energy efficiency and conservation; and
3. Maintain the highest standard of service and corporate governance.

Corporate Objectives

Financial Indicator

- Net income of PHP 714.05 million

Non-financial Indicators

- Submitted results of the Pre-feasibility Study for the PNOC LNG Hub Project
- Satisfactory rating of 90% for Stakeholders Satisfaction Survey
- Passing of Re-Certification Audit of PNOC Industrial Park
- Board-Approved Evaluation Report for the Issuance of the Certificate of Conformance for PRII/MVC
- Executed Deed of Absolute Sale between PDMC and Buyers for the Disposal of ten (10) Costa Verde Properties
- Passing of PNOC QMS 2nd Surveillance Audit
- Posted a Competency Rate of 92%

The Corporate Governance Scorecard (CGS) is a corporate governance rating system designed to raise the standards of corporate governance practices of the GOCCs to be at par with the ASEAN state-owned enterprises. It is a list of questions used to rate a GOCC's governance policies and practices on the basis of the three (3) OECD Principles of Corporate Governance for State-Owned Enterprises.

In 2019 the Management and Board of the Philippine National Oil Company approved the following strategic and management objectives with the corresponding strategic measures.

STRATEGIC AND FINANCIAL OBJECTIVES	MEASURE/TARGET
<i>Contribute to Energy Security Targets</i>	
Establishment of PNOC Batangas Liquefied Natural Gas (LNG) Hub Project	Submission of the Preliminary Feasibility Study to the PNOC Board
<i>Establish a Comprehensive Relationship Management for Mutually Beneficial Linkages with Key Stakeholders</i>	
Stakeholders Satisfaction Survey Rating	90% Satisfied Customers (Lessees, Park Locators, and ESB Customers)
<i>Maintain a Sound Financial Condition</i>	
Net Income (excluding all income or dividends received from operating subsidiaries)	PHP 405.67 million
<i>Maintain Efficient Management of Industrial Park</i>	
Compliance to IMS Standards	Pass Re-certification Audit of PNOC Industrial Park
<i>Optimize Asset Productivity</i>	
Contracting Out of PNOC Industrial Park Assets	Board-Approved Evaluation Report for the Issuance of Certificate of Conformance (CoC) for PRII/MVC based on the criteria set in the PNOC Industrial Park
Number of PDMC Assets Utilized/Disposed of at a Gain	Disposal through Sale of five (5) Costa Verde Properties
<i>Develop, Implement, and Maintain Efficient and Effective Systems</i>	
Compliance to Quality Standards (PNOC ISO Certification)	Pass PNOC QMS Second Surveillance Audit
<i>Acquire, Develop, Retain, and Motivate Talents for Peak Performance</i>	
Percentage of Employees with Required Competencies Met	Increase from Established Baseline



How we started

In its 46 years in the energy business, PNOC's areas of responsibilities have evolved to cope with the ever changing landscape of power and energy development. Over time, PNOC has created several subsidiaries to meet specific areas for development.

With its purchase of the largest oil firm at the time, Esso Philippines, Inc., renamed Petrophil Corporation (now Petron Corporation) in 1973, three tanker corporations were created and soon after, a stevedoring corporation, the precursor to the PNOC Shipping and Transport Corporation (PSTC), was acquired to facilitate the movement of oil products throughout the country.

In 1976, after the discovery of oil in Palawan and the discovery of alternative energy sources, Presidential Decree No. 927 was enacted to promote the exploration and development of oil and other indigenous energy sources, effectively expanding PNOC's scope of operations. In the same year, the Coal Development Act of 1976 was enacted to

establish a coal development program, which later on led to the creation of the PNOC Coal Corporation (PCC).

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

In the 1980s, PNOC actively engaged in coal exploration and production through the PNOC Coal Corporation and Malangas Coal Corporation.

PNOC later established businesses that dealt with petrochemicals, real estate development and development of renewable energy.

In 1993, the PNOC Petrochemical Development Corporation's (PPDC) was created to engage in petrochemicals business. PPDC was reorganized and renamed PNOC Alternative Fuels Corporation (PAFC) in 2006, in response to the call for the development, utilization and commercialization of alternative fuels.

The PNOC Development and Management Corporation (PDMC), formerly the Filoil Development and Management Corporation, was organized in 2002. PDMC was empowered by its articles and by-laws to develop, manage and add value to all real estate properties under PNOC and its subsidiaries. The company was able to maximize the use of PNOC properties by

renting or selling the same, and collecting revenues from these transactions.

In 2008, the PNOC Renewables Corporation (PNOC RC), formerly the PNOC Dockyard and Engineering Corporation, was also organized and incorporated to become the primary vehicle of the government in promoting, developing and implementing renewable energy and energy efficiency programs in the country.

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





What we are now

Changes

With the dissolution of PDMC and PAFC in 2014, PNOOC was tasked to take over the assets and operation of the two subsidiaries, effectively transforming itself from a holding company to an operating one.

In 2018, PNOOC's Reorganization Plan was approved by Governance Commission for GOCCs (GCG).

PNOOC has undergone reorganization in compliance to the mandate of the Governance Commission for GOCCs (GCG) under GCG Memorandum No. 2018-05 dated July 26, 2018. The purpose of the reorganization is for PNOOC to attain optimum efficiency in the allocation of resources and services by minimizing organizational levels, combining common functions and changing its structure and staffing pattern. The reorganization is expected to lead to improved management of the assets of PNOOC and the development of

new energy projects which shall take over the operations of existing energy projects.

In compliance to the GCG mandate, PNOOC crafted the Implementing Guidelines for PNOOC Reorganization, which was approved by the PNOOC President on October 20, 2018. Subsequently, the Placement Committee was constituted and held its first meeting on November 21, 2018 with the task to assess and determine whether the duties and responsibilities of the existing 103 employees are comparable with the new 198 positions in the reorganized structure and staffing pattern.

On July 4, 2019, the Placement Committee issued a Certificate of Completion, stating therein that it has completed its assignment to assist the PNOOC President in placing the employees to their comparable positions in the Table of Organization and Staffing approved by the GCG with an attached list of 88 "Placed" and 15 "Affected" (no comparable position in the reorganized structure and still



The PNOC Family

engaged by PNOC under Co-Terminus with the Incumbent status) employees as approved by the PNOC President.

While processing the Appointment Papers of “placed” employees, PNOC published on August 2019 its 110 vacant positions in the Job Portal of the Civil Service Commission, Internet Job Sites and in three (3) conspicuous places in the PNOC building to fill critical and vital positions. For the period of September to October 2019, more than 5,000 individuals have expressed their interest to join PNOC. The large bulk of applications indicates the attractiveness of PNOC as an employer, and as a well-established organization.

Upon thorough evaluation of these applications, the qualified applicants were endorsed to the Personnel Selection Board (PSB) for deliberation.

On November 2019, the Personnel Selection Board commenced its deliberation to recommend to the PNOC President the most qualified applicants for hiring.

With the new blood joining the Company's experienced human resource, PNOC expects an adequate, competent and dynamic force to man its existing operations, and projects in the pipeline.

With the reorganization as its backdrop, PNOC continued its aggressive efforts to explore beneficial partnerships with both domestic and foreign companies, be it pursuing talks on the LNG business, selling its banked gas at the most advantageous term for the government or pushing for the benefits of establishing an oil storage in the country.

With the operations of its two former subsidiaries under its wings, the Company set its sights on improving the facilities and services of the Energy Supply Base and the PNOC Industrial Park. The company continues to negotiate better and upgraded terms for its property leases to generate the most revenues for the government.

Major Projects

Monetization of the PNOC Banked Gas

Banked gas is the accumulated unused gas of the Ilijan Power Plant, amounting to 108.6 Petajoules, as a result of the underutilization of the plant's Take-or-Pay Quantity (TOPQ) within the period 2002 to 2007. Under the Take-or-Pay (TOP) scheme, a fixed quantity of gas must be paid for whether the gas is withdrawn or not. The Government of the Philippines (GOP) was obliged to pay for the banked gas as guarantor of the National Power Corporation, then owner of the Ilijan Power Plant, in order to satisfy NPC's contractual commitment under the TOPQ provisions in its Gas Sales Purchase Agreement (GSPA) with the Service Contract No. 38 (SC38) Consortium. In September 2009, the DOE subrogated to the PNOC all its rights, benefits and entitlements to the banked gas from the Ilijan GSPA.

Currently, the remaining volume of banked gas is equivalent to 97.67 PJ. From the original volume of 108.6 PJ, the Power Sector Assets

and Liabilities Management Corporation (PSALM) withdrew 4.61 PJ in 2013 for the Ilijan power plant. Another portion, equivalent to 6.324 PJ, was contracted to Pilipinas Shell Petroleum Corporation (PSPC) in 2014 for its Tabangao Refinery. PSPC has started withdrawing from its contracted volume of banked gas in 2018 which will end in 2024. As previously reported on PNOC's notes to financial statements for the year 2018, PNOC undertook the public advertisement for the sale of the remaining 97.67 PJ of banked gas. PNOC's publication of the sale of banked gas was intended to test current market demands. It is recognized that the continuous changing trends in the market has an effect on the price of the natural gas. Hence, the conduct of market sounding is necessary to provide a benchmark in the reevaluation of the pricing mechanisms, along with other factors PNOC is legally-bound to observe, as a government corporation.

As a result of the market sounding exercise conducted in 2018, the Board gave Management the continuing authority to engage in direct negotiations for the sale of the banked gas to potential offtakers without



The Malampaya Platform

committing to a price and under the condition that all offers should be presented for approval by the PNOC Board of Directors. PNOC is engaged in ongoing discussions with PSPC for the potential sale of additional volume of banked gas on top of its current contracted volume under the existing GSPA with PNOC. This additional volume is intended as supplementary supply to the fuel requirement of PSPC's Tabangao Refinery in line with its proposed projects to produce quality fuel. The Period of withdrawal of the volume being contracted is proposed to be from January 2021 to February 2024. PNOC has prepared the key terms sheet to serve as

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

The Project is a complete value chain LNG facility to be used to receive, store, regasify, and distribute imported LNG, and at the same time facilitate the withdrawal of banked gas owned by PNOC from the Malampaya gas field. With a complete LNG facility, it is aimed at contributing to the economic growth



guide in the negotiation of a separate GSPA

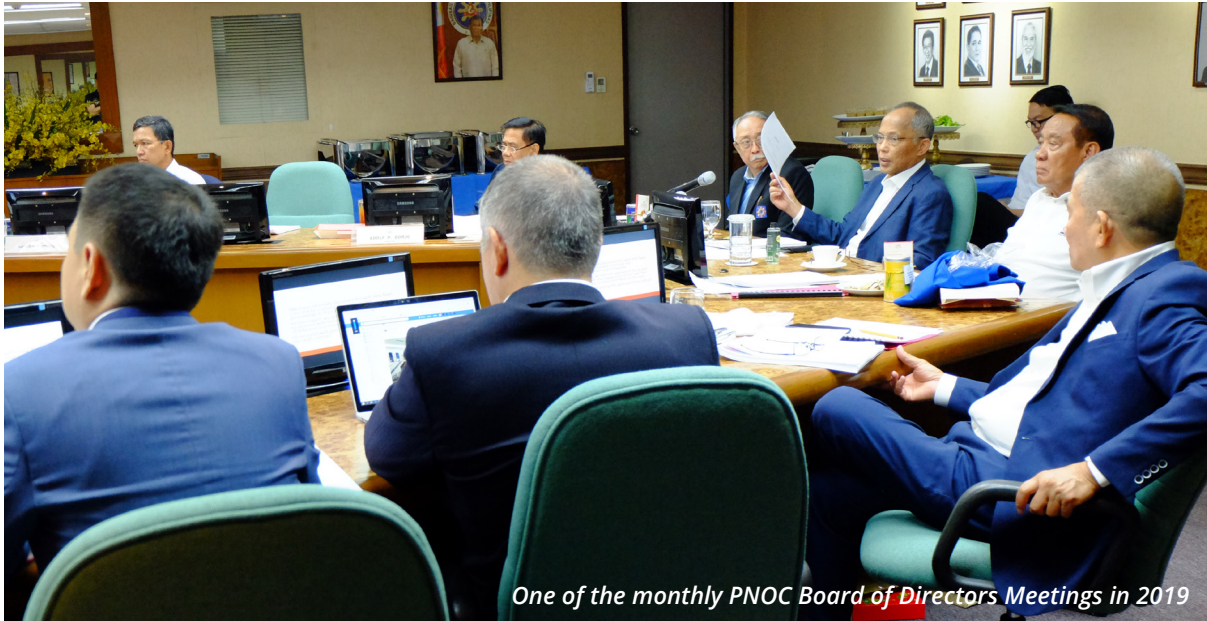
A more comprehensive discussion with PSPC and PSALM for the potential sale of PNOC's banked gas is set to be undertaken by PNOC in 2020.

Batangas Liquefied Natural Gas (LNG) Hub

PNOC, as the corporate arm of the Department of Energy (DOE), has steadily

of the country by providing a dependable, sustainable and efficient source of energy. This will fill the gap in addressing the lost energy capacity from the Malampaya gas field when SC 38 expires in 2024 and if and when the Malampaya gas is depleted.

Initially, the proposed implementation for the Project was under a Government-to-Government (G-to-G) modality. However, with PNOC's continued "market sounding", various private sector, both local and foreign



One of the monthly PNOC Board of Directors Meetings in 2019

showed keen interest in the project. Hence, PNOC adopted the concept of the unsolicited proposal under the 2013 Revised NEDA Joint Venture Guidelines and the Build-Operate-Transfer (BOT) Law. However, all of the unsolicited proposals received were rejected/ not accepted due to noncompliance with the Board approved Eligibility / Qualification Criteria and Rules under BOT law or NEDA JV guidelines, or due to incompleteness of proposals.

Then, in August 2018, the Board approved the Solicited Proposal Scheme. Consequently, the Pre-qualification/eligibility Criteria for the Private Sector Participants were also approved by the Board and the Instructions to Private Sectors Participants were published in October 2018.

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

available that are still timely and deemed feasible for PNOC's participation.

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

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

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

Establishment of the country's Strategic Petroleum Reserve (SPR)

According to the 2019 Oil Supply/Demand Report prepared by the Department of Energy (DOE), 99.9% of the country's oil supply comes from imports. As a country highly-dependent on oil imports, the Philippines would be severely affected by domestic fuel volatility costs in the events of shifts in global demand, price, exchange rate movements, and international disputes.

Thus, the establishment of a National Strategic Petroleum Reserve (SPR) in the Philippines is PNOC's initiative to mitigate the effect of sudden oil supply disruptions that can affect the economy of the country. The PNOC is mandated, through Memorandum Order 2019-11-0001 issued by the DOE in November 14, 2019, to conduct a comprehensive feasibility study for the establishment of a SPR, and prepare an implementation plan based on the study conducted.

A comprehensive desktop study had been conducted for the completion of the SPR project framework. The framework covers

applicable oil stockpiling strategies in the Philippines, which includes the legal and institutional framework, recommended oil stockpile composition and volume, recommended stockpile ownership methods and recommended stockpiling technologies. This document was prepared for the readers with the aim to provide basic understanding and offer preliminary recommendations for the implementation of the project, based on related studies and literatures. The Detailed Feasibility Study to be conducted, however, can either refine or completely alter the preliminary recommendations provided in the project framework. The project framework has been presented to and approved by the PNOC Board of Directors during its November 26, 2019 meeting.

The Terms of Reference (TOR) for the hiring of a Transaction Advisor (TA) to, among others, conduct and prepare the Detailed Feasibility Study for the Project, has been prepared, submitted to and was also approved by the PNOC Board also during the November 26, 2019 meeting. The DFS to be conducted by PNOC with the assistance of the TA shall cover the technical, legal, social, environmental,





financial and economic aspects as well as the risks associated in developing and implementing the Project.

PNOC has also sought the approval of its Board of Directors during the same meeting to expand the mode of procurement to include Negotiated Procurement under Section 53 of the RA 9184 (Government Procurement Reform Act) IRR in addition to the approved Public Bidding and Agency-to-Agency.

PNOC has identified several agencies and institutions as potential candidates with the competence to provide the necessary expertise and advisory assistance for the envisioned development of the national SPR for the Philippines. The Company has started sending out invitation letters to and coordinating with these institutions to discuss possible facilitation, assistance or arrangements on PNOC's required transaction advisory services.

Business Operations

PNOC Industrial Park

PNOC manages a 530-hectare property in Limay, Bataan. Formerly the PNOC Alternative Fuels Corporation, the subsidiary was dissolved in 2014. PNOC took over the management of the property, with its operations absorbed by the Park Management Department under the GCG-approved organizational plan. The Park was consequently named the PNOC Industrial Park (PIP).

PIP is the holder of the Programmatic Environmental Compliance Certificate (PECC), an authority given by the DENR to issue the Environmental Compliance Certificate (ECC) to any Park Locator, thus, there will be no need for any prospective locator to file with the DENR. PNOC is the only holder of such ECC in the country.

The PNOC Industrial Park continuously provides basic services such as raw and fire water, power supply, and jetty services to the locators within the Industrial Park and commercial areas. These services provide the bulk of revenues for the Park.

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

Amendment of the Programmatic Environmental Compliance Certificate (PECC) relative to the expanded usage of the Park and Energy City Project

As required by the Department of Environment and Natural Resources – Environmental Management Bureau (DENR-EMB), PNOC Industrial Park is obliged to re-run and to validate the Industrial Park’s Environmental Risk Assessment (ERA), as one of the requirements for the amendment of its Programmatic Environmental Compliance Certificate (PECC).



The PNOC Industrial Park is home to The Philippine Resins Industries, Inc., Petron Polypropylene Plant, NPC Alliance Corporation, Team Energy, POPs-DENR, and Orica.

In conformity to the above, PNOC rented the software PHAST SAFETI for a period of six (6) months and engaged a consultant to run the program. Eight (8) different scenarios were assessed in the program, of which these scenarios (PNOC Industrial Park Masterplan) were completed and approved by the PNOC board on 20 July 2018.

Several data on current and prospective locator plant capacities were encoded and assessed using the software. A final

report was received from the engaged Risk Assessment Consultant on 06 May 2019 and was later on presented to the board in June 2019.

The re-run of the PHAST SAFETI has also included the assessment of the risks of expansion of capacities of existing locators such as Philippine Resins Industries Inc. (PRII) from 180 to 220 KTPY.

In line with PRII’s expansion from 180 KTPY to 220 KTPY, a Review Committee was formed by the Industrial Park to assess the environmental viability of the project expansion. A consultant was engaged as specialist/resource person for the review. Based on the positive outcome of the review of PRII’s Environmental Performance and Management Plan (EPRMP), PRII was then issued an amended Certificate of Conformance (CoC) in September 2019 for the operation of its 220 KTPY Plant Capacity.

As a result of a positive assessment towards PRII’s plant expansion to 220 KTPY, PNOC Industrial Park then issued a Certificate of Conformance (CoC) to PRII. This was then submitted to DENR EMB together with the detailed results of the Park’s ERA and request for the amendment of the PECC.

Consequently, DENR EMB requires a Project Description prior to the conduct of Scoping. The Scoping shall indicate the coverage of the Programmatic Environmental Performance and Management Plan (PEPRMP) of the Park, the submission of which will determine DENR’s approval of the requested amendment. PIP is currently complying with submission of the Project Description for Scoping (PDS). The PDS shall include existing and prospective expansion plans of the Park, in compliance with RA 10516.



**Integrated Management System (IMS)
Certifications - ISO 9001, ISO 14001
and ISO 15001**

The PNOC Park successfully passed the recertification audit in December 2019.

Energy Supply Base

PNOC operates the Energy Supply Base (ESB) port facilities located in Mabini, Batangas. ESB was created primarily to provide logistic support and facilities for onshore and offshore exploration activities in petroleum and other energy related fields. It has extended its services to other commercial clients pursuant to the grant of a Permit to Operate as a private commercial port by the Philippine Ports Authority and a Bureau of Custom (BOC) custom bonded warehouse.

ESB offers pier services, warehousing facilities, cargo handling, equipment rental, manpower services and water services.

ESB's port services operation generated some P133.46 Million in revenues and accommodated two more locators, bringing the total to 20. The Base also accredited four more Additional Cargo Handling Operators

(ACHO), from two ACHOS operating in the Base. About 142 domestic and foreign vessels berthed at its port, loading and unloading 749,095 metric tons of cargo.

ESB continues with the repair and improvement of its facilities. As of year end, almost half of the planned re-strengthening of Deck 3 and slabs, and repair works of Decks 1, 2 and 4 concrete slabs and beams have been completed. The concreting of the road to the Roll-on/roll-off (RORO) pier saw its full completion in October.

The Base is being rehabilitated and upgraded to modernize its operations to cater to future energy explorations, make it more competitive to attract more clients and accommodate bigger vessels, thus a Master Development Plan was approved by the PNOC Board. A Notice to Proceed (NTP) was issued in September to the winning responsive bidder, Woodfields Consultants, Inc. to conduct the Detailed Feasibility Study (DFS), Detailed Engineering Design (DED), and Environmental Impact Assessment (EIA). Targeted completion is June 2020.

Asset Management

Consolidated income from leasing contracts for PNOC, and its subsidiaries PNOC Development and Management Corporation (PDMC) and PNOC Alternative Fuels Corporation (PAFC) properties amounted to P477.41M. This is without prejudice to PNOC's position in the pending case with Petron. New and renewal of contracts of lease were executed with the Department of Energy, the First Philippine Industrial Corp., the Philippine Economic Zone Authority PEZA, as well as various locators at the ESB.

The Company was also able to sell three idle properties located in Nueva Ecija, Bulacan and Davao City. On the other hand, for PDMC inventory properties and socialized housing project, PNOC was able to execute a total of 17 Deeds of Sale. Of this number, 10 are Deeds of Sale for Costa Verde properties. This accomplishment is double the PNOC Performance Scorecard Commitment of executing 5 Deeds of Sale for this particular project in 2019.

For properties affected by expropriation, right of way acquisitions, or subjected to CARP, PNOC was able to collect a portion of the just compensation for its M'lang Cotabato property, while continuing to process pending claims for properties in Talugtog, Nueva Ecija, Zamboanga and in Barangay Luz, Cebu City. On the other hand, the Company's Asset Management Department provided information and technical support in defending against or in the determination of just compensation in the pending cases for expropriation of properties in Cebu and Bataan. PNOC was also able to complete the registration under its name of two properties it has expropriated in Kananga, Leyte; which is part of the geothermal operations

area of PNOC's former subsidiary, Energy Development Corporation.



A Master Development Plan is vigorously pursued to modernize the Energy Supply Base's operations to cater to future energy explorations, make it more competitive to attract more clients and accommodate bigger vessels

As the lead of the ESB Service Provider Accreditation Committee, the Company's Asset Management Department processed the accreditation of 4 cargo handling operators from 7 to 8 applications received. It also facilitated the reservation of a total of 7.6 hectares of the Industrial Park.

For the Iconic Tower Project, it conducted research on the various legal, procedural and technical phases of the project, coordinating with various stakeholders such as the DOE, Public-Private Partnership Center, the Department of Justice, the Bases Conversion and Development Authority, and the Development Bank of the Philippines, preparing briefers for the guidance and use of the ad hoc technical working group tackling the same.



Where we are going

Looking at a 3-year horizon (2020-2022), PNOC's path of transformation from a holding to an operating company needs a paradigm shift. In the PNOC Strategic Planning held on October 21-22, 2019, the PNOC Board agreed that the company should take a big leap and implement game-changing strategies in the journey to transformation.

The following projects have been identified for the short-term:

1. Oil Stockpiling - Jointly Develop an Oil Storage Facility with PNOC EC
2. Sale of Part of the Banked Gas - Optimize the monetization/sale of the PNOC Banked Gas
3. Energy Supply Base (ESB) Master Development Plan - Implement the ESB Master Development Plan and Formulate Marketing Strategy for the Year 2020-2021
4. Disposal of Real Estate Properties - Maximize Productive Use of Real Estate Properties (Prime and Non-Prime Properties) and Sell All Remaining Inventory Properties of PDMC

Looking beyond the short-term, the PNOC Board identified possible medium- and long-term projects

MEDIUM-TERM (4-5 years) (2023-2024)

1. Construction of Oil Storage Facility
2. Sale of the Remaining Banked Gas
3. Liquefied Natural Gas (PNOC as supplier of LNG)
4. Construction of LNG Power Plant (with partner)
5. Completion of the ESB Master Development

LONG-TERM (more than 5 years) (2025 onwards)

1. Strategic Petroleum Reserve
2. Establishment of oil refineries
3. LNG (PNOC as participant in the LNG Hub Project)



Financial Highlights



2019 v 2018	+ 16.4%	- 1.7%	+ 0.89%
<i>*Values are in million PHP</i>	Net Income 714.05 v 613.32	Current Assets 2,826.35 v 2,876.13	Total Assets 40,482.42 v 40,124.46
+ 16.5%	+ 5.19%	+ 0.37%	+ 0.94%
Revenues 1,363.63 v 1,170.78	Current Liabilities 725.72 v 689.89	Total Liabilities 3,970.70 v 3,955.79	Equity 36,511.72 v 36,168.67

Net Income

Net income registered at P714.045 million, an increase by 16.4% or P100.73 million from last year's P613.32 million. This is mainly due to the full year realized revenue from the sale of banked gas to PSPC as compared with 2018 wherein the withdrawals of PSPC commenced only in June 2018. Interest income also ballooned due to the increase in the fund level, investment rates and strategizing portfolio mix to maximize the Company's interest earnings.

This year's total revenues of P1.36 billion is comprised mainly of Sales Revenue from Banked Gas (P560.75 million), rent/ lease income from investment properties (P404.28 million), interest income from investments in Marketable Securities (P304.69 million) and income from Energy Supply Base (P81.19 million).

Total Assets

PNO's total assets increased by .89% or P357.96 million from 2018's P40.124 billion to 2019's P40.482 billion. This improvement came mainly from higher revenues from the sale of Banked Gas from Pilipinas Shell Petroleum Corporation (PSPC) that contributed to the increase in

Investments in Marketable Securities by P248.78 million.

As of December 31, 2019, PNO's cash position which comprised of Cash and Cash Equivalents and Investments in Treasury Bills and Treasury Bonds amounted to P8,836.14 billion which is 21.82% of the Company's total assets. This resulted for the Company an earned interest income of P304.69 million for the twelve-month period.

Bulk of the Company's total assets are the Banked Gas Inventory and Investment Property which are 33.43% and 28.5% to total assets, respectively.

Equity

The Company's total equity of P36.51 billion is P343.05 million higher than last year's P36.17 billion. Dividend declared to the National Government for 2019 earnings amounted to P356.71 million which is also the outstanding Dividend Payable as at December 31, 2019. On the other hand, PNO remitted a total cash dividend of P306.50 million to the Bureau of the Treasury on April 25, 2019 for 2018 net earnings.

Our Corporate Commitments



Corporate Social Responsibility

The Company highly values its relationship with its stakeholders. It is equally committed to protecting the people, and the environment, where it operates.

In March 2019, the Company spearheaded the coastal cleanup, in the PNOC Industrial Park in Bataan, clearing its coastal area of some 3,300 kilograms of garbage washed along its foreshore. Two hundred ten volunteers from PNOC, Servicio Filipino, Elite Blue Security and Park locators ORICA, Philippine Resins Industries, Inc., Petron's Philippine Polypropelene, Inc., and NPC Alliance, as well as DENR and barangay representatives, joined efforts to restore the clean shores of the property. Subsequently, the Department of Interior and Local Government directed that coastal cleanup along areas of Manila Bay be held weekly.

Balon Anito in Mariveles will get greener when some 750 seedlings were planted during the Tree Planting Activity in June where 129 PNOC and locator employees, and LGU representatives participated.

PNOC fully supports the marine wildlife conservation program of the Bataan government, participating in the annual celebration of the Pawikan Festival, dedicated to the protection and conservation of the endangered pawikan or sea turtles.

PNOC strives to maintain a harmonious working environment with its business partners in the Industrial Park. Camaraderie-building activities were held in December, participated in by PNOC personnel and



From top:

PNOC Industrial Park Tree Planting Activity

PNOC participants to the 2019 Pawikan Festival in Bataan

2019 PNOC Industrial Park Coastal Cleanup Activity

employees from the different locators. Funrun, Zumba and Fun games provided a congenial atmosphere for everyone.

As the company evolves in its operations, PNOC aims to take a more active role in implementing socially-integrated approach in implementing and managing its community relations activities.

Gender and Development

PNOC fully supports Gender and Development mainstreaming in its operations. At present, 95% of PNOC employees and management have attended relevant GAD training and workshops covering Basic GAD Orientation and Gender Fair Language and Administrative Rules on Sexual Harassment.

A capacity development training was likewise conducted in February for the GAD Focal Point System (GFPS) members. This was followed with GAD Mainstreaming Assessment and Preparatory Development of Agency GAD Agenda in June. A seminar workshop on Handling Sexual Harassment Cases was also conducted for GFPS and Committee on Decorum and Investigation (CODI) members in December.

In celebration of the Women's Month, in March, PNOC conducted a forum on "Incredible Women" with Actress/Director and breast cancer survivor Ms. Glenda Resurrection, as speaker. Another activity, the screening of the movie "Patay na si Hesus", was graced by the presence of the director himself, Victor Villanueva, who shared his experience in doing the film and gamely answered the audience's questions on women's issues tackled in the film. November 25 is the start of the 18-day campaign to end Violence Against Women and Children. To support this campaign, PNOC held a contest on Best Anti-VAW Statement Photo/Infograph with the theme "Babae Ako. Igalang Mo." This was complemented with a screening of the movie "Liway".



From top:
Warm-up of participants to the 2019 PNOC Industrial Park Fun run

GAD Mainstreaming Assessment and Preparatory Development of Agency GAD Agenda

Participants to the GAD Talk Series on Depression and Understanding Child and Women Abuse

PNOC employees' entries to the Anti-Violence Against Women Statement and Photo/Infograph Contest

The company maintains a GAD Corner on its website, and a bulletin Board at the Company lobby where relevant news and issuances are posted.

Whistleblowing Policy

It is essential for PNOC to provide a safe and trustworthy environment, so that the company's employees feel comfortable and protected when they have information to share. It is therefore important for top management to promote, demonstrate and commit to the inclusion of whistleblowing within their business culture. A successful whistleblowing culture can be implemented by being open and honest, following through on procedures, treating employees with respect, and investigating the issues thoroughly with the highest level of confidentiality.

Whistleblowers may report directly to the GCG through their web portal www.whistleblowing.gcg.gov.ph. They may also submit whistleblowing reports through face-to-face meeting with GCG officers and employees; through email: feedback@gcg.gov.ph; through mail: 3F Citibank Center, 8741 Paseo De Roxas, Makati City; and through contact numbers: (632) 8328 2030 to 33.

You can access PNOC's Whistleblowing Policy by going to:
tinyurl.com/PNOCWBPolicy

Risk Oversight Policy

In its Terms of Reference (TOR) and in its Audit Committee Charter, the PNOC Audit Committee is responsible for overseeing, monitoring, and evaluating the adequacy and effectiveness of PNOC and its subsidiaries' internal control system as well as the Company's process for assessing significant risks or exposures.

Meanwhile, the PNOC Risk Management Committee performs oversight risk management functions specifically in the areas of operations, legal, reputational, and other risks of PNOC and ensures that the risk

management process and compliance are embedded throughout the operations of PNOC, especially at the Board and Management level.

Quality Management System

Maintaining an efficient management of PNOC Energy Facilities and the Development, Implementation and Maintenance of Efficient and Effective Systems are part of PNOC's Strategic Objectives. As PNOC's way to uphold and commit to these objectives, PNOC is certified to Quality Management Standards (ISO 9001:2015) for thirteen (13) management processes since October 10, 2017.

Last June 18, 2019 PNOC successfully passed the QMS 2nd surveillance audit without any non-conformities. Meanwhile, the PNOC Industrial Park - PNOC Park Management Department (PIP), is certified to Integrated Management System (IMS) Standards (ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018) since December 7, 2016. In December 2019, it successfully hurdled the Re-Certification Audit and was IMS Re-Certified beginning 2019 - 2021.

Stakeholders' Satisfaction Rating

Customers will always choose and stay with the company that made them satisfied. This year, in its effort to determine the level of satisfaction of PNOC's customers and to reflect PNOC's performance from the perspective of its customers, i.e., lessees, Energy Supply Base customers, and PNOC Industrial Park locators, the company again conducted a Customer Satisfaction Survey (CSS). This was done by the Department of Social Development Services of the University of the Philippines Los Baños,

Results showed a "Very Satisfactory" overall rating from the PNOC customers. The rating is based on the six attributes prescribed by the Governance Commission for GOCCs (GCG). The main factors that contributed to the positive rating were the satisfactory service provided by the company, promptness in addressing customers' queries and concerns, personnel's



approachability, and ease of transactions with the company.

Analysis of customers' satisfaction is indeed essential to ensure that PNOC's vision is realized. Determination of customer's level of satisfaction is critical to every organization, it provides the necessary inputs towards continuous improvement of its services and addressing the customer needs and requirements. PNOC will continue to listen to its customers to be able to fulfill its mission and eventually realized its Vision.

Corporate Governance Statement

The Philippine National Oil Company (PNOC) affirms its full compliance with the provisions of the Code of Corporate Governance (GCG Memorandum Circular No. 2012-07 dated November 2012) and its own Manual of Corporate Governance.

Meanwhile, the Board of Directors, Management, officers and employees of PNOC continue to commit themselves to the principles and best practices of governance contained in the company's Manual of Corporate Governance as a guide in the attainment of its corporate goals. PNOC shall make a continuing effort to create awareness of good corporate governance within the organization. At the same time, the entire organization declares its continuing commitment to the Code of Ethical Conduct, its vision, mission statement and core values which are made an integral part of the company's Manual of Corporate Governance.

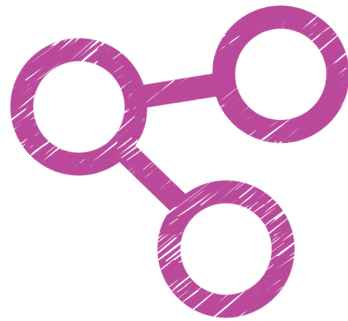
Governance Structure

The machinery for corporate governance of the PNOC is contained in its Charter, P.D. 334, as amended, and its By-Laws and Code of Ethical Conduct. This Charter vests the PNOC Board of Directors (BOD) with full final authority and full oversight responsibility for the governance of the Company. As a result, the PNOC BOD is held accountable to the State for the operation and status of PNOC, including its performance in various state activities and projects.

To assist the Board and the PNOC Management in decision-making processes, the members of the BOD have constituted sub-committees that gather to discuss various issues and establish recommendations for the review and approval of the PNOC BOD. The sub-committees are as follows: (1) the Executive Committee; (2) the Risk Management Committee; (3) the Audit Committee; (4) the Nomination and Remuneration Committee; and (5) the Governance Committee.

On the other hand, the PNOC Management is comprised of the Executive Officers: the President and CEO, the Offices of the Senior Vice- Presidents, and Corporate Officers. The three (3) offices of the Senior Vice Presidents are: (1) the Office for Energy Investments; (2) the Office for Energy Business; and (3) the Office for Finance and Administrative Services.

The PNOC Management is responsible for ensuring that PNOC adheres and implements its mandate while at the same time, complies with its corporate duties and responsibilities especially those concerning its social, environmental, and economic commitments to its stakeholders and the Filipino people.



Our Subsidiaries



PNOC Exploration Corporation

PNOC Exploration Corporation (PNOC EC) is the upstream oil, gas, and coal subsidiary of the state-owned Philippine National Oil Company. A government-owned and controlled corporation, the Company was incorporated on 20 April 1976 and is mandated by the government through the Department of Energy (DOE) to take the lead in exploration, development, and production of the country's petroleum and coal resources.

PNOC EC currently holds eight (8) petroleum Service Contracts (SCs), namely: SC 37 (Cagayan), SC 38 (Malampaya), SC 57 (Calamian), SC 58 (West Calamian), SC 59 (West Balabac), SC 63 (East Sabina), SC 74 (Northwest Palawan) and SC 75 (Northwest Palawan). The Company is the operator in SC 37, SC 57, and SC 59 and an active partner in SC 38, SC 58, SC 63, SC 74, and SC 75.

PNOC EC used to operate the very first natural gas facility in the country, the San Antonio Gas Power Plant within SC 37 before joining the Malampaya consortium (SC 38) in 1999 with a 10% stake. Malampaya is the country's single biggest investment of its kind.

PNOC EC also holds four (4) Coal Operating Contracts (COCs), namely: COC 41 (Malangas), COC 122 (Isabela), COC 185 (Buug-Malangas) and COC 186 (Imelda-Malangas). As part of its coal business, the Company also trades coal through its coal terminal located in Malangas, Zamboanga Sibugay.

In 2019, the Malampaya Gas-to-Power Project of the SC 38 Consortium, composed of Shell Philippines Exploration B.V., the Operator (45%), Chevron Malampaya LLC (45%), and PNOEC (10%), continued to provide the natural gas fuel requirement of five (5) power plant customers with total capacity of 3,200 MW and provides at least 30% of the power requirements of Luzon. These power plants are Sta. Rita, Sta. Lorenzo, Ilijan, San Gabriel, and Avion. Total gas offtake volume for the year was registered at approximately 149.9 billion cubic feet (BCF).

While some of the Company's Service Contracts are under moratorium due to some external issues, PNOEC continues to conduct exploration programs in its operated blocks especially in SC 37 Cagayan and SC 59 West Balabac.

On coal exploration, PNOEC continued various activities in COC 41 Malangas. It also

continued to supervise the operations of Small-Scale Coal Mining (SSCM) permittees within the area of the COC.

During the year, the subsidiary started exploration drilling of the Malangas portion of the COC 186 Buug-Malangas. Both COC 185 Imelda-Malangas and COC 186 Buug-Malangas have been certified as Energy Projects of National Significance by the DOE.

PNOC Renewables Corporation

Throughout 2019, PNOC-RC has been proactive in partnering with government institutions to explore the tremendous and untapped potentials of the country's clean energy resources. For this year, PNOC RC entered into a Memorandum of Agreement (MOA) with the Province of Quirino for the development of the 50MW Diduyon Hydropower Project. It also signed a total of eleven (11) Memorandums of Understanding with the aim of seeking out potential partners in the massive development of sustainable energy programs in the country. The corporation was also able to complete eleven (11) Technical and Financial Studies for its potential projects and one (1) Pre-Feasibility Study for the proposed Diduyon Hydropower

Project. Moreover, the detailed Feasibility for the proposed Waste-to-Energy Project in Baguio City which was outsourced to Full Advantage Philippines is now almost 80% completed.

As of December 2019, the company was able to generate 5.72MW of energy from Solar PV and renewable energy projects, broken down as follows:



Solar Rooftop Installations

Capacity: 2.57 Megawatts

Status/Remarks:

On-going commercial operations

Maibarara Geothermal Power Plant

Capacity: 3.20 Megawatts

Status/Remarks:

On-going commercial operations, PNOC RC owns 10% share in the project

Rizal Hydroelectric Power Plant

Capacity: 1.00 Megawatts

Status/Remarks:

On-going commercial operations

Total: 6.77 Megawatts





Our Board of Directors

Directors Training and Continuing Education

The PNOC Board has established themselves as true advocates of public governance. Armed with relevant training on Corporate Governance through the Institute of Corporate Directors, and Public Corporate Governance for Board Members of GOCCs with Modules on Understanding Fundamentals of Public Corporate Governance and Exercising

Fiduciary Functions for Improved Public Corporate Governance at the Development Academy of the Philippines, their skills developed during trainings are further honed in the boardroom. Additional training like Introduction to the Strategic Thinking Process was also availed of. The Board continues to upgrade and update themselves with appropriate training to further enhance their performance as committed public servants.



Hon. Alfonso G. Cusi

Board Chairperson, Secretary of Energy

Energy Secretary and PNOC Chairperson Alfonso G. Cusi has an impressive record in leading both private and public entities . He started his government service as General Manager of Philippine Ports Authority where he was instrumental in launching the Strong Republic Nautical Highway. He later served as General Manager of the Manila International Airport Authority from 2004 to 2010, and it was during his stint that the mothballed NAIA Terminal 3 officially opened, in 2008. He later served as Director General of the Civil Aviation Authority of the Philippines, laying the groundwork for the restoration of the Category 1 status of the Philippine Aviation Industry. A successful businessman, Chairman Cusi was the chairman of Starlite Ferries, upgrading the domestic shipping industry with its acquisition of brand new ro-ro commercial vessels. He also founded and served as Chairman and President of several companies engaged in logistics and distribution, manning and crewing, maritime

engineering, and convenience stores. He also served as board member of Intex Resources Philippines, Inc. of Norway-based Intex Resources. Chairman Cusi earned his Bachelor of Science degree in 1972 from La Salle College in Bacolod, his Master's degree in Business Administration in 1976 from UP-Cebu, and his Doctorate in Business, honoris causa, in 2008 from the Polytechnic University of the Philippines. Secretary Cusi is 70 years old.



ADM Reuben S Lista PCG (Ret)

President and Chief Executive Officer

ADM Reuben S Lista PCG (Ret), the PNOC President, brings with him years of military discipline and remarkable business acumen. He holds three Masters Degrees, one in International Resource Planning and Management (MIRPM), and another in National Security Administration (MNSA), both from the prestigious US Naval Postgraduate School (USPNS) in Monterey, California, and still another in Business Administration from the Ateneo de Manila University. The Admiral also holds the distinction as the first ever commander of the Marine Environmental Command, a qualification most useful with regard to balancing energy projects with environmental protection. Aside from his stints in the Philippine Navy and as the 16th Commandant of the Philippine Coast Guard, and other maritime posts, President Lista has a very diverse background - working as a consultant in transportation and communication, public works and highways, and even spearheading corporate

social responsibility as he is credited for his brainchild "Adopt a Lighthouse" Program which works for the upkeep and maintenance of historical lighthouses. He also brings into PNOC his vast experience in the private sector. He graduated top of his class in BS Marine Transportation at the Philippine Merchant Marine Academy in 1969. President Lista is 72 years old.



Rex V. Tantiongco
Member of the Board

Director Rex V. Tantiongco has worked in various capacities for the energy sector. He was chairman of the Energy Regulatory Board (now Energy Regulatory Commission) from 1991 to 1996 and was consultant for water and energy affairs in the Office of the President. He also worked at the private sector as a local consultant to WorldBank, was Executive Director of the Independent Philippine Petroleum Companies Association and Head of the Advisory Group of Cathay Pacific Steel, to name a few. He was also a part of the academe, being a member of the Board of Trustees of the University of Rizal System, and having taught at the University of the East, the De La Salle University, and the CPA Review School of the Philippines. Director Tantiongco graduated with a BA Accounting degree at the University of the East in 1966 where he also earned his MBA units in 1977. He received his Doctor of Technology degree from the University of Rizal System in 2009. Director Tantiongco is 74 years old.



Ramon Victor B. Mitra
Member of the Board

A general management professional, Director Mitra has extensive experience in administration and operations management acquired from more than 29 years' experience in the military, private business and family-owned corporations. He has been in the information technology, transportation, agriculture, bio-technology and energy business. Dir. Mitra also served as Chairman of the former PNOC subsidiary, the PNOC Development and Management Corporation. A Philippine Military Academy graduate, he also took Enterprise Management Program at JAD Institute, an off-campus program of the Asian Institute of Management. Director Mitra is 55 years old.



Hermann Roy M. Atienza

Member of the Board

Director Hermann Roy Atienza is a committee member for administration/ Treasury of the ACDI Multipurpose Cooperative in Davao City. Previously, he served the Philippine Air Force for 20 years, starting as Line Pilot in 1990 until he became Aerodome and Base Operations Commander in 2007, exhibiting his knowledge and espousing projects leading to improvements and upgrades in air bases operations. A San Beda BSC Marketing graduate in 1986, Director Atienza took Basic Air Cargo Operations at the Philippine Airlines in the same year and in 1990, took UPT in the Philippine Airforce Flying School. He completed his MBA at the University of Mindanao in 1997. Director Atienza is 54 years old.



Adolf P. Borje

Member of the Board

Rear ADM Adolf P Borje AFP (Ret) joined PNOG in February. He has a very extensive background in military, security, intelligence, community relations, and public safety. He has 37 years in military and government positions, which honed his skills in conflict resolution, managing and deploying security forces and judicious allocation of resources, with an active experience in government budgeting and programming. He is a graduate of the Philippine Military Academy, and of the US Naval Postgraduate School in Monterey, California (International Resource Planning and Management). He also holds an equivalent Degree in Masters in National Security Administration from the National Defense College of the Philippines. Director Borje is 77 years old.



Jonas Guy S. De Leon

Member of the Board

An environmentalist at heart, Director Jonas Guy S. de Leon works with various NGOs and organizations advocating for a clean and green world in the midst of industrial and economic growth. He also firmly believes that transparency and accountability are the cornerstones of good governance, steadfastly supporting the president's anti-criminality and anti-corruption drive. Director de Leon manages and co-owns business establishments. He graduated with a Bachelor of Science in Nursing from the University of Northern Philippines in 2013. Director De Leon is 48 years old.



Romeo V. Poquiz

Member of the Board

Before his appointment as PNOC Director, Dir. Poquiz was a Board Director of the Bases Conversion and Development Authority, the Fort Bonifacio Development Corporation, and the Bonifacio Transport Corporation. He was also a consultant at the Philippine Economic Zone Authority. Presently, he is also a Trustee of the AFP Mutual Benefit Association and a consultant at the National Security Council. A bemedaled military officer, he graduated with a Bachelor of Science degree in PMA and a Master of Science in Management at the Naval Postgraduate School in the US. He was a major general of the Armed Forces of the Philippines when he retired from the service. Director Poquiz is 61 years old.



Michael Ted R. Macapagal

Member of the Board

Dr. Macapagal joined PNOC in September 2019, after his stint as a member of the board of Clark Development Corporation, bringing with him an impressive and consistent record of building sustainable, scalable and profitable businesses that have created long-term employment opportunities for minorities in the San Francisco Bay area. He was President and CEO of locally-based 1st Reliance

International, Inc. And California-based Reliance Logic, Inc., both into real estate development. He was also Division President and Country Manager of California-based Stewart Title Company. Dir. Macapagal graduated with a Bachelor’s Degree Program majoring in History, with a certificate program in Human Resource Management at the University of California, Berkeley. Director Macapagal is 49 years old.

PNOC’s Corporate Governance Scorecard

The company’s Corporate Governance Scorecard can be accessed by clicking the “GCG Scorecard” link on the company’s official website, www.pnoc.com.ph. It is under the Quick Links section on the left side of the homepage.

Quick Links



Transparency Seal
Transparency Seal



GCG Requirements
GCG Requirements



CGS
Corporate Governance
Scorecard



Service Charter
Service Charter



**GCG Whistleblowing
Portal**
GCG Whistleblowing Portal



2020

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