RISING UP
TO THE CHALLENGE

PACIFIC ONLINE
SYSTEMS CORPORATION
LOTO

ANNUAL REPORT 2018

MISSION, VISION & CORE VALUES

MISSION
Create Hope. Live Life.

VISION
To be the Gaming Partner of Choice.

CORE VALUES

- Pacific Online is a **learning** organization composed of diverse individuals with unity of purpose and a shared vision.
- We strive for **excellence** in all we do.
- We fully accept **accountability** for all our actions, decisions and responsibilities.
- We create our future driven by a **dynamic** team of professionals.
- We always aim for **efficiency** in all aspects of our work.
- We accord everyone due **respect** and carry ourselves in a professional manner.
- We nurture relationships by providing quality **service** to all stakeholders.

TABLE OF CONTENTS

02 MESSAGE TO OUR SHAREHOLDERS

04 BUSINESS REVIEW

07 FINANCIAL REVIEW

08 CORPORATE STRUCTURE

09 CORPORATE GOVERNANCE

18 DIRECTORS' PROFILE

20 BOARD OF DIRECTORS

22 MANAGEMENT TEAM

24 CORPORATE SOCIAL RESPONSIBILITY

28 EMPLOYEE HEALTH & SAFETY DATA

30 FINANCIAL STATEMENTS

MESSAGE TO OUR SHAREHOLDERS

"In spite of the rigors of the current lottery climate, Pacific Online postures itself to rise up to the challenge, and remains optimistic it will resume its path towards market ascendancy."

Equipped with more than two decades of experience and expertise, Pacific Online Systems Corporation (Pacific Online) lays the tracks in providing a reliable and respectable gaming platform for lottery customers in the country.

In partnership with state-run Philippine Charity Sweepstakes Office (PCSO), our Company paves a path of hope for PCSO's agents and players by bridging gaming technologies that create business opportunities and generate funds for charity.

Recent fiscal years saw a trend towards a steady rise in net income. In 2018, however, the growth was derailed by the imposition of a 20 percent Documentary Stamp Tax (DST) on ticket price, coupled with the taxation on lottery winnings above P10,000, brought about by the Tax Reform for Acceleration and Inclusion (TRAIN) Act. This resulted with players that are faced with higher ticket prices; and further penalized upon winning the game to have their prizes slashed by 20%. Lotto digit sales were also hit by the aggressive expansion of Small Town Lottery (STL) which are prevalent in the Company's traditional territories.

Expectedly, our Company's revenues dipped from P2.31 billion in 2017, to P1.93 billion in 2018, representing a 17% decline. Operating income likewise dropped from P668 million in 2017, to P321 million in 2018, creating a 52% drop from the previous year. Net income decreased by P188 million, 38% lower from P493 million in 2017 versus P304 million in 2018.

Although Lotto remains a key source of revenues, Pacific Online's subsidiaries contributed around 59% of our Company's consolidated total gross revenues in 2018. Total Gaming Technologies, Inc. (TGTI) rolled out 2,454 Keno (Lotto Express) terminals in 2018, an increase of 44 terminals over 2,410 terminals the previous year. Pacific Online's retail network arm, Lucky Circle Corporation, increased its sales by P316 million versus the previous year.

In July, Pacific Online was recognized by the Institute of Corporate Directors (ICD) as one of the top-performing publicly listed companies under the ASEAN Corporate Governance Scorecard (ACGS). Scoring above 80 points, Pacific Online is the only company providing support to the government's role in lotteries and its role in providing charity. Our Company also retained its ISO/IEC 27001:2013 Information Security Management certification, and upgraded its Quality Management System Certification to the ISO 9001:2015 series. Pacific Online was also officially accepted as a member of the World Lottery Association (WLA), and is currently securing its WLA Security Standards Certification.

At its core, Pacific Online is a technology company. Through the years, its strategy, structure, systems, and staff have adapted to the demands and standards of a technology company that revolves on gaming. The accretion of accolades is a testament that as much as we thrive in the business of luck, we do not take chances. We laid the groundwork necessary to take our strategy further as we wait for the PCSO's final Terms of Reference for the bidding of its Nationwide Online Lottery System (NOLS). Our company is well-positioned to become a front-runner if the bidding proceeds this year.

Our company also acknowledges that we owe our durability to the stakeholders and shareholders that share in our success and setbacks. From 2014 to 2018, Pacific Online returned a total of P1.3 billion in cash dividends to its stockholders. In 2016, our Company declared a 50% stock dividend per share worth P149 million.

Moving forward in 2019, we reiterate that Pacific Online's network is the most transparent and the most efficient avenue for raising revenues for PCSO, and for remitting the proper taxes to the government. The strategy and logistics of responsible gaming is consistent with the full transparency and accountability that a legitimate system can offer as it has the proper monitoring and auditing procedures in tow. We believe the online gaming sector will provide the benefits and the backbone of a sustainable program for the government's charity work.

In spite of the rigors of the current lottery climate, Pacific Online postures itself to rise up to the challenge, and remains optimistic it will resume its path towards market ascendancy.

We thank you for the support.

WILLY N. OCIER
Chairman of the Board

REVENUE

2018	**1,935.94**
2017	2,319.99
2016	1,880.10

OPERATING INCOME

2018	**321.46**
2017	667.59
2016	597.54

EBITDA

2018	**544.66**
2017	893.04
2016	768.72

NET INCOME

2018	**304.05**
2017	492.87
2016	400.37

BUSINESS REVIEW

EQUIPMENT LESSOR FOR LOTTO

2018 was a challenging year for the Company. Pacific Online Systems Corporation (POSC) ended the year 2018 with a total of 4,029 terminals installed, that generated P11.23 billion in Lotto sales. This was a 17% decrease versus the previous year's revenues of P13.47 billion despite the year having the biggest jackpot in Philippine Lotto history of P1.18 billion on October 14, 2018. The decline in Lotto sales was the effect of the Documentary Stamp Tax (DST) implementation on July 23, 2018 which increased the minimum Lotto bet amount by 20 percent.

After the month of October attained P1.35 billion of sales, up 20 percent from the same time period the previous year, November and December saw a 44 and 41 percent decrease respectively. Terminal installations for the year declined by 4 percent compared to 2017's 4,205 installations. Visayas had the most number of installed terminals at 52 percent followed by Mindanao at 38 percent and Luzon at 10 percent for the year ending 2018.

The jackpot games grew by 34 percent or P1.10 billion while the Lotto digit games decreased by 32 percent or P3.33 billion compared to 2017 sales figures. The increase in jackpot sales can generally be attributed to the record high 6/58 jackpot of P1.18 billion, eventually hit in October. The decrease in Lotto digit sales can generally by attributed to the competition provided by PCSO's Small Town Lottery (STL) whose operations found a home ground in the Company's territories.

In July 2018, the Company received recertification for its ISO/IEC 27001:2013 Information Security Management. In addition, it updated its Quality Management System ISO 9001:2008 to version 2015 with an audit conducted by Societe Generale de Surveillance (SGS). The Company acquired membership with the World Lottery Association in 2018 and is preparing for its WLA Security Standards certification. For the year 2019, the Company is gearing up for the bidding for the Nationwide Online Lottery System (NOLS) provider. POSC continues to maintain its efforts in building key lasting relationships and providing exemplary service in the face of the aforementioned challenges, while continuously striving for its vision of becoming the gaming partner of choice in the Philippine gaming industry.

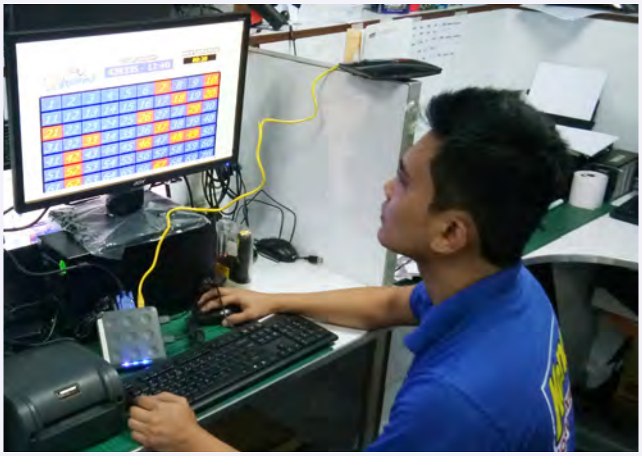
EQUIPMENT LESSOR FOR KENO (LOTTO EXPRESS)

Total Gaming Technologies, Inc. (TGTI) successfully closed a challenging year with a total of 2,454 terminals nationwide, which generated Keno sal total sales or P3.9 billion, while Vismin outlets covered the remaining 12 percent or P511 million of the total sales. Terminal installations increased by 2.0 percent or an additional 44 terminals for 2018 as compared to 2,410 terminals for yearend 2017. Despite the continuous rollout of terminals, Keno sales declined by 18 percent or P960 million as compared to last year's sales of P5.4 billion. The decrease was brought about by the implementation of Documentary Stamp Tax (DST) on July 23, 2018 that increased the minimum Keno bet amount from P10.00 to P12.00. From the average daily sales of P15 million from January 2 - July 22, 2018, average daily sales went down to P8 million or 46 percent decrease after DST implementation.

Despite this initial setback, TGTI continuously worked on support system upgrades in areas of terminal management, network administration, and customer service to ensure operational efficiency and profitability of all Keno outlets. The Company's top priority through the years is to provide excellent customer service at all times and continuous installation of sales-generating terminals. Additional vehicles were also acquired armed with fast and reliable field service personnel to ensure timely and efficient delivery of service to all Keno Agents.

TGTI recognizes the need to adapt on the fast-paced technology advancement in the gaming industry. The team of Network Administration continuously managed better connectivity and higher productivity per terminal through migration from wireless/GPRS connection to DSL.

Notwithstanding the problems faced on the previous year, TGTI commits to continue working through 2019 and remains optimistic to attain its sales target of P3.5 billion and total terminals of 2,800 by year-end 2019.



Keno
LOTTO EXPRESS

TGTi
TOTAL GAMING TECHNOLOGIES, INC.

RETAIL NETWORK

Lucky Circle Corporation (LCC) has continued to be on the path of growth. The year 2018 reflected a record high in total retail sales of P4.6 billion nationwide, which was 7 percent up versus the previous year's sales of P4.3 billion. Of its 259 sites, 81 percent are located in SM Malls.

Luzon sales accounted for 81 percent of the sales at P3.7 billion as of yearend 2018. Visayas and Mindanao regions cover the remaining 19 percent which is equivalent to P873 million. Lotto continues to contribute the largest percentage of retail sales of 47 percent, followed by Instant Tickets contributing 39 percent, and Keno at 14 percent.

LCC performed marketing activities to support all branches' operations throughout the year. This included the continuing development and upgrade of store design, regular update of marketing collateral, conduct of customer surveys, analysis of foot traffic, and creation of marketing programs to enhance sales of strong and weak branches were implemented. Year-round training on product knowledge and efficient customer handling was done to ensure that excellent customer service is provided at the sites.

One noteworthy site opening for the year was SM Legazpi, which sold the winning 6/58 Ultralotto ticket with an all-time high jackpot of P1.1 billion. This was on the same day its lotto terminal was installed and became operational on October 14th, and has garnered the outlet fame as one of the country's luckiest stores.

The Company plans to expand with 10 new sites in the coming year 2019. It will continue to work on maintaining rapport and collaboration with its business partner PCSO, as well as its business providers and stakeholders. LCC will remain a beacon of hope to all its customers while recognizing its employees as its most important asset in the organization.

FINANCIAL REVIEW

CONSOLIDATED INCOME STATEMENT	2018	2017	2016	2015
Revenues	1,935.94	2,319.99	1,888.10	1,718.32
Costs and Expenses	1.614.49	1,652.40	1,290.55	1,212.79
EBITDA	544.66	893.04	768.72	622.86
Net Income after Taxes	304.05	492.87	400.37	345.06
CONSOLIDATED FINANCIAL POSITION	**2018**	**2017**	**2016**	**2015**
Total Assets	2,103.08	2,633.85	2,427.20	2,211.08
Total Liabilities	342.46	631.77	466.57	452.13
Total Equity	1,760.62	2,020.07	1,960.63	1,758.95
Dividends paid	253.47	338.27	498.40	175.53

(Note: Amounts above are in million pesos)

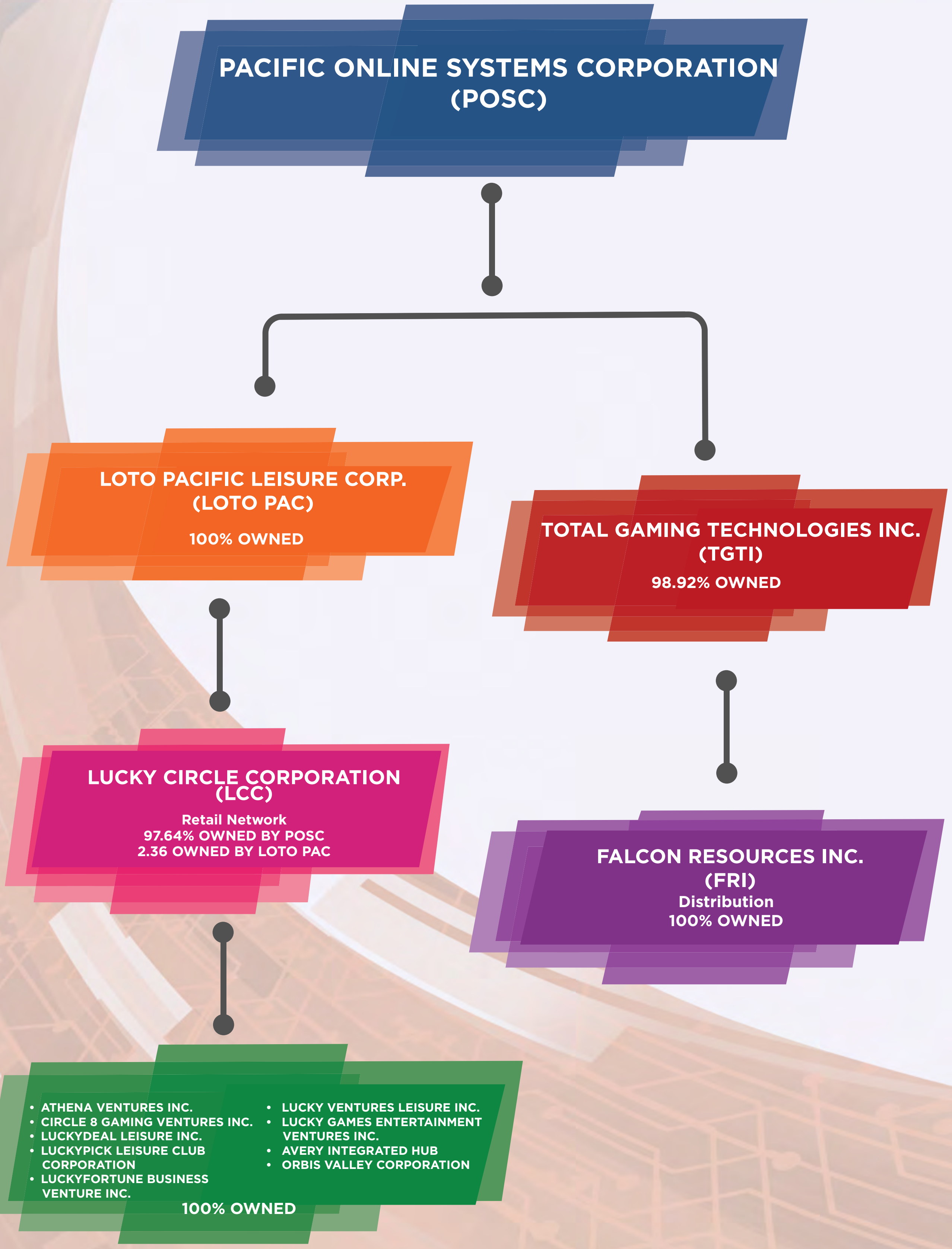
For the year 2018, the Company posted consolidated revenues of P1.9 billion, which is 16.6 percent lower than last year's P2.3 billion. The bulk of the decrease in revenue is due to lower lotto and keno sales nationwide, which was brought about by : (1) the expansion of Small Town Lottery (STL) from 17 to 86 operators that attracted the digit lotto players; (2) the 20% increase in lotto and keno ticket prices starting July 2018, in compliance by PCSO of the Documentary Stamp Tax (DST) on lottery tickets as mandated by the TRAIN Law; and (3) the imposition of 20% prize taxes on prizes above P10,000 on all lottery games starting January 2018 in compliance with TRAIN Law. Additionally, the ELA rate for lotto was reduced by 1.7 percentage points in lieu of the paper cost starting August 2018, when the ELA was extended by PCSO. The retail/distribution business segment, on the other hand, recognized a minimal net growth of 1.7 percent due to weaker lottery sales caused by the impact of the DST and prize taxes imposed on lottery tickets.

Total costs and operating expenses decreased by P127.8 million for lotto and keno operations combined, or 10 percent over P1.3 billion incurred in 2017. However, the retail/distribution business segment increased by 24 percent or P89.1 million due mainly to the consolidation of the nine companies acquired by Lucky Circle Corporation in July 2017.

The Company realized net income after taxes of about P304.1 million, which is 38 percent lower than prior year's net income of P493 million. For the current year's net income, the Keno business unit contributed 60 percent to the consolidated net income, while the Lotto business unit was at 33 per cent. The remaining 7 percent net income share came from the retail/distribution business segment.
From 2015 to 2018, the Company paid a total of P 2.8 billion cash dividends and issued stock dividends worth P149 million in 2016. Stock dividends amounting to P448 million was declared in 2018 but still pending SEC approval as of December 31, 2018.

CONSOLIDATED INCOME STATEMENT	2018	2017	2016	2015
Revenues	1,935.94	2,319.99	1,888.10	1,718.32
Costs and Expenses	1.614.49	1,652.40	1,290.55	1,212.79
EBITDA	544.66	893.04	768.72	622.86
Net Income after Taxes	304.05	492.87	400.37	345.06
CONSOLIDATED FINANCIAL POSITION	**2018**	**2017**	**2016**	**2015**
Total Assets	2,103.08	2,633.85	2,427.20	2,211.08
Total Liabilities	342.46	631.77	466.57	452.13
Total Equity	1,760.62	2,020.07	1,960.63	1,758.95
Dividends paid	253.47	338.27	498.40	175.53

CORPORATE STRUCTURE



THE BOARD OF DIRECTORS' RESPONSIBILITY

1. It shall be the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders. In particular, the Board shall:

   a. Be responsible to the shareholders for the good standing of the Company, the management of its assets for optimum performance and the strategy for its future development.

   b. Set the strategic objectives of the Company, establish theCompany's vision and mission, determine investment policy, agree on performance criteria and delegate to management the detailed planning and implementation of that policy, in accordance with appropriate risk parameters.

   c. Be responsible for defining the Company's level of risk tolerance and providing oversight over its risk management policies and procedures.

   d. Monitor compliance with policies, and achievement against objectives, by holding management accountable for its activity through the measurement and control of operations by regular reports to the Board, including monthly performance reporting and budget updates.

   e. Define the Company's policy on disclosing non-financial information, with emphasis on the management of economic, environmental, social and governance issues of the Company's business. The Board shall consider the adoption of globally recognized standards/frameworks in reporting non-financial and sustainability issues.

   f. Ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, and conduct itself with honesty and integrity in the performance of its duties and responsibilities.

   g. Identify the Corporation's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them. For purposes of maintaining open lines of communication with its various stakeholders, the Corporate Secretary and/or the Investor Relations Officer are designated as stakeholder engagement touchpoints through whom the stakeholders may course their concerns. The Company shall ensure that there is sufficient dialogue between the Company and the stakeholders in the community in which the Company operates, especially on concerns pertaining to sustainability.

   h. Be responsible for approving the appointment of key officers and assessing the performance of Management. The Board shall monitor and assess the performance of the Management based on established performance standards consistent with the Company's strategic objectives, and conduct a regular review of the Company's policies with the Management. In the selection process, fit and proper standards are to be applied on key personnel and due consideration shall be given to integrity, technical expertise and experience in the institution's business, either current or planned. Key personnel shall include, but not be limited to, the Chief Executive Officer, the Chief Risk Officer, the Chief Compliance Officer, Chief Audit Officer, and/or their functional equivalents.

   i. Setting in place clear rules for standards of ethical and professional behavior. The Board shall adopt therefor a Code of Business Conduct and Ethics which would set such standards, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the Company.

   j. Ensure that the Company's transactions occur at market prices, at arm's-length basis and under conditions that protect the rights of all shareholders. The Board shall also be responsible for ensuring that the Company has a clear policy and system governing related party transaction (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The Board shall, as soon as practicable, set in place guidelines for the RPTs of the Company, which guidelines shall contain: (1) the definition of related parties, (2) the coverage of the RPT policy, (3) guidelines in ensuring arm's-length terms, (4) identification and prevention/management of potential or actual conflicts of interest which arise, (5) adoption of materiality thresholds, (6) internal limits for individual and aggregate exposures, (7) whistle-blowing mechanisms, and (8) restitution of losses and other remedies for abusive RPTs. The Board shall also set in place the mechanism for ratification by shareholders of material RPTs approved by the Board, in accordance with existing laws. The material RPTs shall be reviewed and approved during the year by both the Board and the stockholders, as well as disclosed in the Annual Corporate Governance Report.

2. The Board shall be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties and responsibilities.

3. The following are specific duties and responsibilities of director:

   a. To conduct fair business transactions with the Company and to ensure that personal interest does not bias Boarddecisions.He shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality, and should an actual or potential conflict of interest should arise, he should fully and immediately disclose the same and should not participate in the decision-making process.

   b. A conflict of interest situation arises when the director's personal or business interest is antagonistic to that of the Company, or that he stands to acquire or gain financial advantage at the expense of the Company.

   c. To devote time and attention necessary to properly discharge his duties and responsibilities. He should devote sufficient time to familiarize himself with the Company's business. He should be constantly aware of, and knowledgeable with, the Company's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials, and, if called for, ask questions or seek explanation. The non-executive directors of the Board should concurrently serve as directors to a maximum of five (5) publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management proposals/views, and oversee the long-term strategy of the Company. Before accepting a directorship in another Company, a director should notify the Board where he is an incumbent director. To act judiciously. He shall evaluate the issues, ask questions and seek clarifications necessary before deciding on any matter brought before the Board.

   d. To act judiciously. He shall evaluate the issues, ask questions and seek clarifications necessary before deciding on any matter brought before the Board.

   e. To exercise independent judgment. He shall view each problem or situation objectively. Should a disagreement with other directors arise, he should carefully evaluate and explain his position. He should not be afraid to take unpopular positions if he thinks such ideas are beneficial to the Company.

   f. To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its articles of incorporation and by-laws, the requirements of the SEC, and, where applicable, the requirements of other regulatory agencies.

   g. He shall also keep himself informed of industry developments and business trends in order to safeguard the Company's competitiveness.

   h. To observe confidentiality. He should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He shall not disclose any information to any other person without the authority of the Board or the Executive Committee.

   i. To ensure the continuing soundness, effectiveness and adequacy of the Company's internal g. controlenvironment.

4. The Board of Directors should, as far as practicable, be composed of qualified individuals with diverse backgrounds (gender, age, ethnicity, culture, skills, competence and know edge) to

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The principal roles of the Board of Directors of Pacific Online are to oversee how management serves the interests of the shareholders and other stakeholders, and to ensure that the latter are adequately and timely informed of all relevant information about the Company. Towards this end, the Board has adopted corporate governance principles to ensure its independence and keep itself fully-informed of the key risks and strategic issues facing Pacific Online.

The regular meetings of the Board of Directors are set once every quarter, although special meetings may be called by the Chairman as the need arises. Pursuant to the Company's Manual on Corporate Governance, a director's failure to attend at least 50% of the regular and special meetings of the Board of Directors may disqualify him from re-election during the succeeding year. In 2018, all of the members of the Board of Directors complied with the minimum attendance requirements.

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Willy N. Ocier	31-May-18	7	7	100%
Member	Armin Antonio B. Raquel Santos	31-May-18	7	7	100%
Member	Ma. Virginia V. Abo-Hamda	31-May-18	7	7	100%
Member	Tarcisio M. Medalla	31-May-18	7	7	100%
Member	Henry N. Ocier	31-May-18	7	6	86%
Member	Regina O. Reyes	31-May-18	7	6	86%
Independent	Jerry C. Tiu	31-May-18	7	6	86%
Independent	Laurito E. Serrano	31-May-18	7	7	100%
Independent	Joseph C. Tan	31-May-18	7	7	100%

BOARD COMMITTEES

To assist the Board of Directors in ensuring compliance with good corporate governance principles, the following committees have been formed:

Executive Committee

The Executive Committee exercises, in between meetings of the Board, all the powers of the Board (except those powers expressly reserved by applicable law to the Board) in the management and direction of the business and conduct of the affairs of the Company, subject to any specific directions given by the Board.

Office	Name	No. Of Meetings Held in 2018	No. of Meetings Attendance	%
Chairman (ED)	Willy N. Ocier	4	4	100%
Member (NED)	Armin Antonio B. Raquel Santos	4	4	100%
Member (ED)	Ma. Virginia V. Abo-Hamda	4	4	100%

Audit Committee

The Audit Committee represents and assists the Company's Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing Pacific Online's quarterly and annual financial statements, considering the scope of the Company's annual external audit, approving the Company's internal audit program, advising on the appointment of external auditors, and reviewing the effectiveness of the Company's internal control systems and risk management systems.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%
Chairman (ID)	Laurito E. Serrano	31-May-17	6	6	100%
Member (ID)	Jerry C. Tiu	31-May-17	6	6	100%
Member (NED)	Tarcisio M. Medalla	31-May-17	6	6	100%

Board Risk Oversight Committee

The Risk Committee will assist the Board in providing framework to identify, assess, monitor and manage the risks associated with the Company's business. It helps the Board to adopt practices designed to identify significant areas of business and financial risks and to effectively manage those risks in accordance with Company's risk profile.

Office	Name	No. Of Meetings Held in 2018	No. of Meetings Attendance	%
Chairman (ID)	Jerry C. Tiu	2	2	100%
Member (ID)	Laurito E. Serrano	2	2	100%
Member (NED)	Tarcisio M. Medalla	2	2	100%

Corporate Governance Committee

The Corporate Governance Committee is tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices.

The Corporate Governance Committee shall likewise advise the Board with respect to matters relating to the composition of the Board. The Committee identifies individuals qualified to become Board members and, consistent with criteria reviewed by the Corporate Governance Committee and approved by the Board, recommends to the Board nominees for director for election at the next annual meeting of stockholders, including any incumbent directors.

The Corporate Governance Committee shall also assist the Board and the Company's Management in defining the Company's executive compensation policy and in carrying out various responsibilities relating to compensation of the Company's executive officers and directors, including: evaluating and approving compensation to the Chief Executive Officer and evaluating and recommending to the Board compensation to all other executive officers; reviewing and recommending to the Board compensation to non-employee directors; and overseeing the development and administration of the Company's compensation and benefit plans.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%
Chairman (ID)	Joseph C. Tan	31-May-2017	3	3	100%
Member (ID)	Laurito E. Serrano	31-May-2017	3	3	100%
Member (ID)	Jerry C. Tiu	31-May-17	3	3	100%

Related Party Transactions Committee

The Committee shall be responsible for reviewing all material related party transactions of the Company and ensuring that all RPTs are conducted on a fair and arms-length basis. Transactions considered material are subject to review by the Committee prior to Board approval and Management execution.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%
Chairman (ID)	Joseph C. Tan	31-May-17	2	2	100%
Member (ID)	Laurito E. Serrano	31-May-17	2	2	100%
Member (ID)	Jerry C. Tiu	31-May-17	2	2	100%
Member (D)	Regina O. Reyes	31-May-17	2	2	100%
Member (D)	Henry N. Ocier	31-May-17	2	2	100%

MARKET DISCLOSURES

Pacific Online is committed to maintaining the highest standards of disclosure ensuring that all investors and potential investors have the same access to high-quality, relevant information in an accessible and timely manner to assist them in making informed decisions. The Company ensures compliance with the market disclosure obligations prescribed by the Securities and Exchange Commission and the Philippine Stock Exchange; and has implemented reporting processes and controls and set guidelines for the release of information.

Full version of Pacific Online's Revised Manual on Corporate Governance as well as other corporate governance related policies are available to the public and can be downloaded through its website, www.loto.com.ph

The Manual on Corporate Governance prescribes the following qualifications to be a director of the Company:

- college education or equivalent academic degree;
- practical understanding of the business of the Company;
- membership in good standing in relevant industry, business, or professional organizations; and
- previous business experience.

In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the Company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience. In addition to the aforementioned qualifications, the Corporate Governance Committee also identifies qualities of directors that are aligned with the Company's strategic direction. Likewise, the Committee ensures that those nominated to the Board possess none of the disqualifications enumerated in the Manual on Corporate Governance.

Further to this, the Committee ensures that nominees have attended an orientation or training related to corporate governance before taking office. The Committee also facilitates training for Board members and key officers provided by training providers duly accredited by the Securities and Exchange Commission (SEC).

CORPORATE GOVERNANCE

Shareholding & Trading Information of Board & Officers (2017-2018)					
		SHARES AS OF 12/31/2018	% OF CLASS	SHARES AS OF 12/31/2017	% OF CLASS
Willy N. Ocier	Chairman & President	40,397,250	9.02%	40,397,250	9.31%
Armin B. Raquel Santos	Director	100	0.00%	100	0.00%
Ma. Virginia V. Abo-Hamda	Director	1,000	0.00%	1,000	0.00%
Henry N. Ocier	Director	604,500	0.13%	604,500	0.13%
Regina O. Reyes	Director	150	0.00%	150	0.00%
Joseph C. Tan	Director	100	0.00%	100	0.00%
Jerry C. Tiu	Independent Director	225	0.00%	225	0.00%
Tarcisio M. Medalla	Independent Director	150	0.00%	150	0.00%
Laurito E. Serrano	Independent Director	1,200	0.00%	1,200	0.00%
Frederic C. DyBuncio	Adviser to the Board	150	0.00%	150	0.00%
Atty. A. Bayani K. Tan	Corporate Secretary	706,500	0.15%	706,500	0.16%
Atty. Jason C. Nalupta	Asst. Corporate Secretary	0	0.00%	0	0.00%
Mischel Gabrielle O. Mendoza	AVP – Administration	292,500	0.06%	292,500	0.06%
Anna Josefina G. Esteban	AVP – Internal Audit	0	0.00%	0	0.00%
Grace L. Gatdula	Compliance Officer	0	0.00%	0	0.00%
Ma. Concepcion T. Sangil	VP – Human Resources Management	0	0.00%	0	0.00%
Valentino L. Kintanar	VP – Technical Services	0	0.00%	0	0.00%
Romeo J. Roque Jr.	VP – Agent Management	3,000	0.00%	3,000	0.00%
Christopher C. Villaflor	VP – Central Systems & Network Management	0	0.00%	0	0.00%

Directors' and Officers' Continuing Education			
Name of Director	Date of Training	Program	Name of Training Institution
Willy N. Ocier	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Armin B. Raquel-Santos	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Ma. Virginia V. Abo-Hamda	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Regina O. Reyes	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Tarcisio M. Medalla	August. 10, 2018	Corporate Governance Seminar	Risk Opportunities, Assessment & Management Inc
Jerry C. Tiu	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Joseph C. Tan	12-Apr-18	Corporate Governance Seminar	Sycip, Gorres Velayo & Co.
Henry N. Ocier	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Laurito E. Serrano	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Atty. A. Bayani K. Tan	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Atty. Jason C. Nalupta	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Grace L. Gatdula	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Anna Josefina G. Esteban	August. 8, 2018	Advance Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Irene L. Bautista	18-Oct-18	Benefits of Corporate Governance	Philippine Institute of Certified Public Accountants Inc.
Ma. Concepcion T. Sangil	October 25-26, 2018	Philippine International Cybersecurity Forum	Department of Information & Communication Technology
Ma. Meliza C. Romillo	15-Mar-18	Data Privacy Compliance	Ariva Academy Philippines Inc

As a matter of policy, members of the Board of Directors should concurrently serve as directors only to a maximum of five (5) publicly-listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Company.

Directorships in Other Reporting Companies		
Director	**Name of Reporting Company**	**Nature of Directorship**
Willy N. Ocier	Belle Corporation	Director (Vice Chairman)
	Premium Leisure Corp.	Director (Chairman)
	APC Group, Inc.	Director (Chairman)
	Leisure & Resorts World Corp.	Director (Non-Executive)
	Abacore Capital Holdings, Inc.,	Director (Non-Executive)
	Vantage Equities Inc.,	Director (Non-Executive)
	Highlands Prime, Inc.	Director (Vice Chairman)
	Premium Leisure and Amusement, Inc.	Director (Chairman)
	Tagaytay Highlands International Golf Club, Inc.	Director (Vice Chairman)
	Tagaytay Midlands Golf Club, Inc.	Director (Chairman)
	The Country Club at Tagaytay Highlands, Inc.	Director (Chairman)
	The Spa and Lodge Inc.	Director (Chairman)
	Total Gaming Technologies, Inc	Director (Chairman)
	Toyota Corporation Batangas	Director
	Philippine Global Communications, Inc	Director (Chairman & CEO)
Armin Antonio B. Raquel-Santos	Premium Leisure Corp.	Director (President & CEO)
	Premium Leisure and Amusement Inc.	Director (President & CEO)
	Tagaytay Highlands International Golf Club, Inc.	Director
Tarcisio M. Medalla	Paxys Inc	Director (Chairman & President)
	UT Global Services Limited	Director
Regina O. Reyes	Abacore Capital Holdings, Inc.,	Director (President and CEO)
Ma. Virginia V. Abo-Hamda	Falcon Resources, Inc.	Director (President)
	Total Gaming Technologies, Inc.	Director
	Lucky Circle Corporation	Director
	MCR Industries, Inc.	Director
	Packagemakers, Inc.	Director
Laurito E. Serrano	2GO Group Inc.,	Independent Director
	MJC Investment Corporation	Independent Director
	United Paragon Mining Corporation	Independent Director
	Atlas Consolidated Mining & Dev't Corp.	Independent Director
	APC Group	Independent Director
	MRT Dev't. Corporation	Director
	Axelum Resources Corp.	Director
	Negros Navigation, Inc.	Director
Jerry C. Tiu	Tagaytay Higlands Int'l. Golf Club, Inc.	Director (President)
	The Country Club at Tagaytay Highlands, Inc.	Director (President)
	Tagaytay Midlands Golf Club, Inc.	Director (President)
	The Spa & Lodge at Tagayatay Higlands Inc.	Director (President)
	Tagaytay Highlands Community Condominium Ass'n. Inc.	Director (President)
	Tagaytay Midlands Community Homeowners' Ass'n, Inc.	President
	Greenlands Community Homeowners' Association, Inc.	President
Joseph C. Tan	2GO Group Inc.,	Lead Independent Director
	Premium Leisure Corporation	Independent Director
	Negros Navigation, Inc.	Independent Director
	LMG Chemicals Corporation	Independent Director

CORPORATE GOVERNANCE

Evaluation of the Board and President

Annual evaluation of performance of the Board, its committees, individual directors and the Company's President is undertaken through the Corporate Governance Committee. The evaluation criteria is based on the duties and responsibilities of the Board of Directors, the Board Committees and the President as described in the Company's By-Laws, Manual on Corporate Governance and the respective Board Committees Charters. The performance evaluation of the collective Board, its committees, the individual directors and the President focuses on qualities of independence, exercise of leadership, expertise and adherence to principles of good corporate governance.

The Directors are likewise asked to evaluate other areas such as quality and timeliness of information provided to them, accessibility to management to effectively communicate their concerns and recommendations as well as holding of regular, special or committee meetings to discuss the Company's performance and other relevant issues. Results of the Board evaluation are discussed in order for concrete action plans be developed and implemented to address the identified areas for improvement.

Board Remuneration

There are no fixed or variable remuneration, bonuses or stock option plans given to Directors. Members of the Board of Directors receive a per diem for each regular, special or committee meeting attended. The Company's remuneration policy and structure are fully disclosed in its Annual Reports and Information Statements which are presented on a yearly basis to the shareholders and form part of the corporate acts which are presented for ratification by the shareholders.

CORPORATE GOVERNANCE RELATED POLICIES

POSC regularly reviews and enhances its Manual on Corporate Governance, Code of Ethics, and other corporate governance related policies and programs to ensure continued development of its governance related practices. All corporate governance related policies may be viewed and downloaded via the Company's website at www.loto.com.ph

The Manual on Corporate Governance

Pacific Online's Manual on Corporate Governance institutionalizes the principles of good corporate governance in the entire Company which focuses on disclosure and transparency, as well as promoting the rights and protection of the interests of all of its shareholders.

The Company believes that corporate governance, the system by reference to which companies are managed and controlled and from which the organization's values and ethics emerge, is of utmost importance to the Company's shareholders, and will therefore undertake every effort possible to create awareness throughout the entire organization.

Pacific Online certifies that the Company, its Directors, officers and employees have adopted and fully complied with all principles of good corporate governance as stipulated in the Manual on Corporate Governance.

The Code of Ethics

Pacific Online's ethical principles and standards as detailed in the Code of Ethics are based on the Company's values and on respect for the rule of law and for all applicable laws and regulations. These principles govern our internal and third-party relations, our use of Company's resources and our behavior in conflict situations.

These principles and guidelines apply to all the directors, officers and employees of the Company. We believe that adherence to this code serves our vision to pursue the best interest of our shareholders and our stakeholders and affirms our intention to follow the highest ethical standards of business practice.

Business Conduct & Ethics	Directors	Senior Management	Employees
Conflict of Interest	A Director should not use his position to make profit or acquire advantage for himself and his related interests.	Senior management is expected to ensure that they themselves and their subordinates are not in any way involve in any conflict of interest which can adversely influence their judgment, objectivity or loyalty to the Company.	The Company has adopted certain basic work rules for all employees, based on its company core values, basic work ethics, and respect for others. The Company recognizes that employees may take part in other activities outside of their work, but any potential conflict of interest arising from said activities must be disclosed promptly to management.
Conduct of Business and Fair Dealings	A Director is expected to conduct fair business transactions with the Company and to ensure that personal interests do not influence board decisions.	Senior Management and Employees should ensure that their personal interest s do not conflict with the interest of the Company. Senior management should make sure that employees abide by all laws and company policies at all times.	
Receipt of gifts from third parties	It is recognized by the Company that giving and receiving "business gifts" to include entertainment and gift items is a customary way to strengthen relationships. However, said gifts should be nominal in value and not given or received with intent to influence the decision making of the recipient. No one may give or receive gifts that will violate laws, regulations and agreements.		
Compliance with Laws & Regulations	Directors are expected to comply with the SEC disclosure requirements, rules and regulations.	Senior officers are expected that policies and regulations of the Company are practiced by the employees. Should violations occur, management should ensure that appropriate disciplines are applied including or up to termination of employment.	Each employee is expected to follow all Company policies and regulations at all times.

Business Conduct & Ethics	Directors	Senior Management	Employees
Respect for Trade Secrets/Use of Non-public Information	Directors are expected to respect the sensitivity of the information received during their term of service. Confidentiality should be maintained at all times.	At all times, company assets should be protected including trademarks, intellectual property, electronic files and confidential information. All officers and staff are prohibited to communicate material non-public information to any person.	
Use of Company Funds, Assets and Information	Directors should ensure that all policies with regard to Company assets, funds and information are widely practiced. Said policies are supposed to be reviewed	Officers and staff are expected to use Company Assets, information and funds with utmost respect and within the boundaries of policies and regulations, in pursuit of legitimate company business interests. Senior management is expected to make sure that all employees adhere to the guidelines.	
Employment & Labor Laws & Policies	Directors are expected to ensure that employment labor laws are strictly followed and adhered to by the Company.	Employment and labor laws are widely disseminated in the Company for everyone to follow and comply with.	
Disciplinary action	All directors, officers and staff who violate the provisions stated in the Corporate Governance Manual and Code of Ethics shall be subject to penalties and/or sanctions as described in the Corporate Governance Manual and Code of Ethics.		
Whistle Blower	Established by the Audit Committee and approved by the Board, the Company has existing procedures with regard to receipt, retention, treatment of complaints and confidential/anonymous submission of information regarding internal dishonest or illegal activities. The procedures are designed to facilitate disclosures and proper individual conduct of everyone in the Company.		
Conflict Resolution	Resolutions of conflicts in the Company involve negotiation, mediation, arbitration, diplomacy, peace building, etc. Said conflicts, if not resolved within the Senior Management level, are elevated to the respective Committees created by the Board to include, Executive Committee, Audit Committee, Corporate Governance Committee, among others. Said committees are guided by their respective guidelines and policies to consider in resolving conflicts between and among stockholders, Corporation and third parties, etc.		
Dividend Policy Statement	The Company has approved a dividend policy that would entitle stockholders to receive dividends based on prior year's net income after tax, subject to: (i) the availability of the unrestricted earnings, (ii) implementation of business plans, (iii) contractual obligations, and (iv) working capital requirements. The declaration and payment of dividends is subject to compliance annually of as often as the Board of Directors may deem appropriate, in cash or in kind/or in additional shares from its surplus profits. The ability of the Company to pay dividends will depend on its retained earnings level and financial condition. Dividends shall be paid within 30 days from the date of declaration.		
Information Technology Statement	Pacific Online Systems Corporation (POSC) is committed to providing a secure and reliable infrastructure for the use of its external and internal customers that complies with the laws of the Philippines, international copyright laws, and adheres to ISO standards. POSC recognizes the use of Information Technology (IT) as a tool for efficiency for its employees and other authorized users and has regulations for the use of its IT infrastructure with corresponding sanctions ranging from verbal warning to dismissal for breaches of its policy. All company employees and external providers who have been granted the right to use the company's IT infrastructure are required to sign an agreement confirming their understanding and acceptance of this policy.		

CORPORATE GOVERNANCE

RELATED PARTY TRANSACTIONS	POLICIES AND PROCEDURES
(1) Parent Company	All business transactions with the Parent Company should always be above board and transparent. All disclosure requirements needed by governing authorities should be complied with by both parties.
(2) Joint Ventures	The Board of Directors formulate policies and procedures that would ensure the integrity and transparency of related party transactions to include joint ventures, subsidiaries, affiliates, stockholders, officers and directors, spouses, children, etc. The Board ensures that all transactions are always to the interest of the Company.
(3) Subsidiaries	
(4) Entries Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	

DISCLOSURE AND TRANSPARENCY

The Company ensures that its shareholders are provided with timely and accurate information pertaining to all aspects of its business. These are provided through regular updates on company disclosures as well as periodic reports that includes but not limited to information on its directors and officers, their shareholdings and dealings with the Company, list of its top shareholders and its beneficial owners who holds more than 5% of its shares. These information can be accessed through its corporate website and is likewise contained in its Definitive Information Statement of which a copy is sent to all its shareholders prior to the Annual Stockholders' Meeting.

The Investor Relations Department

The Company believes in providing its shareholders, the various stakeholders and the general public an avenue to communicate information pertaining to its business as well as receiving feedback, inquiries and/or suggestions.

Contact details in relation to Investor Relations is detailed below:

Ma. Virginia V. Abo-Hamda
Chief Financial Officer
28F Unit 2803 A&B, East Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
contactus@pacificonline.com.ph

Integrated Annual Corporate Governance Report (I-ACGR)

The Integrated Annual Corporate Governance Report (I-ACGR) provides details on the Company's compliance with the Corporate Governance principles and policies as set forth in its manual. This report in included in the Company's website under the Corporate Governance as well as Disclosures (Investor Relations) pages.

The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) is primarily held to allow Pacific Online's shareholders to raise concerns, provide feedback and suggestions as well as vote on relevant company issues and corporate acts. The Company's By-Laws and Manual on Corporate Governance details the voting methods and the voting rights of its shareholders. Prior to the ASM, shareholders are sent copies of the annual report including financial statements as well as the agenda with rationale and list of nominated directors and key officers.

As mandated by the Corporation Code, cumulative voting shall be used in the election of directors. In voting upon any matter subject to shareholders' approval during the annual or special stockholders' meeting, poll voting shall be encouraged. The Company shall also make it easy for shareholders to exercise proxy voting by making available in its website the relevant proxy materials. In the interest of transparency, the Company shall make the results of the votes taken during the most recent annual or special shareholders' meeting publicly available in the Company website the next working day. Minutes of such annual or special shareholders' meeting shall be posted on the Company website within five (5) business days from the date of the meeting.

The Company shall encourage active shareholder participation in the Annual Stockholders' Meeting by sending to the Company shareholders the notice therefor at least twenty-eight (28) days before the meeting and posting said notice in the Company website.

The Company likewise appoints an independent party to count and validate votes made during the ASM. The Chairman of the Board & President, its Board of Directors, Board Committee Chairpersons and Members, Management, the Corporate Secretary, Compliance Officer, Investor Relations Officer, Risk Officer, Internal and External Auditors are always present during the ASM to ensure that all shareholders' concerns and inquiries are properly noted and addressed.

Rights of Shareholders

The Company's Manual on Corporate Governance details the rights and protection of rights of all of its shareholders.

Shareholders are encouraged by the Company to fully exercise their voting rights by personally attending the Annual Stockholders' Meeting and should they be unavailable, they shall have the right to appoint a proxy. Subject to the requirements of the By-Laws, the right to designate a proxy shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in favor of the shareholder.

The Company shall allow all stockholders to inspect books and records of the Company including minutes of Board meetings and stock registries in accordance with the Corporation Code, and during normal business hours. Annual reports, including financial statements, shall be provided to stockholders, without cost or restrictions and shall be made available through its corporate website.

All stockholders shall have the right to receive dividends subject to the discretion of the Board. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code.

The Company recognizes that the essence of corporate governance is transparency, hence, the more transparent the internal workings of the Company, the more difficult it will be for Management and dominant shareholders to mismanage the Company or misappropriate its assets.

Towards this end, the Board shall ensure that all material information about the Company which could adversely affect its viability or the interests of its shareholders and other stakeholders shall be publicly and timely disclosed. Such information shall include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, remuneration of directors and Management; all of which shall be disclosed through established disclosure procedures of the stock exchange and of the SEC.

The minority shareholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include in such information. If not included, the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include in such information. If not included, the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

Dividend Policy

The policy of the Company is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Company has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within thirty (30) days from the date of declaration.

Employee Welfare

In line with its mission and vision, Pacific Online strives to be an employer of choice and provides for the health, safety and welfare of its employees. The Company has established policies and programs that promote a safe and healthy work environment that caters to all cultures and creeds and encourages employee development and growth.

Training and Employee Development

Pacific Online remains committed to providing its directors, officers and employees opportunities for growth and development through its various training and orientation activities. (refer to page 29 for details)

For governance related issues or concerns, stakeholders may refer to:

Ms. Grace L. Gatdula
Corporate Planning Head/ Compliance Officer
28/F Unit 2803 A&B, East Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
glgatdula@pacificonline.com.ph

For other governance related concerns, stakeholders may contact:

Ms. Mischel Gabrielle O. Mendoza
Risk Officer
19/F Unit 1901-B West Tower
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
momendoza@pacificonline.com.ph

Ms. Ma. Meliza C. Romillo
Data Protection Officer
28/F Unit 2803 A&B, East Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
mmcromillo@pacificonline.com.ph

DIRECTORS' PROFILE

Board of Directors

The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on May 31, 2018. The term of the current members of the BOD shall be until the next stockholders' meeting on May 30, 2019. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier

Filipino, 62, is the Chairman and President of the Company and a Director since July 29, 1999. He is Vice-Chairman of Belle Corporation, Highlands Prime, Inc. and Tagaytay Highlands International Golf Club, Inc. He is also the Chairman of the Board and Director of Premium Leisure Corp. as well as with APC Group, Inc., and Premium Leisure and Amusement, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge Inc. He is a Director of Leisure & Resorts World Corporation, Vantage Equities Inc., Abacore Capital Holdings Inc. PhilEquity Management Inc, PhilEquity Funds Inc. and Toyota Corporation, Batangas. He also serves as the Chairman and Chief Executive Officer of Philippine Global Communications, Inc. He was the former President and Chief Operating Officer of Eastern Securities Development Corporation. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics.

Frederic C. DyBuncio

Filipino, 59, Adviser to the Board and served as Director of the company from May 23, 2012 to July 25, 2017. He also serves as Adviser t the Board of Premium Leisure Corp, Belle Corporation and APC Group, Inc. He is the Vice Chairman of Atlas Consolidated Mining and Development Corporation and has been its Director since August 2011. He is currently the President of SM Investments Corporation. He holds a Non-Executive Director position at 2Go Group Inc. and Indophil Resources NL. He obtained his undergraduate degree in Business Management from Ateneo de Manila University and his Master's degree in Business Administration from the Asian Institute of Management.

Tarcisio M. Medalla

Filipino, 70, is a Director of the company since December 10, 2001. He is currently the Chairman and President of listed firm Paxys, Inc. (formerly Fil-Hispano Holdings Corp.). He also serves as the Chairman of the Board of Advanced Contract Solutions, Inc. He is likewise a director of NGL Pacific Limited, a privately-held investment company with an RHQ in Manila and affiliated with ACSH Ltd. He has been connected with NGL since 1983. He graduated with a Bachelor of Science degree in Commerce (Major in Accounting) from De La Salle University. He attended the Advanced Management Program (AMP) at Harvard School of Business. Mr. Medalla is a Certified Public Accountant.

Henry N. Ocier

Filipino, 59, is a Director of the company since June 29, 2009. He serves as Assistant to the President of Belle Corporation. He is also the Special Projects Director of Tagaytay Highlands International Golf Club, Inc. He previously held the position of General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

Regina O. Reyes

Filipino, 54, elected as Director last July 21, 2016. She is currently the President and CEO of listed firm, Abacore Capital Holdings, Inc., and President of private company, Click Communications, Inc. She also served as Administrator of the Province of Marinduque from January 2010 to January 2012. She was a member of the House of Representatives, representing the lone district of Marinduque, from 2013 to June 2016. In Congress, she was Vice Chairman of the Committee on National Defense and Security and was a member of several key committees, including Appropriations, Justice, Health, and Natural Resources. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA and her Bachelor of Laws degree from the Ateneo de Manila University Law School. Ms. Reyes is a member of both the Philippine Bar and the State Bar of California.

Ma. Virginia V. Abo-Hamda

Filipino, 59, is a Director and Chief Financial Officer of the Company. She joined Pacific Online in September 2009 as Vice President of Instant Tickets Division and was promoted as SVP for Corporate Planning & Business Development in 2013. Prior to this, she worked as a Consultant for AB Leisure Exponent, Inc. (1999-2009), and AB Gaming & Leisure Specialist Inc. (2003-2009). Ms. Abo-Hamda served as General Accounting Manager for D'Agostino Supermarkets, Inc. New York, USA from 1990 to 1996 and as Senior Financial Analyst for Kraft-General Foods International, New York, USA from 1988 to 1989. She worked with Carlos J. Valdes & Co., CPAs from 1981 to 1986, in its Management Services Division as an Associate Consultant. She graduated Summa Cum Laude with a Bachelor of Science degree in Commerce (Major in Accounting) from College of the Holy Spirit. Ms. Abo-Hamda passed the CPA board exams in 1980 at 16th place. She earned her Master's degree in Business Administration (Concentration in Finance) from Fordham University, New York, USA.

Armin Antonio B. Raquel-Santos

Filipino, 51, is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) and concurrently the Executive Vice President – Integrated Resorts of Belle Corporation. He is a Director of Tagaytay Highlands International Golf Club, Inc. and Trustee and Vice President of Melco Crown Philippines Foundation Corporation. He was former Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II and First Philippine Electric Company. He was also former Governor of the Board of Investments (BOI), served as Assistant Secretary with the Department of Trade and Industry (DTI), Vice Chairman and CEO of Philippine Retirement Authority (PRA), Executive Vice President of Philippine International Trading Corporation (PITC), and Deputy Administrator of Subic Bay Metropolitan Authority (SBMA). His experience includes stints with multinational companies; Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York. He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A.

Independent Directors

Pursuant to the requirements of Section 38 of the SRC, the Company's Board of Directors and stockholders approved the amendment of the Company's By-Laws adopting the requirement on the nomination and election of independent directors. In line with this, the Board of Directors has elected Messrs. Laurito E. Serrano, Jerry C. Tiu, and Joseph C. Tan as the Company's independent directors.

Jerry C. Tiu, Filipino

62, is an Independent Director of the company since February 21, 2007 and was appointed as the Lead Independent Director last May 31, 2017. He is a Director and the President of Tagaytay Highlands Community Condominium Association, Inc., Tagaytay Midlands Community Homeowners' Association, Inc., and Greenlands Community Homeowners' Association, Inc. He is likewise the President of the following companies: Tagaytay Highlands International Golf club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., and The Spa & Lodge at Tagaytay Highlands, Inc. He is the Chairman of the Board of Mega Magazine Publishing, Inc. and a former Director of the Manila Polo Club. He holds a Bachelor of Science degree in Commerce (Major in Marketing) from University of British Columbia.

Laurito E. Serrano

Filipino, 58, is a Director of the company since May 23, 2014. Mr. Serrano currently serves as Independent Director and Chairman of the Audit and Risk Management Committee of Atlas Consolidated Mining and Development Corporation. He also serves as a Director and a member of the Corporate Governance and Audit Committee of the Philippine Veterans Bank. He is likewise an Independent Director of the APC Group, Inc., 2GO Group Inc., MJC Investment Corporation and United Paragon Mining Corporation. Mr. Serrano was a former partner of the Corporate Finance Consulting Group of SGV & Co. He serves as a Director of MRT Development Corporation. He is a Certified Public Accountant and ranked twelfth in the Certified Public Accountant licensure examinations. He has a Master's degree in Business Administration from Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance.

Joseph C. Tan

Filipino, 61, is the Founding Partner of MOST Law Firm. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. Atty. Tan was a director of San Carlos Bioenergy Corporation. He was a director of Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA and a Bachelor of Laws degree from Ateneo de Manila University College of Law where he graduated with honors.

CORPORATE SECRETARIES

Atty. A. Bayani K. Tan

Filipino, 63, is the Corporate Secretary of the Corporation (since May 2007, Publicly-Listed). He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Philequity Dividend Yield Fund, Inc. (since January 2013), Philequity Dollar Income Fund, Inc. (since March 1999), Philequity Fund, Inc. (since June 1997), Philequity Peso Bond Fund, Inc. (since June 2000), Philequity PSE Index Fund, Inc. (since February 1999), Premium Leisure Corporation (since December 1993, Publicly-Listed), TKC Metals Corporation (since February 2007, Publicly-Listed), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999) and Vantage Equities, Inc. (since January 1993, Publicly-Listed). Mr. Tan is also a Director and the Corporate Secretary of Sterling Bank of Asia Inc. (since December 2006). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Managing Trustee of SCTan Foundation, Inc. (since 1986), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013) and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011). Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Atty. Jason C. Nalupta

Filipino, 47, is the Assistant Corporate Secretary of the corporation since October 2009. He is also currently the Corporate Secretary or Assistant Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, Crown Asia Chemicals Corporation, and Belle Corporation. He is also a Director and/or Corporate Secretary or Assistant Corporate Secretary of private companies Sino Cargoworks Agencies, Inc., Falcon Resources, Inc., Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Metropolitan Leisure & Tourism Corporation, Sagesoft Solutions, Inc., Radenta Technologies, Inc., Xirrus, Inc., Glypthstudios, Inc., Loto Pacific Leisure Corporation, and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Mr. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from Ateneo de Manila University in 1996 and 1992, respectively. Mr. Nalupta was admitted to the Philippine Bar in 1997.

BOARD OF DIRECTORS

Willy N. Ocier
Chairman & President

Armin Antonio B. Raquel Santos
Director

Tarcisio M. Medalla
Director

Ma. Virginia V. Abo-Hamda
Director

Jerry C. Tiu
Independent Director

Laurito E. Serrano
Independent Director

Joseph C. Tan
Independent Director

Regina O. Reyes
Director

Henry N. Ocier
Director

MANAGEMENT TEAM

Carmelita dL. Chan
Online Lottery Head

Ma. Concepcion T. Sangil
Human Resources Manegement Head

Ma. Virginia V. Abo-Hamda
Chief Financial Officer

Mischel Gabrielle O. Mendoza
Administration Head/IMR/
Risk Officer

DEPARTMENT HEADS

Christopher C. Villaflor
Central Systems & Network Management

Romeo J. Roque, Jr.
Agent Management

Valentino L. Kintanar
Technical Services

Irene L. Bautista
Controllership

Anna Josefina G. Esteban
Internal Audit

Grace L. Gatdula
Corporate Planning/
Compliance Officer

Ma. Meliza C. Romillo
MIS/IT
Data Protection Officer

Antonio P. Reyes

Chief Operating Officer,
Total Gaming Technologies Inc.

Lucila A. Taguba

President,
Lucky Circle Corporation

Atty. A. Bayani K. Tan

Corporate Secretary

Atty. Jason C. Nalupta

Assistant Corporate Secretary

CORPORATE SOCIAL RESPONSIBILITY
To our Communities

1. CARITAS DONATION TURNOVER (CSR)
Turnover of donation to Caritas Manila for Sponsorship of SLEP (Youth Servant Leadership & Education Program) at POSC Office - PSE, East Tower, Pasig City last June 27, 2018.

2. CHILDHAUS DONATION
Turnover of Check Donation to Child Haus Foundation for Sponsoring Meal Expenses of Patients & Guardians at POSC Office - PSE, East Tower, Pasig City last Aug. 28, 2018.

3. NOORDHOFF CRANIOFACIAL FOUNDATION PHILS. INC. ART WORKSHOP
POSC participated in the workshop activity of NCFI patients with cleft palette. This activity encourages individual creativity and became a venue for campaign awareness to invite more volunteers and donors at Paranaque City Last March 10-11, 2018.

4. MANILA & CEBU BLOOD LETTING

POSC Manila & Cebu employees participated in the bloodletting activity where 63 employees successfully donated at Philippine Redcross Manila & Cebu office last Feb. 13 & 26, 2018.

5. PHILIPPINE INTERNATIONAL CYBERSECURITY CONFERENCE

POSC supports DICT by sponsoring, collaborating, and creating of video material presented at Phil. International Cybersecurity Conference held in Davao City last October 2018. This forum supports Cybersecurity awareness campaign of DICT. The Forum held at Ortigas Center, Pasig City last Nov. 19, 2018.

6. CEBU TREE PLANTING

POSC Cebu Employees participated in the tree planting activity Brgy. Malubog, Cebu City last November 17, 2018.

CORPORATE SOCIAL RESPONSIBILITY
To our Employees

1. CORON COMPANY OUTING
POSC Manila and Cebu enjoyed the company sponsored outing in the island of Coron last May 10-12, 2018.

2. POSC COMPANY ANNIVERSARY
POSC Manila & Cebu employees celebrated the company's 22nd Anniversary which included announcement of Service awards given to loyal employees. The celebration was held last June 13, 2018.

3. RED CROSS: THE GREAT RIZAL FUN RUN
POSC Manila employees joined The Phil. Red Cross along with its Rizal Chapters organized a fun run dubbed "The Great Rizal Run to increase public awareness and save lives through advocacy, promotion at Philsports Track Oval Pasig City, last July 15, 2018.

4. TRAMPOLINE WELLNESS ACTIVITY
To encourage all employees to join the Monthly Wellness Activity, a new and fun way of losing weight was incorporated in the program. Like any other cardio and aerobic workout, trampoline exercises can help strengthen the body and elevate heart rate. Total of 16 employees joined the activity.

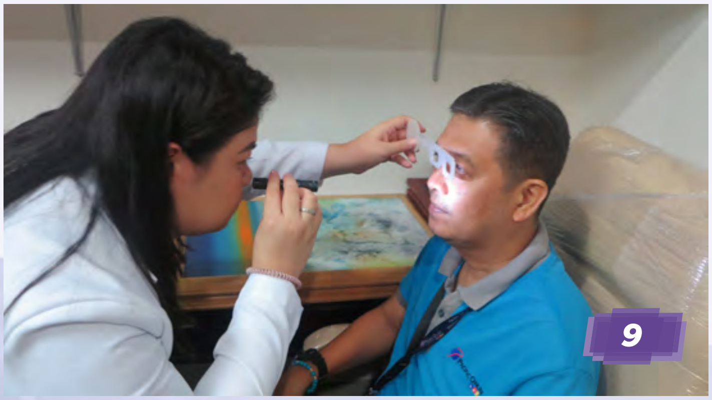
5. HUNAT SUGBU FUN RUN "DAGAN PARA NI MANING"
POSC Cebu employees participated in the Hunat Sugbu Fun Run to support the annual medical mission in partnership with Jesu Christi, and Triathlete Alex Niño Silverio, who's gunning to qualify for the 2020 Tokyo Olympics. The event was held at Terraces, Ayala Center, Cebu City, last June 24, 2018,

6. CALL HANDLING SKILLS CEBU
Seminar held at Career First Institute in Cebu City last Aug. 16, 2018 on call handling skills in honing customer service.

7. DIABETES TALK
In celebration of the Diabetes Day, POSC in coordination with Intellicare scheduled a Diabetes Talk for all employees. The seminar was held at PSE, West Tower, Pasig City last November 14, 2018.

8. CEBU LENTEN REFLECTION:WAY OF THE CROSS
POSC Cebu employees participate in lenten reflections in observance of the Holy Week at Tabor Hills, Talamban, Cebu City last March 28, 2018.

9. FREE EYE CHECK UP AND CONSULTATION
POSC in partnership with Executive Optical held a Company-wide free eye check-up and consultation for all employees held at POSC offices in Manila and Cebu Last March 20 & 21, 2018.



EMPLOYEE HEALTH & SAFETY DATA

PROGRAM / ACTIVITIES	DATES
Zumba, Circuit Training Wellness Activity	Jan-18
Manila & Cebu Blood Letting	Feb-18
Free Eye Check up and Consultation	Mar-18
Red Cross: The Great Rizal Fun Run	Jul-18
Trampoline Wellness Activity	Aug-18
Archery Wellness Activity	Oct-18
Bowling Wellness Activity	Nov-18
Diabetes Talk	Nov-18
Ice Skating Wellness Activity	Dec-18

ANNUAL PHYSICAL EXAMINATION	NO. OF PERSONNEL	DATES
Manila	57	March 5 – April 13, 2018
Cebu	104	October 01 – 31, 2018

HMO CLAIMS BY EMPLOYEES

CLAIM TYPE	AMOUNT	%
In-Patient	403,132.88	42%
Out-Patient	397,873.11	41%
Annual Physical Examination	94,111.00	10%
Dental Care	39,350.00	4%
Emergency Care	33,956.15	4%
TOTAL	968,423.14	100%

POSC remains committed in providing its Directors, Officers and Employees opportunities for growth & development through its various training & orientation activities

	SEMINARS AND TRAININGS	NO. OF TIMES CONDUCTED	NO. OF PARTICIPANTS	TOTAL TRAINING HOURS
	A. Regular Programs	17	302	1,152
1	Orientation for New Hires (MIS/IT, Admin, IMS & HR)	11	28	56
2	POSC Updates	6	274	1,096
	B. Work Specific Development Programs (Specialized Programs)	34	105	868
1	POSC Equipment Training	1	15	45
2	Helpdesk and PCSO Related Processes	1	10	70
3	Occupational First Aid & CPR Training	1	16	112
4	Cybersecurity Forum	1	22	88
5	DOLE Inspection In your Company*	1	1	7
6	SSS Sulit Conference*	1	2	8
7	Training for Executive Assistants*	1	3	21
8	Commitment to Change: Get on the TRAIN seminar*	1	2	8
9	SAP Business One - Basics, Administration and Setup*	1	1	4
10	Financial Statement Analysis*	1	1	7
11	Behavioral Event Inteviewing*	1	1	4
12	How to Compute Salaries, Wages and Benefits*	1	1	7
13	Purchasing and Supply Chain Management: Fundamentals of Purchasing for New Buyers*	1	1	7
14	Data Privacy Compliance*	1	2	14
15	Customer Service Training*	1	1	7
16	Competency-based development of HR policies and procedures*	1	1	7
17	Data protection officer (DPO)Training and certification course*	1	1	35
18	Cashflow Forecasting*	1	1	7
19	Improving Performance using Balanced Scorecard*	1	1	7
20	How to Facilitate an Effective HR Audit*	1	2	28
21	Essentials of Income Tax*	1	1	7
22	Financial Statement Analysis for focused decision making*	1	1	7
23	Mastering Withholding taxes*	1	1	7
24	Writing Effective Audit Report*	1	2	14
25	Internal Audit's Financial Auditing Role*	1	2	14
26	Quality Assurance of Audit Quality*	1	1	38
27	Tools and Techniques for IA Manager*	1	1	38
28	Assessing Risk Ensuring Internal Audit Value*	1	1	19
29	Go for 120: A journey To Continuing Professional Development*	1	2	95
30	Office Archiving Workshop*	1	3	18
31	Assessing Risk Ensuring Internal Audit Value*	1	1	19
32	Tools & techniques for IA staff*	1	2	76
33	CAE Leadership Forum*	1	1	4.5
34	Audit of IT Governance*	1	1	18
	C. General Development Programs	7	98	856
1	Effective Business Communication	1	19	456
2	Call Handling Skills	1	28	196
3	L.E.A.D.E.R.S At Your Service - A Customer Service Workshop	5	51	204
	D. Values Enhancement Programs	1	28	112
1	Lenten Recollection	1	28	112
	TOTAL	59	533	2,988

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Results of Operations and Financial Condition

2018 Compared to 2017

The Group generated total revenues from operating sources of about P1.936 billion for the year ended December 31, 2018, a decrease of P384 million (17%) over total revenues of P2.320 billion during the same period in 2017. The decrease in revenue was due to lower lottery sales, which was caused by the expansion of Small Town Lottery (STL) from 17 to 86 operators and the 20% increase in lottery ticket prices with the implementation of the Documentary Stamp Tax (DST) on lottery tickets as mandated by the TRAIN Law in 2018. The STL games offer lower ticket prices and higher payout ratios versus the online lotto and keno games.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2018 decreased by P37.9 million (2%) to P1.614 billion, from P1.652 billion in 2017. The decrease is attributed to the following:

- Consultancy fees decreased by P35.2 million (54%) due to lower lottery sales, on which the fees are based on;
- Management fees decreased by P25.2 million (36%) due to the decrease in EBITDA, on which the fees are based on;
- Advertising and promotion decreased by P32.3 million (45%) due to reduction in keno marketing and promotional activities as compared to 2017;.,
- Operating supplies decreased by P57.2 million (26%), mainly due to the takeover by PCSO of lotto paper supplies as part of the terms in the extension of the lotto ELA starting August 1, 2018;
- No provision for possible impairment of receivables was recorded in 2018, while the P25.0 million provision in 2017 was required for possible impairment of past due accounts receivable and unused input taxes of the nine (9) subsidiaries that LCC acquired in 2017;
- Other expenses decreased by P20.4 million (45%) mainly due to lower miscellaneous incidental business expenses.

The decreases accounted for in the foregoing expense accounts were offset mainly by the combined increases of the following expense accounts:

- Personnel costs increased by P82.5 million (31%) mainly due to the acquisition of the nine (9) subsidiaries of LCC in 2017, which effectively increased the manpower of the Group;
- Rent and utilities increased by P49.6 million (30%) due to rental rate escalation of the Group's offices and logistics centers and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries in 2017;
- Entertainment, amusement and recreation expense increased by P4.1 million (26%) due to higher business representation expenses incurred in 2018
- Other income (net of other charges) increased by P107.3 million from last year's P54.2 million, mainly due to the full recognition of the P203.5 million brand and trademark license fee and its corresponding interest income of P12.5 million covering the exclusive use of the Company's instant scratch ticket trademarks by PMLC over 5 years starting on January 1, 2018. This other income was reduced by the provision of P110.9 million impairment of the goodwill pertaining to the acquisition of Falcon Resources Inc. (FRI) by TGTI. Based on projections of declining revenues from FRI's core business of instant ticket distribution in the next few years, management deems it prudent to impair the goodwill.

The Group's net income after tax of P304.0 million represents a P188.8 million (38%) decline from last year's net income of P492.9 million. The lower net income in 2018 was a result of the double-digit decline in lottery sales as explained above.

In 2018, Company booked a net fair value loss on investment in shares of stock of P306.8 million versus a net gain of P119 million in 2017. This translates to a P425.8 million decrease in fair value gain on investment, which resulted to a net comprehensive income of P9.64 million that is equivalent to about 2% of last year's P613.21 million net comprehensive income.

Total assets of the Company decreased by P530.8 million (20%) to P2.10 billion as of December 31, 2018, from P2.63 billion as of December 31, 2017. Decreases in assets are attributable to the following:

- Marketable securities decreased by P22.8 million (13%) due to unrealized mark-to-market loss amounting to P11.9 million and disposal of P10.9 million worth of securities during the year;
- Trade and other receivables-net decreased by P218.2 million (43%) due mainly to the lower lotto and keno sales as of last quarter of 2018 plus the lower ELA rate on lotto sales starting August 1, 2018 as part of the terms in the extension of the contract for another year;
- Investment in stocks went down by P272.3 million (37%) due to the decrease in the stock market prices of investments on hand during 2018;
- Goodwill and intangibles decreased by P110.9 million (87%) as a result of the impairment of the goodwill initially booked when FRI was acquired by TGTI in 2014;
- Property and equipment decreased by P178.1 million (41%) due to depreciation of lottery equipment and other fixed assets

The decreases in the assets above were offset by the following increases:

- Cash increased by P124.1 million (28%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Other current assets increased by P30 million (26%) due to recognition of prepaid income taxes and reclass from non-current of the cash bond held in escrow for the instant ticket MOA with PCSO that was approved for release in 2019.
- Other noncurrent assets increased by P126.3 million (159%) due to the reversal of the an accrual for a payable to PCSO pertaining to the long term MOA on instant tickets, which expired in 2016, and reclass of its corresponding cash bond held in escrow to current assets, approved for release in 2019.

- Retirement benefit asset increased by P6.5 million (479%) due to additional contribution made to the retirement fund;

Total liabilities of P342.5 million was down by P271.3 million (44%) over last year's P613.8 million due principally to the following:

- Trade and other current liabilities decreased by P247.9 million (50%) due mainly to payables booked as of yearend 2017 for dividends and lotto paper, which were not incurred as of yearend 2018;

- Income tax payable went down by P20 million (68%) due to lower net income vs. last year;

As of December 31, 2018, the Company has:

a. No known trends or any demands, commitments, or events that will result in or that are likely to result in the liquidity increasing or decreasing in any material way;

b. No events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;

c. Nomaterial off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period; and

d. Not breached any loans, leases or other indebtedness or financing agreement.

Key Performance Indicators

	As of	
	Dec. 31, 2018	Dec. 31, 2017
Current Ratio	4.00:1.00	2.16 : 1.00
Debt-to-Equity Ratio	0.19:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.19:1.00	1.30 : 1.00
	For the year ended	
	Dec. 31, 2018	Dec. 31, 2017
Return on Equity	17.27%	24.40%
Return on Assets	14.46%	18.71%
Interest Coverage Ratio	79.04:1.00	67.46 : 1.00
Solvency Ratio	1.56:1.00	1.17 : 1.00
Book Value per Share	4.17	4.77

The above performance indicators are calculated as follows:

Current Ratio $$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Debt to Equity Ratio $$\frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Asset-to-equity Ratio $$\frac{\text{Total Assets}}{\text{Total Equity}}$$

Return on Stockholders' Equity $$\frac{\text{Net Income}}{\text{Total Equity}}$$

Return on Assets $$\frac{\text{Net Income}}{\text{Total Assets}}$$

Interest Coverage Ratio $$\frac{\text{Income Before Interest \& Tax}}{\text{Interest Expense}}$$

Solvency Ratio $$\frac{\text{Net Income + Depreciation}}{\text{Total Liabilities}}$$

Book Value per Share $$\frac{\text{Total Equity}}{\text{Total Shares Outstanding}}$$

2017 Compared to 2016

The Company, consolidated with its subsidiaries, generated total revenues from operating sources of about P2.32 billion for the year ended December 31, 2017, an increase of P432 million (23%) over total revenues of P1.89 billion during the same period in 2016. The increase in revenue was due to higher lottery sales resulting from more P100 million lotto jackpot prizes, additional draw for Ultra Lotto 6/58 game, additional Keno terminal rollouts, and acquisition of nine (9) entities engaged in retail distribution of lottery tickets nationwide.

The Company's total operating expenses, including depreciation and amortization, for the year ended December 31, 2017 increased by P362 million (28%) to P1.65 billion, from P1.29 billion in 2016. The increase is attributed to the following:

- Personnel costs increased by P99.9 million (47%) mainly due to the acquisition of the nine (9) subsidiaries of LCC which effectively increased the manpower of the Group;

- Depreciation and amortization charges increased by P54.3 million (32%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2016;

- Rent and utilities increased by P43.2 million (57%) due to additional logistics hubs set up in VisMin and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries;

- Consultancy fees increased by P7.4 million (13%) due to higher sales, on which the fees are based on;

- Communication expenses increased by P8.4 million (8%) due to additional communication links resulting from additional lotto and keno terminal rollout;

- Management fees increased by P5.2 million (8%) due to the increase in EBITDA, on which the fees are based on;

- Repairs and maintenance increased by P5.6 million (12%) due to renovation and repairs of logistics and office facilities;

- Advertising and promotion increased by P58.0 million (434%) due to more aggressive keno marketing and promotional activities implemented during first half of the year, while there was no such activity in 2016.

- Operating supplies increased by P25.7 million (13%), mainly due to higher consumables, resulting from higher lottery sales;

- Impairment losses on receivables increased by P7.7 million and provision for probable losses increased by P25M due to additional provision required for possible impairment of past due accounts receivable and unused input taxes of the 9 subsidiaries that LCC acquired.

- Other expenses increased by P22.8 million (92%) mainly due to higher miscellaneous incidental business expenses.

The increases accounted for in the foregoing expense accounts were offset mainly by the combined decreases of the following expense accounts:

- Professional fees decreased by P3.8 million (22%) due to lower fees paid during the period, and

- Entertainment, amusement and recreation expense decreased by P2.6 million (14%) due to lower business representation expenses incurred in 2017;

Other income (net of other charges) increased by P68.2 million in 2017 from net charges of P14.1 million in 2016, mainly due to improved mark to market gain on marketable securities of P39.3 million, increase in excess input taxes of P18.7 million, and the P11.8M service income earned in 2017.

In 2017, a fair value gain on investment in shares of stock of P119.0 million was posted, which resulted in a total net comprehensive income of P613.2 million for 2017 versus P607.7 million total net comprehensive gain in 2016.

Total assets of the Company increased by P206.6 million (9%) to P2.6 billion as of December 31, 2017, from P2.4 billion as of December 31, 2016. Increases in assets are attributable to the following:

- Cash increased by P188.2 million (73%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Marketable securities increased by P12.5 million (8%) due to additional marketable securities purchased at P10.2 million and the unrealized mark-to-market gain amounting to P2.2 million;
- Retirement benefit asset increased by P1.0M (320%) due to additional contribution made to the retirement fund;
- Other noncurrent assets increased by P24.5 million (45%) due to the bonds and rental deposits of the additional subsidiaries purchased.

The increases in assets above were offset by the following decreases:

- Other current assets decreased by P8.2 million (7%) due to application of prepaid income taxes against income tax payable, and
- Property and equipment decreased by P40.9 million (9%) due to higher depreciation expense for the year;

Total current liabilities increased by P180.7 million (46%) from P394.9 million in 2016 to P575.6 million in 2017 due to the declaration of P86.7 million cash dividends in December 2017 for payment in January 2018 and accrual of operating expenses pertaining to the 9 subsidiaries acquired in 2017.

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2017	Dec. 31, 2016
Current Ratio	2.16 : 1.00	2.65 : 1.00
Debt-to-Equity Ratio	0.30 : 1.00	0.24 : 1.00
Asset-to-Equity Ratio	1.30 : 1.00	1.24 : 1.00
	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
Return on Equity	24.40%	20.42%
Return on Assets	18.71%	16.50%
Interest Coverage Ratio	67.46 : 1.00	46.77 : 1.00
Solvency Ratio	1.17 : 1.00	1.22 :1.00

The above performance indicators are calculated as follows:

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Asset-to-equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Return on Stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$
Interest Coverage Ratio	$\frac{\text{Income Before Interest \& Tax}}{\text{Interest Expense}}$
Solvency Ratio	$\frac{\text{Net Income + Depreciation}}{\text{Total Liabilities}}$

2016 Compared to 2015

The Company generated total revenues from operating sources of about P1.89 billion for the year ended December 31, 2016, an increase of P169.8 million (10%) over total revenues of P1.72 billion during the same period in 2015. The increase in revenue was due to increase in keno sales resulting from additional rollout of keno terminals and due to higher scratch ticket sales nationwide resulting from increased customer awareness.

The Company's total operating expenses, including depreciation and amortization, for the year ended December 31, 2016 increased by P77.7 million (6%) to P1.29 billion, from P1.21 billion in 2015. The increase is attributed to the following:

- Depreciation and amortization charges increased by P53.8 million (46%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2015;
- Rent and utilities increased by P4.0 million (6%) due to additional facilities leased for keno operations and rental rate escalation of existing leased premises;
- Communication increased by P5.8 million (6%) due to additional communication links for both lotto and keno;
- Management fees increased by P8.5 million (15%) due to the increase in earnings before tax, which is the basis of the fees;
- Repairs and maintenance increased by P5.1 million (11%) due to renovation and repairs of facilities;
- Professional fees increased by P1.4 million (9%) due to additional lawyers' fees incurred;
- Operating supplies increased by P20.9 million (12%), due mainly to higher keno consumables, resulting from higher keno sales

The increases accounted for in the foregoing expense accounts were offset mainly by the combined decreases of the following expense accounts:

- Consultancy fees decreased by P10.3 million (15%) due to termination of one consultancy agreement;
- Travel and accommodation decreased by P8.2 million (10%) due to less business trips;
- Advertising and promotion decreased by P2.1 million (14%) due to lower marketing expenses for scratch tickets;
- Entertainment, amusement and recreation expense decreased by P3.4 million (16%) due to lower business representation expenses incurred in 2016;
- Impairment losses on receivables decreased by P8.6 million (100%) as provision for uncollectible receivables was reduced;

Other income (net of other charges) decreased by P20.5 million in 2016 from P6.4 million in 2015, mainly due to lower gain on sale of marketable securities of P7.4 million, lower dividend income of P5.4 million received in 2016, decrease in excess input tax of P13.5 million in 2016, and offset by P6.3million improvement on mark to market loss on marketable securities.

In 2016, a fair value gain on investment in shares of stock of P208.8 million was posted, which resulted in a total net comprehensive income of P607.7 million for 2016 versus P48.7 million total net comprehensive loss in 2015.

Total assets of the Company increased by P216.1 million (10%) to P2.4 billion as of December 31, 2016, from P2.2 billion as of December 31, 2015. Increases in assets are attributable to the following:

- Trade and other receivables increased by P129.8 million (36%) due to higher receivable from PCSO and receivables from instant tickets distribution, resulting from higher lottery sales;
- Other current assets increased by P12.9 million (11%) due to higher inventories of lottery consumables and prepaid taxes;
- Investments in stocks increased by P234.1 million (49%) due to additional purchases of stocks and the fair value gain amounting to P208.8 million.

The increases in assets above were offset by the following decreases:

- Marketable securities decreased by P60.8 million (27%) due to sale of some marketable securities and the unrealized mark-to-market loss amounting to P37.0 million;
- Property and equipment decreased by P65.6 million (12%) due to higher depreciation expense for the year;
- Deferred tax assets decreased by P27.6 million (65%) due to utilization of deferred income taxes offset against income tax payable;
- Other noncurrent assets decreased by P3.1 million (6%) due to collection of escrow account.

Total current liabilities increased by P41.0 million (12%) from P353.8 million in 2015 to P394.9 million in 2016 due to withholding taxes payable on cash dividends declared and higher income taxes payable resulting from higher taxable income for the year 2016.

Key Performance Indicators

	As of	
	Dec. 31, 2016	Dec. 31, 2015
Current Ratio	2.65 : 1.00	2.74 : 1.00
Debt-to-Equity Ratio	0.24 : 1.00	0.26 : 1.00
Asset-to-Equity Ratio	1.24 : 1.00	1.26 : 1.00
	For the year ended	
	Dec. 31, 2016	Dec. 31, 2015
Return on Equity	20.42%	19.62%
Return on Assets	16.50%	15.61%
Interest Coverage Ratio	46.77 : 1.00	48.04 : 1.00
Solvency Ratio	1.22 : 1.00	1.02 : 1.00

The above performance indicators are calculated as follows:

Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Debt to Equity Ratio $\frac{\text{Total Liabilities}}{\text{Total Equity}}$

Asset-to-equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$

Return on Stockholders' Equity $\frac{\text{Net Income}}{\text{Total Equity}}$

Return on Assets $\frac{\text{Net Income}}{\text{Total Assets}}$

Interest Coverage Ratio $\frac{\text{Income Before Interest \& Tax}}{\text{Interest Expense}}$

Solvency Ratio $\frac{\text{Net Income + Depreciation}}{\text{Total Liabilities}}$

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management **Pacific Online Systems Corporation** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free form material misstatement, whether due to fraud or error.

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

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

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

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

WILLY N. OCIER
Chairman of the Board

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Signed this 26th day of February 2019

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Pacific Online Systems Corporation and Subsidiaries
28th Floor, East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City, Metro Manila

Opinion

We have audited the consolidated financial statements of Pacific Online Systems Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated 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.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impairment of Goodwill
Refer to Notes 5 and 13 to the consolidated financial statements.

The risk
As at December 31, 2018, the Group had goodwill before impairment of P110.9 million relating to the acquisition of Falcon Resources, Inc.

Under PFRS, the Group is required to annually test goodwill for impairment and when there is an indicator of impairment. This assessment requires the exercise of significant judgment about future market conditions, including growth rates and discount rates, particularly those affecting the business of Falcon Resources, Inc. The key assumptions and uncertainties to the impairment test are disclosed in Notes 5 and 13 to the consolidated financial statements.

Goodwill would be impaired where its recoverable amount has fallen below its carrying value. We consider the impairment of goodwill to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.

The recoverable amount of goodwill determined based on the discounted cash flow forecast was nil, and therefore, a full impairment loss of P110.9 million was recorded for the year ended December 31, 2018.

Our response

Our audit procedures included, among others, obtaining the Group's discounted cash flow model that tests the carrying value of goodwill and mainly evaluating the reasonableness of key assumptions used by management in conducting the impairment review. These procedures included using our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rate; reviewing the cash flows used, with comparison to recent performance, trend analysis and market expectations, and by reference to prior year's forecast, where relevant, assessing whether the Group has achieved them.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 the Group'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 the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matter communicated with those charged with governance, we determine this matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020
Tax Identification No. 912-365-765
BIR Accreditation No. 08-001987-30-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. MKT 7333616
Issued January 3, 2019 at Makati City

February 22, 2019
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	2017
ASSETS			
Current Assets			
Cash	*7*	**P571,260,258**	P447,130,976
Marketable securities	*8*	**155,704,892**	178,482,842
Trade and other receivables	*9*	**285,063,895**	503,303,275
Other current assets	*10*	**144,938,786**	114,869,444
Total Current Assets		**1,156,967,831**	1,243,786,537
Noncurrent Assets			
Investments in stocks	*11*	**455,705,930**	727,998,290
Property and equipment - net	*12*	**259,876,260**	437,977,128
Goodwill	*13*	**17,046,266**	127,980,262
Deferred tax assets - net	*18*	**-**	15,439,685
Retirement benefits asset - net	*21*	**7,855,553**	1,357,273
Other noncurrent assets	*2, 10*	**205,627,541**	79,307,903
Total Noncurrent Assets		**946,111,550**	1,390,060,541
		P2,103,079,381	P2,633,847,078
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	*14*	**P245,071,466**	P492,949,158
Current portion of obligations under finance lease	*19*	**19,379,463**	39,488,510
Withholding taxes payable		**6,096,017**	11,081,797
Income tax payable		**9,415,467**	29,434,444
Current portion of installment payable	*23*	**9,205,042**	2,680,828
Total Current Liabilities		**289,167,455**	575,634,737
Noncurrent Liabilities			
Obligations under finance lease - net of current portion	*19*	**15,995,011**	35,374,474
Installment payable - net of current portion	*23*	**-**	2,762,995
Deferred tax liabilities - net	*18*	**37,297,139**	-
Total Noncurrent Liabilities		**53,292,150**	38,137,469
Total Liabilities		**342,459,605**	613,772,206
Equity Attributable to Equity Holders of the Parent			
Company			
Capital stock	*15*	**P447,665,473**	P447,665,473
Additional paid-in capital		**257,250,677**	257,250,677
Treasury stock	*15*	**(285,267,558)**	(268,660,770)
Stock dividend distributable	*15*	**422,431,981**	-
Fair value reserve	*11*	**(288,726,921)**	116,829,810
Retirement benefits reserve	*21*	**538,390**	(11,838,800)
Retained earnings	*11, 15*	**1,199,822,935**	1,474,292,424
		1,753,714,977	2,015,538,814
Non-controlling Interest		**6,904,799**	4,536,058
Total Equity		**1,760,619,776**	2,020,074,872
		P2,103,079,381	P2,633,847,078

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Note	2018	2017	2016
REVENUES				
Equipment rental	2, 6, 19	**P1,448,317,611**	P1,840,520,991	P1,579,660,972
Commission and distribution income	2, 6	**487,626,385**	479,472,385	308,438,496
		1,935,943,996	2,319,993,376	1,888,099,468
COSTS AND EXPENSES	17	**1,614,488,192**	1,652,402,460	1,290,550,859
OPERATING INCOME		**321,455,804**	667,590,916	597,548,609
OTHER INCOME (CHARGES)				
License fee income		**203,459,171**	-	-
Impairment loss on goodwill	13	**(110,933,996)**	-	-
Dividend income	8, 11	**29,082,445**	20,628,055	2,074,912
Mark-to-market gain (loss) on marketable securities	8	**(11,903,085)**	2,204,528	(37,137,005)
Finance charges	19	**(6,187,352)**	(10,859,855)	(12,748,505)
Interest income	7	**1,475,133**	853,644	815,079
Others	20	**56,430,481**	41,329,074	12,908,787
		161,422,797	54,155,446	(14,086,732)
INCOME BEFORE INCOME TAX		**482,878,601**	721,746,362	583,461,877
INCOME TAX EXPENSE (BENEFIT)	18			
Current		**131,398,272**	230,041,358	154,821,775
Deferred		**47,432,314**	(1,160,984)	28,271,202
		178,830,586	228,880,374	183,092,977
NET INCOME		**P304,048,015**	P492,865,988	P400,368,900
Attributable to:				
Equity holders of the Parent Company	22	**P302,659,366**	P490,101,221	P397,992,034
Non-controlling interest		**1,388,649**	2,764,767	2,376,866
		P304,048,015	P492,865,988	P400,368,900
Attributable to Equity Holders of the Parent Company	22			
Basic Earnings Per Share		**P0.7159**	P1.1466	P1.0785
Diluted Earnings Per Share		**P0.3581**	P1.1466	P1.0785
NET INCOME		**P304,048,015**	P492,865,988	P400,368,900
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will never be reclassified to profit loss				
Remeasurements of retirement benefits, net of tax	21	**12,377,190**	1,248,962	(1,501,100)
Fair value gain (loss) on investments in stocks	11	**(306,782,380)**	118,997,550	208,807,005
		(294,405,190)	120,246,512	207,305,905
TOTAL COMPREHENSIVE INCOME		**P9,642,825**	P613,112,500	P607,674,805
Attributable to:				
Equity holders of the Parent Company		**P8,254,176**	P610,347,733	P605,297,939
Non-controlling interest		**1,388,649**	2,764,767	2,376,866
		P9,642,825	P613,112,500	P607,674,805

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Note	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P482,878,601**	P721,746,362	P583,461,877
Adjustments for:				
Depreciation and amortization	12	**223,200,081**	225,444,278	171,168,627
Impairment loss on:				
Goodwill	13	**110,933,996**	-	-
Trade and other receivables	9, 17	**-**	25,000,000	-
Dividend income	8, 11	**(29,082,445)**	(20,628,055)	(22,074,912)
Interest income	7, 20	**(14,031,615)**	(853,644)	(815,079)
Retirement cost	21	**12,183,420**	11,181,859	8,356,180
Fair value loss (gain) on marketable securities	8	**11,903,085**	(2,204,528)	37,137,005
Finance charges	19	**6,187,352**	10,859,855	12,748,505
Gain on sale of:				
Marketable securities		**(1,548,225)**	-	-
Property and equipment		**(1,038,518)**	(155,142)	(29,997)
Unrealized foreign exchange loss		**886,280**	1,589,733	1,423,457
Operating income before working capital changes		**802,472,012**	971,980,718	791,375,663
Decrease (increase) in:				
Trade and other receivables		**218,239,380**	(114,098,994)	(129,842,895)
Other current assets		**(32,960,265)**	40,341,826	(12,900,671)
Other noncurrent assets		**(126,319,638)**	(9,583,987)	3,133,138
Increase (decrease) in:				
Trade and other current liabilities		**(163,095,695)**	41,212,426	4,043,858
Withholding taxes payable		**(4,985,780)**	(7,435,063)	6,799,403
Interest received		**14,031,615**	853,644	815,079
Income tax paid		**(149,371,845)**	(243,607,667)	(148,727,459)
Retirement contributions	21	**(1,000,000)**	(11,004,983)	(15,557,284)
Net cash flows provided by operating activities		**557,009,784**	668,657,920	499,138,832
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Marketable securities	8	**-**	(17,034,130)	(5,683,853)
Investments in stocks	11	**(34,490,020)**	(68,203,070)	(25,303,585)
Property and equipment	12	**(45,671,156)**	(156,774,695)	(111,940,173)
Dividends received	8, 11	**29,082,445**	20,628,055	22,074,912
Proceeds from sale of:				
Marketable securities		**12,423,090**	6,746,030	29,303,324
Property and equipment		**1,610,461**	1,069,280	6,426,296
Investments in stocks		**-**	172,933,950	-
Cash received from acquisition of subsidiaries	13	**-**	76,694,703	-
Net cash flows provided by (used in) investing activities		**(37,045,180)**	36,060,123	(85,123,079)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid		**(P337,273,130)**	(P255,092,323)	(P349,179,070)
Decrease (increase) in obligations under finance lease		**(39,488,510)**	(44,479,612)	614,012
Acquisitions of treasury shares	15	**(16,606,788)**	(211,841,592)	(56,819,178)
Finance charges paid		**(6,187,352)**	(10,859,855)	(12,748,505)
Increase in installment payable		**3,761,219**	5,443,823	-
Net cash flows used in financing activities		**(395,794,561)**	(516,829,559)	(418,132,741)
NET INCREASE (DECREASE) IN CASH		**124,170,043**	187,888,484	(4,116,988)
CASH AT BEGINNING OF YEAR		**447,130,976**	258,944,786	262,865,081
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		**(40,761)**	297,706	196,693
CASH AT END OF YEAR	7	**P571,260,258**	P447,130,976	P258,944,786

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2018, as previously classified		P447,665,473	P257,250,677	(P268,660,770)	P -	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872
Realized portion of fair value reserve	*11*	-	-	-	-	(98,774,351)	-	98,774,351	-	-	-
Balance at January 1, 2018		447,665,473	257,250,677	(268,660,770)	-	18,055,459	(11,838,800)	1,573,066,775	2,015,538,814	4,536,058	2,020,074,872
Net income		-	-	-	-	-	-	302,659,366	302,659,366	1,388,649	304,048,015
Other comprehensive income (loss)	*11, 21*	-	-	-	-	(306,782,380)	12,377,190	-	(294,405,190)	-	(294,405,190)
Total comprehensive income for the year		-	-	-	-	(306,782,380)	12,377,190	302,659,366	8,254,176	1,388,649	9,642,825
Transactions with owners											
Cash dividends	*15*	-	-	-	-	-	-	(253,471,225)	(253,471,225)	(951,441)	(254,422,666)
Stock dividend	*15*	-	-	-	422,431,981	-	-	(422,431,981)	-	-	-
Acquisition of treasury shares	*15*	-	-	(16,606,788)	-	-	-	-	(16,606,788)	-	(16,606,788)
Other		-	-	-	-		-	-	-	1,931,533	1,931,533
December 31, 2018		P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776

		Equity Attributable to Equity Holders of the Parent Company								
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
January 1, 2017		P447,665,473	P257,250,677	(P56,819,178)	(P2,167,740)	(P13,087,762)	P1,322,465,903	P1,955,307,373	P5,323,531	P1,960,630,904
Net income for the year		-	-	-	-	-	490,101,221	490,101,221	2,764,767	492,865,988
Other comprehensive income		-	-	-	118,997,550	1,248,962	-	120,246,512	-	120,246,512
Total comprehensive income for the year		-	-	-	118,997,550	1,248,962	490,101,221	610,347,733	2,764,767	613,112,500
Transactions with owners										
Cash dividend	*15*	-	-	-	-	-	(338,274,700)	(338,274,700)	(3,552,240)	(341,826,940)
Acquisition of treasury shares	*15*	-	-	(211,841,592)	-	-	-	(211,841,592)	-	(211,841,592)
December 31, 2017		P447,665,473	P257,250,677	(P268,660,770)	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872

		Equity Attributable to Equity Holders of the Parent Company								
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-controlling Interest	Total Equity
January 1, 2016		P298,443,650	P257,250,677	P -	(P210,974,745)	(P11,586,662)	P1,422,874,762	P1,756,007,682	P2,946,665	P1,758,954,347
Net income for the year		-	-	-	-	-	397,992,034	397,992,034	2,376,866	400,368,900
Other comprehensive income (loss)		-	-	-	208,807,005	(1,501,100)	-	207,305,905	-	207,305,905
Total comprehensive income (loss) for the year		-	-	-	208,807,005	(1,501,100)	397,992,034	605,297,939	2,376,866	607,674,805
Transactions with owners										
Cash dividends	*15*	-	-	-	-	-	(349,179,070)	(349,179,070)	-	(349,179,070)
Stock dividend	*15*	149,221,823	-	-	-	-	(149,221,823)	-	-	-
Acquisition of treasury shares	*15*	-	-	(56,819,178)	-	-	-	(56,819,178)	-	(56,819,178)
December 31, 2016		P447,665,473	P257,250,677	(P56,819,178)	(P2,167,740)	(P13,087,762)	P1,322,465,903	P1,955,307,373	P5,323,531	P1,960,630,904

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Corporate Information
Pacific Online Systems Corporation ("Pacific Online" or "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company's registered office address is at 28th Floor, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group"). The following subsidiaries are incorporated in the Philippines and registered with SEC:

	Percentage of Ownership	
	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	100.00	-
Lucky Circle Corporation ("LCC")*	97.64	2.36
Total Gaming Technologies, Inc. ("TGTI")	98.92	-
Falcon Resources, Inc. ("FRI")**	-	100.00
TGTI Services, Inc.(TGTISI)**	-	100.00
Athena Ventures Inc. (AVI)***	-	100.00
Avery Integrated Hub Inc. (AIHI)***	-	100.00
Circle 8 Gaming Venture, Inc. (C8)***	-	100.00
Luckydeal Leisure Inc. (LLI)***	-	100.00
Luckyfortune Business Ventures, Inc. (LBVI)***	-	100.00
Luckypick Leisure Club Corp. (LLCC)***	-	100.00
Luckyventures Leisure Corp. (LLC)***	-	100.00
Lucky Games Entertainment Ventures Inc. (LGEVI)***	-	100.00
Orbis Valley Corporation (OVC)***	-	100.00

** With indirect ownership through LotoPac*
*** Indirectly owned through TGTI*
****Indirectly owned through LCC (collectively referred to as "Nine Entities") starting July 1, 2017 (Note 13)*

Pacific Online
The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE) starting on April 12, 2007. The Parent Company is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. The Parent Company can also engage in any lawful arrangement for sharing profits, union of interest, unitization or formal agreement, reciprocal concession, or cooperation with any corporation, association, partnership, syndicate, entity, person or governmental, municipal or public authority, domestic or foreign.

TGTI
TGTI was incorporated and registered with SEC on October 23, 2002. The primary purpose of TGTI is to lease gaming equipment and provide consultancy services relative to online gaming to those engaged in gaming business, non-profit institutions, and other entities.

LotoPac
LotoPac was incorporated in March 2007, primarily to acquire, establish, own, hold, lease, sell, conduct, operate, and manage amusement, recreational and gaming equipment facilities, and enterprise of every kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business. LotoPac acquired LCC in August 2007.

LCC and Nine Entities
LCC and Nine Entities were incorporated and registered with SEC to engage in the business of trading and selling of goods such as sweepstakes tickets, tickets of shows and concerts, and such other number games, including but not limited to those introduced by Philippine Charity Sweepstakes Office (PCSO).

LCC and Nine Entities are authorized agents of PCSO to operate several online lottery, betting stations located in major branches of shopping malls like SM Supermalls, Robinsons and Gaisano, nationwide. LCC and Nine Entities, as PCSO agents, earn a certain percentage of the sales of lotto, keno, sweepstakes and instant scratch tickets (Note 2).

FRI
FRI was incorporated primarily to engage in the business of trading or selling of goods on wholesale or retail basis, such as sweepstakes tickets, lottery tickets, instant game tickets, and other gaming tickets, including, but not limited to, those introduced by Philippine Charity Sweepstakes Office; as well as tickets of shows, concerts and other events.

TGTISI
TGTI Services, Inc. was incorporated primarily to engage in, conduct and carry on the business of providing logistical, technical support, and consultancy services, and providing end-to-end solutions to entities in the gaming industry in all its aspects and branches.

2. AGREEMENTS WITH PCSO

PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character. It generates funds for its programs by holding and conducting charity sweepstakes, races and lotteries.

Parent Company's Equipment Lease Agreement (ELA)
The ELA was originally awarded to Pacific Online on November 25, 1995, whereby the PCSO leases online lottery equipment from the Parent Company for PCSO's VisMin online lotto operations. This was amended on February 13, 2004, wherein the Company was allowed to continue deployment of online lotto terminals in VisMin for a period of eight (8) years from date of its commercial operation, which was defined to be operation of not less than 800 lotto terminals. With the Parent Company's commercial operation effected on April 1, 2005, its amended ELA was due to expire March 31, 2013. In addition to the lotto terminals, this lease included the central computer system, commmunications and draw equipment, and the right to use the application software and manuals for the central computer of PCSO's VisMin online lottery system.

2012 Amended ELA. On May 22, 2012, the ELA was amended to include the lease of lotto terminals in some of PCSO's lottery operations in Luzon which resulted in the reduction of the fees. The amendment also includes supplying betting slips and ticket paper rolls to PCSO, incorporating maintenance and repair services as part of the fees, and giving the Company an option to purchase the lotto equipment in VISMIN for P15.0 million at the end of the lease term.

2013 Amended ELA. On March 26, 2013, the ELA was further amended to extend the term from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Parent Company agreed to reduce the fees for VISMIN and shoulder the cost of betting slips and ticket paper rolls for Luzon and VISMIN.

2015 Amended ELA. On July 15, 2015, the ELA was again amended to extend the term from August 1, 2015 to July 31, 2018. The amendment also required the Parent Company to deposit an additional P5.0 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

2018 Amended ELA. On September 12, 2018, the ELA was amended to extend the term from August 1, 2018 to July 31, 2019. The amendment required the Parent Company to post an additional deposit of P7.0 million cash bond. The total cash bond of P12.0 million is included under "Other noncurrent assets" in the consolidated statements of financial position (Note 23).

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales of lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 4,029 and 4,205 as at December 31, 2018 and 2017, respectively. The Parent Company's equipment rental revenue amounted to P788.6 million, P1,036.9 million, and P931.8 million in 2018, 2017 and 2016, respectively (Note 19). The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P76.2 million and P86.3 million as at December 31, 2018 and 2017, respectively (Note 9).

Instant Scratch Tickets. On March 25, 2009, the Parent Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of scratch tickets effective December 1, 2009 until December 1, 2016. The share of PCSO is guaranteed for 500 million tickets to be sold over a period of seven years from the date of the MOA's effectivity.

The MOA requires a cash bond amounting to P10.0 million to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, subject to review by PCSO for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. The interest accrues to the Parent Company and is credited to a separate bank account. In 2018, the Parent Company received a certification from PCSO for the release of such bond.

On March 31, 2015, the Parent Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) authorizing PGEC as the exclusive marketing, distribution, selling and collecting agent of the Parent Company throughout the Philippines. The agreement took effect on April 1, 2015 and shall remain effective as long as the MOA with PCSO or any extension thereof shall be effective.

PGEC agreed to assume the Parent Company's commitment to PCSO to solely shoulder the project cost for the Instant Scratch Ticket program, which consists of the costs of production, distribution, warehousing, printing, handling, software and hardware maintenance, advertising, marketing, selling and other related expenses. PGEC is entitled to all the revenues, sums and proceeds from the Instant Scratch Tickets beginning April 1, 2015, and shall be obligated to shoulder the pay-outs for all winnings from said tickets sold beginning April 1, 2015. An existing consultancy agreement between the Parent Company and PGEC for the scratch ticket operations was immediately terminated upon execution of the OMOA in 2015.

The MOA with PCSO expired on November 30, 2016 and the Parent Company's OMOA with PGEC also expired accordingly. All tickets distributed to the retailers and agents, shall be allowed to be marketed continuously until fully sold and the corresponding winnings thereof shall be honored and paid even after the period of the MOA with PCSO.

In 2018, the Parent Company received a certification from the OIC-Manager of Accounting and Budget Department (ADB) of PCSO stating the fulfillment of the Parent Company's obligation under the MOA and thereby clearing the Parent's Company of any accountability thereunder. ADB certified that the Parent Company is entitled to the release of the P10.0 million cashbond. The cash bond is presented as "Bonds and deposits" under "Other Current Asset" account (Note 10).

In January 2018, the Parent Company entered into a Brand and Trademark License Agreement with Powerball Marketing & Logistics Corp. (PMLC) granting the latter a non-assignable, non-transferable and exclusive right to use of the Parent Company's instant scratch tickets' Brands and Trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. The consideration is a guaranteed fixed monthly fee. PMLC is not restricted to develop its own brand.

TGTI Equipment Lease Agreement

2004 ELA. TGTI has an ELA with PCSO for a period of ten (10) years from the date of actual operation of at least 150 online keno outlets to September 30, 2020. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories.

2008 Amended ELA. On July 15, 2008, the ELA was amended wherein, TGTI shall provide the services of telecommunications integrator and procurement of supplies for the online keno operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all online keno terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly.

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of the gross amount of ticket sales from all of the Company's online keno lottery operations, excluding value-added taxes (VAT) or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 2,454 and 2,184 as at December 31, 2018 and 2017, respectively. TGTI's equipment rental revenue amounted to P659.7 million, P803.6 million, and P647.9 million 2018, 2017 and 2016, respectively (Note 19). The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P77.1 million and P119.6 million as at December 31, 2018 and 2017, respectively (Note 9).

3. BASIS OF PREPARATION

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations. The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on February 26, 2019.

Basis of Measurement
The consolidated financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis on each reporting date:

- marketable securities and investments in stocks are measured at fair value; and

- defined benefit asset which is measured as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso (P or Php), which is the Group's functional currency. All financial information are rounded off to the nearest peso, except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interest represents the portion of profit or loss and net assets not held by the Parent company and is presented separately in the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in equity and within equity in the consolidated statements of financial position.

Non-controlling interest represents the interest not held by the Parent Company in TGTI.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by the Group entities, except for the changes in accounting policies as explained below.

Early Adoption of a New Standard

- PFRS 9 Financial Instruments (2014) is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group previously adopted this standard early starting January 1, 2015.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards starting January 1, 2018 and accordingly, changed its accounting policies. The adoption did not have a material impact on the Group's consolidated financial statements.

- PFRS 15 Revenue from Contracts with Customers replaces PAS 11 Construction Contracts, PAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

- Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  Additional disclosures required by the amended standards and interpretation were included in the consolidated financial statements, where applicable.

Standards Issued but Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective January 1, 2019

- PFRS 16 Leases supersedes PAS 17 Leases and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of PFRS 16.

  PFRS 16 is not expected to have a material impact on the consolidated financial statements in the period of initial application.

The following amended standards and interpretations are relevant but not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments
- Amendments to PFRS 9 Prepayment Features with Negative Compensation
- Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards
- Amendments to References to Conceptual Framework in PFRS standards - effective January 1, 2020.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)
- Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Error)

<u>Financial Instruments</u>
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at amortized cost. The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The Group classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVPL. The Group classifies all financial liabilities at amortized cost, except for:

(a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

(c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

(d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets

Financial Assets at FVPL. The Group measures a financial asset at FVPL unless it is measured at amortized cost or at FVOCI. At initial recognition, the Group may choose to irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVPL are carried in the consolidated statements of financial position at fair value with gains or losses recognized in profit or loss. Interest earned is recorded in interest income while dividend income is recorded in other income when the right to receive payment has been established. The Group determines the cost of investments sold using specific identification method.

The Group's investment in equity securities included under "Marketable securities" are classified under this category (Note 8).

Financial Assets at FVOCI. The Group designates an equity instrument as a financial asset at FVOCI if the equity securities represent investments that the Group intends to hold for a long term for strategic purposes.

At initial recognition, the Group irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Subsequent to initial recognition, financial assets at FVOCI are measured at fair value and changes therein are recognized in other comprehensive income and presented in the "Fair value reserve" in equity which can be transferred to retained earnings when earned. Dividends earned on holding FVOCI equity securities are recognized as "Dividend income" in profit or loss when the right to receive payment has been established. Gains and losses on equity financial assets at FVOCI are never reclassified to profit or loss and no impairment is recognized in profit or loss.

The Group's investments in equity securities included under "Investments in stocks" account are classified under this category (Note 11).

Financial Assets at Amortized Cost. The Group measures a financial asset at amortized cost if it is not designated as at FVPL and both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to collect contractual cash flows; and

(b) 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.

Such financial assets are carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is included as part of "Interest income" in the consolidated statements of income. Gains and losses are recognized in profit or loss when the financial assets at amortized cost are derecognized or impaired, as well as through the amortization process. Financial assets at amortized cost are included in current assets if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent assets.

The Group's financial assets at amortized cost include cash in banks, trade and other receivables, deposits and guarantee bonds.

Cash includes cash on hand and in banks which are stated at face value.

Business Model Assessment

The Group makes an assessment of the objectives of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated in a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether Contractual Cash Flows are Solely Payments of Principal and Interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows for specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

Reclassification of Financial Assets and Liabilities

Financial Assets. When, and only when, the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties.

A change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated a business line.

Financial Liabilities. The Group shall not reclassify any financial liability.

Financial Liabilities

Financial Liabilities at Amortized Cost. This category pertains to financial liabilities that are not designated at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Group's trade and other current liabilities.

Derecognition of Financial Assets and Liabilities

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

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

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. 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.

Impairment of Financial Assets

The Group uses the expected credit losses model ("ECL") which is applied to all equity instruments measured at amortized cost or FVOCI as well as to issued loan commitments and most financial guarantee contracts.

The ECL is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses. Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or which have low credit risk at the reporting date. For these items, 12-month ECL are recognized. The 12-months ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these items, lifetime expected credit losses are recognized which is the weighted average credit losses with the probability of default as the weight. Stage 3 includes financial assets that are credit impaired at the reporting date. For these items, lifetime expected credit losses are recognized. No impairment loss is recognized on equity investments.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Spare Parts and Supplies
Spare parts and supplies are valued at the lower of cost and net realizable value. Cost includes all costs attributable to acquisition and is determined using the first-in, first-out method for spare parts and supplies. Net realizable value is the current replacement cost for spare parts and supplies. The carrying amount of spare parts and supplies is reviewed at each reporting date to reflect the accurate valuation in the consolidated financial statements. Spare parts and supplies identified to be obsolete and unusable are written-off and charged as expense for the period.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

When major repairs and maintenance are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	Number of Years
Lottery equipment	4 - 10 or term of the lease, whichever period is shorter
Leasehold improvements	4 or term of the lease, whichever period is shorter
Office equipment, furniture and fixtures	4
Transportation equipment	4 - 5

The assets' residual values, useful lives and depreciation and amortization methods are reviewed and adjusted if appropriate, at each reporting date, to ensure that the period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 profit or loss in the year the asset is derecognized.

Impairment of Nonfinancial Assets Excluding Goodwill
The Group assesses at each reporting date whether there is an indication that property and equipment and intangible assets with definite useful life may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less costs to sell or 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 group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in the expense category consistent with the function of the impaired asset.

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, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred under 'Costs and expenses' account in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss is recognized in the consolidated comprehensive income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 in profit or loss. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, at least annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or group of cash generating units that are expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment or determined in accordance with PFRS 8 *Operating Segment*.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash generating unit or group of cash generating units and part of the operations within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment loss with respect to goodwill is not reversed.

When business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the Group, using the cost of transaction and fair value information at the date of each exchange transactions, to determine the amount of goodwill associated with that transaction. Any adjustment to fair value relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in profit or loss.

Non-controlling Interest

The acquisitions of non-controlling interest are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. No gain or loss on such changes is recognized in profit or loss; instead, it is recognized in equity. Also no change in the carrying amounts of assets (including goodwill) or liabilities is recognized as a result of such transactions.

Provisions

Provisions are recognized when the Group 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 will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Capital Stock

Common stocks are classified as equity. Incremental costs directly attributable to the issuance of common stocks are recognized as deduction from equity, net of any tax effects.

Treasury Stock

When capital stock recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury stock. When the treasury stock are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus is recognized as additional paid in capital (APIC), while the resulting deficit is applied against the APIC arising from the issuance of treasury stock. Any remaining deficit is applied against retained earnings.

Stock Dividend Distributable

Common stock dividend distributable is classified as equity. This account represents stock dividend declared by the BOD but not yet distributed to Group's stockholders.

Fair Value Reserve

Fair value reserve represents the cumulative change in the fair value of investments in stocks until they are derecognized. Movements in the reserve are set out in the consolidated statements of changes in equity.

Retained Earnings

The amount included in retained earnings includes profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are declared. Interim dividends are deducted from equity when they are paid. Retained earnings are appropriated for the cost of treasury stock acquired. When the appropriation is no longer needed, it is reversed. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, trade and other receivables and property and equipment. Segment liabilities include all operating liabilities and consist principally of trade and other current liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Revenue/Income

Equipment Rental. Revenue is recognized based on a percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement, or a fixed annual rental per terminal in commercial operation, whichever is higher. Minimum lease payment from the fixed annual rental is recognized on a straight line basis and any excess of the percentage of gross sales is contingent rent recognized in the period earned.

Revenue from Contracts with Customers. The Group recognizes revenue/income when it transfers control over a good or service. Revenue/income is measured at the transaction price which the entity expects to be entitled in exchange for a good or service. Information about the nature and timing of the satisfaction of performance obligations, significant payment terms and recognition policies follow.

Commission and Distribution Income. Revenues from the distribution of lottery, sweepstakes and scratch tickets to customers, including retailers and sub-distributors, representing the Group's share from the sales, are recognized upon delivery of the tickets to the customers. Revenue is computed based on the percentage of instant lottery sweepstakes and scratch it tickets in accordance with the agreement.

License Fee Income. Income is recognized at the point in time at which the license transfers to the customer and when the customer is able to use and benefit from the license. The license fee is measured at the transaction price, adjusted for the effects of a significant financing component to an amount that reflects the cash selling price when the license transferred to the customer.

Service Income. Revenue is recognized when the services to the customer is performed. Service income consist of fees earned by TGTI Services Inc. in providing repairs and maintenance services to Rapid Bingo equipment of AB Leisure Exponent Inc.

Interest. Income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividends. Income is recognized when the Group's right to receive payment is established.

Other Income. Income is recognized when earned.

Costs and Expenses

Costs and expenses are recognized when incurred and are reported in the consolidated statements of income in the periods to which they relate.

Expenses are also recognized in the consolidated statements of income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability can be measured reliably has arisen. Expenses are recognized in the consolidated statements of income on the basis of a direct association between costs incurred and the earnings of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d at the date of renewal or extension period for scenario b.

As a Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

As a Lessee. Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term or based on the term of the lease agreements, as applicable.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present, legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

Retirement Cost

The Parent Company, LCC and TGTI have noncontributory defined benefits retirement plans covering substantially all of its qualified employees.

The Group's defined benefits obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined benefits obligation or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest), if any, are recognized immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined benefit obligation or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit obligation or asset, taking into account any changes in the net defined benefit obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at reporting date.

Foreign Currency Transactions

Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. All exchange rate differences including those arising from translation or settlement of monetary items at rates different from those at which they were initially recorded are recognized in statement of comprehensive income in the year such differences arise.

Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting date.

Deferred Tax. Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax losses - Net Operating Loss Carry Over (NOLCO) and minimum corporate income tax (MCIT), to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting date. Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in statement of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Value-added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

Basic/Diluted Earning Per Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted-average number of issued and outstanding common shares during the period.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

Related Parties
Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgment , apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Leases. The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys a right to use the asset.

Operating Lease - As a Lessor and As a Lessee
The Group entered into various lease agreements as a lessee for retail outlets, office spaces and warehouses and as a lessor for some lottery equipment. As the lessee, the Group determined that the lessor retains all significant risks and rewards of ownership of the assets. As the lessor, the Group determined that it retains substantially all the risks and rewards of ownership of the equipment. Therefore, the leases are classified as operating lease (Notes 2 and 19).

Finance Lease - As a Lessee
The Group also entered into various lease agreements as a lessee for some lottery equipment. The Group determined that it bears substantially all the risks and rewards incidental to ownership of the equipment. Therefore, the leases are classified as finance lease.

The carrying amount of lottery equipment under finance lease amounted to P30.9 million and P103.7 million as at December 31, 2018 and 2017, respectively (Note 19).

Evaluating Revenue Recognition, Contract Term and Existence of Significant Financing Component

Revenue Recognition
Management determined that the Group's licensing of its distinct brands and trademarks provides a right to use intellectual property as it exists at the point in time at which the license is granted because there is no implicit or implied obligation to undertake activities during the license period.

Contract Term
Management determined that the license granted provides the licensee a valuable right because it enables to tap into the existing instant scratch ticket customers that patronize the Group's distinct brand and trademarks. The existence of such valuable right is considered a substantive penalty for the licensee to terminate the license agreement given that it is costly to rebrand and also to develop and market new instant scratch ticket designs/variants.

Significant Financing Component
Management determined that a significant financing component exists for the license agreement because the license period is long term and the fixed consideration is payable over a period time. The financing component is recognized as interest income when the licensee pays in arrears.

Estimates and Assumptions
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Trade and Other Receivables. The Group maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but not limited to, the age and status of receivable, the length of relationship with the customers, the customer's payment behavior and known market factors. The Group reviews the allowance on a continuous basis.

The Group uses the expected credit losses model in estimating the level of allowance, which includes forecasts of future events and conditions. A credit loss is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received discounted at the original effective interest rate. The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Group's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar. In addition, management assessed the credit risk of the receivables as at the reporting date as low, therefore the Group did not have to assess whether a significant increase in credit risk has occurred.

Allowance for impairment losses on trade and other receivables amounted to nil as at December 31, 2018 and 2017, respectively. Trade and other receivables amounted to P285.1 million and P503.3 million as at December 31, 2018 and 2017, respectively (Note 9).

Estimated Useful Lives of Property and Equipment. The useful life of each of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded operating expenses and decrease noncurrent assets.The carrying amount of property and equipment as at December 31, 2018 and 2017 amounted to P259.9 million and P438.0 million, respectively (Note 12).

Impairment of Non-financial Assets (except Goodwill) and Deferred Tax Asset. PFRS requires that an impairment review be performed on property and equipment and when certain impairment indicators are present.

Determining the net recoverable amount of property and equipment and requires the estimation of future cash flows expected to be generated from the continued use and ultimate disposition of such assets or fair value less costs to sell, whichever is higher. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and resulting in impairment loss.

Management assessed that there are no impairment indicators affecting the Group's property and equipment and deferred tax assets as at December 31, 2018 and 2017.

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and to choose a suitable discount rate to calculate the present value of those cash flows.

Management considered the effect of the recent change in FRI's exclusivity arrangement with its principal in estimating the expected cash flows as at December 31, 2018. The key assumptions used in the impairment test of goodwill are discussed in Note 13 to the consolidated financial statements.

Impairment loss on goodwill amounted to P110.9 million in 2018 and nil in 2017 and 2016. The carrying amount of goodwill amounted to P17.0 million and P128.0 million as at December 31, 2018 and 2017, respectively (Note 13).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangibles assets and property and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

Retirement Cost. The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include the discount rates and rate of future salary increase.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligation. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. Other key assumptions for retirement liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liability. The present value of defined benefit obligation amounted to P72.9 million and P84.2 million as at December 31, 2018 and 2017, respectively (Note 21).

Estimating the Transaction Price of Income from Brands and Trademarks License Agreement
The Group adjusts the promised amount of consideration for the time value of money to estimate the transaction price in a contract. In making the assessment, the Group consider the following factors:

- combined effect of the expected length of time of the contract;
- payment terms of the contract; and
- prevailing interest rate in the relevant market.

The discount rate used in determining the financing component of the income from the Group's license agreement is 6.7%. This represents the risk-free interest rate for the payment period plus estimated credit spread. The financing component deducted from the license fee income amounted to P36.5 million in 2018. The accreted interest income amounted to P12.6 million (Note 20).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management expects future operations will generate sufficient taxable income that will allow all or part of the deferred tax assets to be utilized.

Deferred tax assets (liabilities) - net amounted to (P37.3 million) and P15.4 million as at December 31, 2018 and 2017 respectively (Note 18).

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsels handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

The main issue in the case before the RTC-Makati involves the claim by PGMC that the 2012 ELA conferred on it the exclusive right to install or operate equipment for online lottery operations in Luzon. On September 5, 2012, a Writ of Preliminary Injunction (Injunction) was issued by Branch 143 of the Regional Trial Court of Makati. The Injunction orders PCSO to refrain from 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the Pacific Online and PCSO 2) ordering PCSO to refrain from allowing Pacific Online, or any third party, to install or operate any equipment, computer or terminal relating to online lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. Pacific Online filed a case with the Supreme Court to nullify the Injunction. PCSO also filed a case with the Court of Appeals likewise questioning the Injunction. On July 17, 2013, the Supreme Court decided that the case brought by Pacific Online be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making the Pacific Online a party to the case before the Court of Appeals.

Meanwhile, PGMC and PCSO entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the terminals already installed in Luzon by Pacific Online are concerned. In the same Interim Settlement, PGMC and PCSO also agreed to submit to arbitration before the International Court of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO's opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations. of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO's opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations.

On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC-Makati, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to said agreement, PCSO withdrew its Petition for Certiorari in the Court of Appeals, which was granted by virtue of the Resolution dated March 1, 2016. PCSO also prayed for the dismissal of the RTC case, but this was denied by the RTC Makati after PGMC opposed PCSO's motion to dismiss.

In the meantime, the Court of Appeals required the parties to file their respective Memoranda in the case. On September 13, 2017, Pacific Online filed its Memorandum. PCSO opted not to file its own Memorandum, but manifested instead that it was adopting the Memorandum of Pacific Online.

On January 8, 2019, Pacific Online's counsel received a Decision by the Court of Appeals dated December 17, 2018 dismissing Pacific Online's Petition for Certiorari and Prohibition. Pacific Online decided to no longer pursue a Motion for Reconsideration. To a certain extent, the Petition served its purpose as after the same was filed, the RTC Makati put on hold the hasty implementation of the injunction. Subsequent events have rendered moot the issues in the case. Aside from the ICA arbitration decision, the ELA at issue in the case has also been amended and superseded thrice. Recently, the ELAs of both POSC and PGMC were extended for one year starting 1 August 2018 pursuant to Board Resolution 229, Series of 2018, which, in turn, was issued to give PCSO enough time to prepare for the required public bidding for lotto equipment supply. With this development, the adverse effect against POSC - the reason that this case was initiated in the first place - is no longer attendant. Measurement of Fair Values. A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Finance Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, if any. The CFO regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the CFO assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The methods and assumptions used to estimate fair values for financial assets and liabilities are discussed in Note 23.

The fair value of financial assets amounted to P1.7 billion and P1.9 billion as at December 31, 2018 and 2017, respectively. The fair value of financial liabilities amounted to P286.7 million and P550.4 million as at December 31, 2018 and 2017, respectively (Note 23).

6. SEGMENT INFORMATION

The primary segment reporting format is presented based on business segments in which the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group is engaged in the businesses of leasing lottery equipment to PCSO (leasing activities) and sale of lottery tickets like lotto, keno, sweepstakes and instant tickets (distribution and retail activities), among others. Revenues generated from the leasing activities account for 75%, 79%, and 84% of the Group's revenues in 2018, 2017 and 2016, respectively.

Performance is measured based on segment income before income tax, as included in the internal management reports that are reviewed by the Group's President. Segment net income is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information regarding the results of each reportable segment is shown below:

	2018			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	**P1,448,317,611**	**P -**	**P -**	**P1,448,317,611**
Commission and distribution income	**-**	**487,626,385**	**-**	**487,626,385**
Total revenue	**P1,448,317,611**	**P487,626,385**	**P -**	**P1,935,943,996**
Segments Results				
Income before income tax	**P648,369,793**	**P37,268,884**	**(P202,760,076)**	**P482,878,601**
Income tax expense	**164,514,930**	**14,315,656**	**-**	**178,830,586**
Net income	**P483,854,863**	**P22,953,228**	**(P202,760,076)**	**P304,048,015**
Segment assets	**P2,320,565,897**	**P464,748,111**	**(P682,234,627)**	**P2,103,079,381**
Retirement benefits asset -net	**P2,252,207**	**P5,603,346**	**P -**	**P7,855,553**
Segment assets (excluding retirement benefits asset - net)	**P2,318,313,690**	**P459,144,765**	**(P682,234,627)**	**P2,095,223,828**
Segment liabilities	**P240,397,556**	**P148,761,690**	**(P46,699,641)**	**P342,459,605**
Other Information				
Capital expenditures	**P22,839,420**	**P22,831,736**	**P -**	**P45,671,156**
Depreciation and amortization	**199,435,777**	**23,764,304**	**-**	**223,200,081**
Finance charges	**6,187,352**	**-**	**-**	**6,187,352**
Interest income	**1,041,474**	**433,659**	**-**	**1,475,133**

	2017			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,840,520,991	P -	P -	P1,840,520,991
Commission and distribution income	-	479,472,385	-	479,472,385
Total revenue	P1,840,520,991	P479,472,385	P -	P2,319,993,376
Segments Results				
Income before income tax	P813,332,641	P109,764,385	(P201,350,664)	P721,746,362
Income tax expense	182,532,651	46,347,723	-	228,880,374
Net income	P630,799,990	P63,416,662	(P201,350,664)	P492,118,897
Segment asset-	P2,648,931,231	P501,684,102	(P516,768,255)	P2,633,847,078
Deferred tax assets - net	8,871,062	5,892,215	676,408	15,439,685
Retirement benefits assets (liabilities) - net	(5,404,438)	6,761,711	-	1,357,273
Segments assets*	P2,645,464,607	P489,030,176	(P517,444,663)	P2,617,050,120
Segment liabilities	P552,781,694	P166,332,310	(P105,341,798)	P613,772,206
Other Information				
Capital expenditures	P139,620,836	P45,818,642	P -	P156,774,695
Depreciation and amortization	201,055,902	24,388,376	-	225,444,278
Finance charges	10,859,855	-	-	10,859,855
Interest income	632,797	220,847	-	853,644

**Excluding deferred tax asset net and retirement benefit assets - net*

	2016			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,579,660,972	P -	P -	P1,579,660,972
Commission and distribution income	-	308,438,496	-	308,438,496
Total revenue	P1,579,660,972	P308,438,496	P -	P1,888,099,468
Segments Results				
Income before income tax	P480,890,446	P150,771,229	(P48,199,798)	P583,461,877
Income tax expense	151,241,420	31,851,557	-	183,092,977
Net income	P329,649,026	P118,919,672	(P48,199,798)	P400,368,900
Segment assets	P2,509,316,408	P339,479,126	(P421,595,309)	P2,427,200,225
Deferred tax assets - net	9,592,859	5,263,918	-	14,856,777
Retirement benefits assets – net	(8,307,570)	8,630,802	-	323,232
Segments assets*	P2,508,031,119	P325,584,406	(P421,595,309)	P2,412,020,216
Segment liabilities	P462,343,803	P68,211,929	(P63,986,411)	P466,569,321
Other Information				
Capital expenditures	P95,557,229	P16,382,944	P -	P111,940,173
Depreciation and amortization	156,189,679	14,978,948	-	171,168,627
Finance charges	12,739,865	8,640	-	12,748,505
Interest income	665,036	150,043	-	815,079

**Excluding deferred tax asset - net and retirement benefit assets - net.*

7. CASH

The Group has cash on hand and in banks amounting to P571.3 million and P447.1 million as at December 31, 2018 and 2017, respectively (Note 23).

Cash in banks earn interest at the respective bank deposit rates. Interest income from cash in banks amounted to P1.5 million P0.9 million, and P0.8 million in 2018, 2017 and 2016, respectively.

8. MARKETABLE SECURITIES

This account consists mainly of investments in quoted shares of stock of Leisure and Resorts World Corporation, Vantage Equities, Inc., and APC Group, Inc.

The movements in marketable securities are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P178,482,842**	P165,990,214
Acquisitions		**-**	17,034,130
Disposals		**(10,874,865)**	(6,746,030)
Mark-to-market gain (loss)		**(11,903,085)**	2,204,528
Balance at end of year	*23*	**P155,704,892**	P178,482,842

The fair values of these securities are based on closing quoted market prices on the last market day of the year.

Dividend income amounted to P5.0 million, P5.7 million, and P11.2 million in 2018, 2017 and 2016, respectively.

9. TRADE AND OTHER RECEIVABLES

	Note	**2018**	2017
Accounts receivable	*2*	**P235,290,703**	P492,662,488
Accrued license fee income – current portion		**37,892,531**	-
Advances:			
Officers and employees		**4,939,898**	3,269,065
Contractors and suppliers		**3,847,376**	4,299,449
Other receivables		**3,093,387**	3,072,273
		P285,063,895	P503,303,275

Accounts receivable is generally on a 30-to-60-day credit terms. The risks associated on this account are disclosed in Note 23.

Accounts receivable includes advance payments for instant scratch tickets amounting to P71.8 million and P130.0 million as at December 31, 2018 and 2017, respectively.

The movements in allowance for impairment losses as at December 31 are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P -**	P10,806,450
Impairment losses recognized during the year	*17*	**-**	25,000,000
Write-offs during the year		**-**	(35,806,450)
Balance at end of year		**P -**	P -

10. OTHER CURRENT AND NONCURRENT ASSETS

Current Assets

	Note	**2018**	2017
Spare parts and supplies at cost	*2*	**P60,978,544**	P59,296,701
Prepayments		**70,341,729**	47,995,664
Cash bond	*2, 23*	**10,000,000**	-
Input VAT		**3,618,513**	7,577,079
		P144,938,786	P114,869,444

Prepayments represent mainly the unexpired portion of insurance, rent and taxes.

Noncurrent Assets

	Note	**2018**	2017
Accrued license fee income - net of current portion	*23*	**P130,123,122**	P -
Guaranteed deposits	*2, 23*	**32,000,000**	38,000,000
Refundable deposits	*23*	**34,930,697**	31,828,576
Others		**8,573,722**	9,479,327
		P205,627,541	P79,307,903

Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest.

Guaranteed deposits pertains to cash bonds held in escrow account as part of the agreement with PCSO (Note 2).

11. INVESTMENTS IN STOCKS

	Note	**2018**	2017
Balance at beginning of year		**P727,998,290**	P713,731,620
Acquisitions		**34,490,020**	68,203,070
Disposals		**-**	(172,933,950)
Fair value gain (loss)		**(306,782,380)**	118,997,550
Balance at end of year	*23*	**P455,705,930**	P727,998,290

The disposals in 2017 were made for strategic purposes which resulted in realized gain amounting to P98.8 million.

The gain on sale of investments in stocks was reclassified from the "Fair value reserve" account to "Retained earnings" account in the 2018 consolidated statement of changes in equity.

Dividend income amounted to P24.1 million, P14.9 million, and P10.9 million in 2018, 2017 and 2016, respectively.

12. PROPERTY AND EQUIPMENT

The movements in the account are as follows:

	Note	Lottery Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2017		P1,138,331,261	P78,896,849	P184,222,685	P80,005,903	P1,481,456,698
Acquisitions		116,251,464	3,009,913	22,961,600	14,551,718	156,774,695
Acquisition of Nine Entities	*13*	-	4,357,896	24,306,888	-	28,664,784
Disposals		(49,649,164)	(238,440)	(32,936,131)	(13,747,473)	(96,571,208)
December 31, 2017		1,204,933,561	86,026,218	198,555,042	80,810,148	1,570,324,969
Acquisitions		13,087,214	3,389,596	18,131,908	11,062,438	45,671,156
Reclassifications		(4,691,543)	17,297,346	(12,743,582)	137,779	-
Disposals		(301,539,876)	(7,443,047)	(7,895,714)	(14,156,621)	(331,035,258)
December 31, 2018		911,789,356	99,270,113	196,047,654	77,853,744	1,284,960,867
Accumulated Depreciation and Amortization						
January 1, 2017		755,875,479	61,862,142	138,276,865	46,546,147	1,002,560,633
Depreciation and amortization	*17*	174,495,675	11,264,336	26,750,051	12,934,216	225,444,278
Disposals		(49,649,164)	(238,440)	(32,917,872)	(12,851,594)	(95,657,070)
December 31, 2017		880,721,990	72,888,038	132,109,044	46,628,769	1,132,347,841
Depreciation and amortization	*17*	176,628,001	5,766,867	26,613,363	14,191,850	223,200,081
Reclassifications		(5,105,125)	12,377,827	(7,369,814)	97,112	-
Disposals		(301,374,133)	(7,443,047)	(7,889,514)	(13,756,621)	(330,463,315)
December 31, 2018		750,870,733	83,589,685	143,463,079	47,161,110	1,025,084,607
Carrying Amount						
December 31, 2018		P160,918,623	P15,680,428	P52,584,575	P30,692,634	P259,876,260
December 31, 2017		P324,211,571	P13,138,180	P66,445,998	P34,181,379	P437,977,128

Some lottery equipment with carrying amount of P31.0 million and P103.7 million as at December 31, 2018 and 2017, respectively were acquired under finance lease (Note 19).

13. GOODWILL

Goodwill represents the fair value of expected synergies from the acquisition of the following:

	2018	2017
LCC	**P13,363,484**	P13,363,484
Nine Entities	**3,682,782**	3,682,782
FRI	**-**	P110,933,996
	P17,046,266	P127,980,262

Acquisition of Nine Entities
On July 1, 2017, LCC acquired 100% of the shares of stocks of Nine Entities. The final purchase price allocation based on the fair values of identifiable assets and liabilities is as follows:

Total consideration	**P94,863,141**
Assets:	
Cash	76,694,703
Receivables - net	7,113,848
Prepaid income tax and others	24,873,909
Property and equipment - net	28,664,784
Deferred tax assets	1,466,821
Rent deposits	21,409,299
Liabilities:	
Trade and other payables	(69,043,005)
Total identifiable net assets at fair value	**91,180,359**
Goodwill	**P3,682,782**

The Nine Entities are engaged in the trading and selling of goods such as sweepstakes tickets on wholesale and retail basis. The acquisition is in line with the Group's business strategy of expanding its retail network.

The goodwill represents the fair value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of receivables acquired amounted to P7.1 million. The gross amount of receivables is P13.9 million of which P6.8 million is expected to be uncollectible as at the acquisition date (Note 9).

The Group's consolidated revenue would have increased by P134.0 million and its income before tax would have decreased by P10.1 million, for the year ended December 31, 2017 had this acquisition taken place on January 1, 2017. Total revenue and income before tax of acquired entities included in the 2017 consolidated statement of comprehensive income amounted to P142.2 million and P10.1 million, respectively.

Goodwill
Goodwill acquired through business combinations has been allocated to distribution and retail activities, a cash-generating unit (CGU), which is also the reportable operating segment, for impairment testing.

The Group performs impairment testing annually or more frequently when there are indicators of impairment for goodwill.

Goodwill from Acquisition of FRI
The recoverable amount of goodwill from the acquisition of FRI as at December 31, 2018 was determined based on a 4-year discounted cash flow forecast using actual past results and observable market data such as growth rates, operating margins, among others.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable weighted average cost of capital (WACC). The discount rate applied to pretax cash flow projections is 15.09% as at December 31, 2018.

Impairment loss on goodwill amounted to P110.9 miliion in 2018 and nil in 2017 and 2016.

Goodwill from Acquisition of LCC
The recoverable amount of goodwill from the acquisition of LCC by LotoPac was determined based on a 5-year value-in-use calculation using actual past results and observable market data.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable WACC. The discount rate applied to pretax cash flow projections was 10.2% and 3.0% for the terminal growth rate.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of the goodwill and cash generating unit to which goodwill relates to materially exceed its recoverable amount.

a.

14. TRADE AND OTHER CURRENT LIABILITIES

	Note	2018	2017
Accounts payable		**P154,248,020**	P264,802,362
Consultancy, software and license fees payable		**37,585,238**	55,742,294
Accrued expenses			
Professional fees		**26,405,592**	24,266,500
Communications		**9,486,430**	786,743
Rental and utilities		**6,596,842**	26,478,737
Management fees		**1,274,775**	2,085,402
Output tax		**494,845**	21,031,186
Dividends payable		**-**	86,734,617
Others		**8,979,724**	11,021,317
	23	**P245,071,466**	P492,949,158

Accounts payable generally has a 30-to-45-day credit terms.

Consultancy, software and license fees, and management fees payable relate to the following agreements:

a. Consultancy Agreements

The Group hired the services of several consultants for its gaming operations. Consultancy fees are based on a certain percentage of the sales of certain variants of PCSO lottery. Consultancy fees amounted to P30.3 million, P65.6 million, and P58.2 million in 2018, 2017 and 2016, respectively (Note 17).

b. Scientific Games

On February 15, 2005, the Parent Company entered into a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of computer hardware and operating system software. Under the terms of the "Contract for the Supply of the Visayas-Mindanao Online Lottery System," Scientific Games will provide 900 online lottery terminals and terminal software necessary for the Parent Company's leasing operations.

In consideration, the Parent Company shall pay Scientific Games a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation using the computer hardware and operating system provided by Scientific Games. The contract shall continue as long as the Parent Company's ELA with PCSO is in effect.

On October 2, 2012, the Parent Company and Scientific Games amended the contract to extend the period from April 1, 2013 until August 31, 2015, and provide for the supply of additional terminals (Note 2).

On November 20, 2015, the Parent Company and Scientific Games further amended the contract to extend the period from September 1, 2015 until July 31, 2018 and provide for the supply of 1,500 brand new terminals to the Parent Company. The amendment also removed the provision for the Inactive Terminal Fee of US$25.00 per terminal per month for any additional terminals not connected to the software provided by Scientific Games.

In August 2018, the contract with Scientific Games was further amended to extend the period until July 31, 2019.

Software and license fees amounted to P37.8 million, P52.9 million, and P49.3 million in 2018, 2017 and 2016, respectively (Note 17).

c. Intralot

i. On March 13, 2006, the Parent Company entered into a contract with Intralot (Intralot Greece), a company incorporated under the laws of Greece, for the supply of online lottery system necessary for the operation of a new online lottery system effective December 8, 2006. Under the terms of the "Contract for the Supply of the Visayas-Mindanao Online Lottery System," Intralot will provide the Parent Company the hardware, operating system software and terminals and the required training. In consideration, the Parent Company shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation or a fixed amount of US$110 per terminal per month, whichever is higher. The contract shall continue as long as the Parent Company's ELA with PCSO is in effect.

   On July 10, 2006, Intralot entered into an agreement with Intralot Inc. (Intralot USA), a subsidiary domiciled in Atlanta, Georgia, USA, wherein Intralot Greece assigned to Intralot USA the whole of its contract with the Parent Company, including all its rights and obligations arising from it. The Parent Company will pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's online lottery operations or US$110.00 per terminal whichever is higher.

   On September 6, 2013, the Parent Company and Intralot further amended the contract for the supply of additional terminals to enable the Parent Company to expand its online lottery operations. Effective April 1, 2013, the Parent Company and Intralot agreed to lower the percentage of revenues paid by the former to the latter.

   In April 2016, the Parent Company and Intralot again amended the contract for the latter to supply additional reconditioned or refurbished lotto terminals to the former and extend the term of the contract until August 31, 2018.

   On September 25, 2018, the contract with Intralot was further amended to extend the period until July 31, 2019.

   Software and license fees amounted to P96.4 million, P80.7 million, and P100.0 million in 2018, 2017 and 2016, respectively (Note 17).

ii. On April 1, 2004, TGTI entered into a contract with Intralot for the supply of online lottery system necessary for the operation of a new online lottery system effective until September 30, 2020. In consideration, the TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation. On July 2008, the contract was amended such that instead of receiving monthly remuneration calculated as a percentage of the gross receipts of TGTI from its ELA with PCSO, Intralot will now receive monthly remuneration calculated on a percentage basis of the gross receipts of PCSO from its online keno games.

   On March 22, 2011, the contract was further amended for Intralot to supply additional online keno terminals to TGTI and reduced the percentage charged by Intralot to TGTI or US$60.00 per terminal per month on an average basis, whichever is higher. TGTI also undertakes a letter of guarantee amounting to P20.0 million not later than March 28, 2011 in order for TGTI to secure the payment of Intralot's remuneration. The said guarantee is recognized under "Other noncurrent assets" in the consolidated statements of financial position.

   Software and license fees amounted to P61.6 million, P58.1 million, and P37.3 million in 2018, 2017 and 2016, respectively (Note 17).

d. Management Agreement

The Parent Company has a Management Agreement with AB Gaming and Leisure Exponent Specialist, Inc. for the latter to provide investment and management counsel and to act as manager and overseer of the Parent Company's operations.

In consideration for these services, the Parent Company shall pay a monthly fee of P0.1 million and an amount equivalent to a certain percentage of the Company's earnings before interest, taxes, depreciation and amortization (EBITDA).

TGTI has Management Agreement with AB Gaming and Leisure Specialist, Inc. (AB Gaming) for its online keno operations. In consideration, TGTI will pay AB Gaming a management fee equivalent to a certain percentage of the Company's earnings before interest, taxes, depreciation and amortization.

Management fees amounted to P44.7 million, P69.9 million and P64.6 million in 2018, 2017 and 2016, respectively (Note 17).

15. EQUITY

a. Capital Stock

	2018		2017	
	Number of Shares	**Amount**	Number of Shares	Amount
CAPITAL STOCK				
Authorized: Common shares – P1 par value	**500,000,000**	**P500,000,000**	500,000,000	P500,000,000
Issued: Balance at beginning and end of year	**447,665,473**	**447,665,473**	447,665,473	447,665,473
Treasury stock: Balance at beginning of year	**23,755,492**	**268,660,770**	4,983,946	56,819,178
Purchases during the year	**1,478,000**	**16,606,788**	18,771,546	211,841,592
	25,233,492	**285,267,558**	23,755,492	268,660,770
Outstanding shares	**422,431,981**	**P162,397,915**	423,909,981	P179,004,703

On August 14, 2018, the Board of Directors approved the amendment in the Parent Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock is pending approval of the Securities and Exchange Commission as at December 31, 2018.

b. Stock Dividend Distributable

On August 14, 2018, the Board of Directors declared a 100% stock dividend to the Parent Company's stockholders which the record and payment dates will be set subject to the approval of the Securities and Exchange Commission of the Parent Company's increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock.

The stock dividend declaration was approved at the special meeting of the stockholders held on September 25, 2018.

c. Dividends

In 2018, the BOD, upon recommendation of management, declared the following cash dividends:

Declaration	Record Date	Payment	Per Share	Amount
April 26, 2018	**May 14, 2018**	**May 31, 2018**	**P0.30**	**P126,762,110**
April 26, 2018	**August 3, 2018**	**August 31, 2018**	**0.30**	**126,709,115**
				P253,471,225

In 2017, the BOD, upon recommendation of management, declared the following cash dividends

Declaration	Record Date	Payment	Per Share	Amount
May 2, 2017	May 17, 2017	May 31, 2017	P0.30	P126,984,494
May 2, 2017	August 11, 2017	August 31, 2017	0.30	126,508,211
December 6, 2017	January 5, 2018	January 31, 2018	0.20	84,781,995
				P338,274,700

In 2016, the BOD, upon recommendation of management, declared the following dividends:

Cash Dividends

Declaration	Record Date	Payment	Per Share	Amount
January 26, 2016	February 10, 2016	March 7, 2016	P0.60	P179,066,190
October 20, 2016	November 8, 2016	December 5, 2016	0.38	170,112,880
				P349,179,070

Stock Dividends

Declaration	Record Date	Payment		Amount
May 24, 2016	June 14, 2016	July 8, 2016	50% stock	P149,221,823

d. Treasury Stock

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock.

The movements in treasury stock are as follows:

	December 31, 2018		December 31, 2017	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of the year	**23,755,492**	**P268,660,770**	4,983,946	P56,819,178
Acquisitions	**1,478,000**	**16,606,788**	18,771,546	211,841,592
Balance at end of the year	**25,233,492**	**P285,267,558**	23,755,492	P268,660,770

e. Retained Earnings

	Note	**2018**	2017
Unappropriated		**P969,822,935**	P994,292,424
Appropriated:			
TGTI	*a*	**200,000,000**	200,000,000
LCC	*b*	**30,000,000**	30,000,000
Parent Company	*c*	**-**	250,000,000
		230,000,000	480,000,000
		P1,199,822,935	P1,474,292,424

a. On October 24, 2017, the BOD of TGTI, upon recommendation of management, approved the appropriation of P200,000,000 out of TGTI's unappropriated retained earnings for future expansion programs.

b. On December 5, 2017 and, the BOD of LCC, upon recommendation of management, approved the appropriation of P30,000,000 out of LCC's unappropriated retained earnings for renovation of existing retail outlets and construction of new ones in 2018.

c. On December 6, 2017, the BOD, upon recommendation of management, approved the appropriation of P250,000,000 out of theParent Company's unappropriated retained earnings as reserved funds for future project as follows:

   (i.) system upgrades that will need to be undertaken to ensure that the online lottery system will continue to be functional during the entire period between the expiration of the current Equipment Lease Agreement with the Philippine Charity Sweepstakes Office (PCSO) and the time when a new lottery system has been bidded out and is operational; and

   (ii.) expenditures should the Company successfully bid for the Nationwide Online Lottery System (NOLS) of PCSO.

With the delay in PCSO's release of its Terms of Reference for the NOLS bidding, the BOD approved the reversal of this appropriation during its meeting last August 14, 2018.

16. RELATED PARTY TRANSACTIONS

Category/Transaction	Year	*Note*	Amount of the Transaction	Outstanding Balance: Advances to Related Parties	Outstanding Balance: Advances from Related Parties	Terms	Conditions
TGTI							
▪ Advances	**2018**	*a*	**P -**	**P16,586,030**	**P -**	On demand, noninterest bearing	Unsecured
	2017	*a*	**-**	7,659,982	-	On demand, noninterest bearing	Unsecured
▪ Dividend income received	**2018**	*c*	**6,732,636**	**-**	**-**		
	2017	*c*	192,826,383	-	-		
▪ Dividends paid	**2018**	*b*	**99,048,559**	**-**	**-**		
	2017	*b*	6,711,147	-	-		
▪ Treasury Stock	**2018**	*c*	**174,384,130**	**-**	**-**		
	2017	*c*	110,083,802	-	-		
▪ Reimbursements	**2018**	*a*	**75,624,181**	**-**	**-**		
	2017	*a*	40,309,113	-	-		
FRI							
▪ Advances	**2018**	*a*	**-**	**-**	**10,000,000**	On demand, noninterest bearing	Unsecured
	2017	*a*	-	-	10,000,000	On demand, noninterest bearing	Unsecured
LOTO PAC							
▪ Advances	**2018**	*a*	**111,456**	**-**	**841,489**	On demand, noninterest bearing	Unsecured
	2017	*a*	-	-	730,033	On demand, noninterest bearing	Unsecured
LCC & Nine Entities							
▪ Dividends paid	**2018**		39,055,276	**-**	**-**		
	2017		-	-			
▪ Advances	**2018**	*a*	**-**	**-**	**29,958,498**	On demand, noninterest bearing	Unsecured
	2017	*a*	-	-	27,203,369	On demand, noninterest bearing	Unsecured
▪ Rental expense	**2018**	*d*	**32,287,272**	**-**	**-**		
	2017	*d*	46,124,064	-	-		
▪ Security deposits	**2018**	*d*	**23,104,654**	**-**	**-**		
	2017	*d*	21,536,587	-	-		
TOTAL	**2018**			**P16,586,030**	**P40,799,987**		
TOTAL	2017			P7,659,982	P37,933,402		

a. The Parent Company has an operational and technical support services agreement with TGTI which the former will assist the latter in the following: (1) establishing a suitable and efficient telecommunications links for the latter's online keno network and (2) overseeing the efficient operation, regular preventive maintenance, and necessary repairs on TGTI's online keno terminals deployed within the Visayas and Mindanao regions, including the central data server located in Cebu City.

In consideration for lease services, TGTI pays a fixed fee per keno terminal.

TGTI also reimburses the Parent Company for communication expenses incurred on some online keno agents/operators and the shared data center.

The Parent Company granted non-interest bearing cash advances to LotoPac, LCC and FRI for working capital requirements. The P10.0 million advances to FRI will be converted to equity 2019.

b. The Parent Company receives cash dividends from TGTI and LCC.

c. TGTI purchased traded hares of the Parent Company (LOTO) through its stock brokers, thus, TGTI receives dividends for these shares. The cost of shares purchased by TGTI is included in the "Treasury Stock" account in the consolidated statements of financial position. TGTI received cash dividend from the Parent Company.

d. LCC and Nine Entities have existing agreements with related parties under common ownership by SM Investment Corporation for the leased space of its outlets which are renewable every six months to two years at its option.

Under the terms of the lease agreement, LCC and Nine Entities are required to pay rentals equivalent to a fixed rate per month and security deposits corresponding to three (3) months rent. These deposits consist of amounts paid in advance which can be collected in cash upon termination of the lease.

The total receivables and payables eliminated amounted to P2.2 million and P12.6 million, respectively.

Compensation of the Group's key management personnel are as follows:

	2018	2017	2016
		(In Millions)	
Short-term employee benefits	**P32.02**	P34.26	P29.75
Post-retirement benefits	**2.33**	2.50	2.20
	P34.35	P36.76	P31.95

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 17 to the consolidated financial statements. For a comparative presentation, compensations of the Group's key management personnel in 2017 and 2016 have been updated.

17. COSTS AND EXPENSES

	Note	2018	2017	2016
Personnel costs		**P345,490,508**	P262,964,539	P211,112,424
Depreciation and amortization	*12*	**223,200,081**	225,444,278	171,168,627
Rent and utilities	*19*	**214,003,791**	164,356,377	70,436,801
Software and license fees	*14, 19*	**195,747,032**	191,656,399	186,644,134
Operating supplies	*2*	**159,806,141**	217,083,894	191,362,602
Communications		**125,035,510**	121,106,618	112,691,702
Travel and accommodation		**72,535,071**	68,941,903	69,957,735
Repairs and maintenance		**72,500,789**	55,210,127	52,358,157
Management fees	*14*	**44,665,897**	69,853,146	64,624,728
Marketing and promotion		**38,989,441**	71,317,276	13,290,372
Taxes and licenses		**32,732,310**	39,334,232	28,333,909
Consultancy fees	*14*	**30,312,175**	65,571,479	58,176,673
Entertainment, amusement and representation		**19,565,548**	15,483,481	18,091,353
Professional fees		**14,752,874**	13,567,826	17,345,722
Provision for impairment loss	*9*	**-**	25,000,000	-
Others		**25,151,024**	45,510,885	24,955,920
		P1,614,488,192	P1,652,402,460	P1,290,550,859

Personnel costs are as follows:

	Note	2018	2017	2016
Salaries and wages		**P268,125,674**	P214,117,350	P182,983,140
Other short-term employee benefits		**65,181,414**	37,665,329	19,773,104
Postemployment benefits	*21*	**12,183,420**	11,181,860	8,356,180
		P345,490,508	P262,964,539	P211,112,424

18. INCOME TAX

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

	2018	2017	2016
Income before income tax	**P482,878,601**	P721,746,362	P583,461,877
Income tax expense at statutory income tax rate (30%)	**P144,863,580**	P216,523,909	P175,035,563
Additions to (reductions in) income tax:			
Impairment loss on goodwill	**33,280,199**	-	-
Nontaxable income	**(8,724,733)**	(6,087,628)	(6,925,534)
Nondeductible expenses	**5,433,994**	15,653,680	1,725,224
Mark-to-market loss (gain) on marketable securities	**3,570,926**	(147,361)	11,141,102
Income subjected to final tax	**(553,175)**	(215,749)	(227,209)
Gain on sale of marketable securities	**(464,468)**	-	-
Others	**1,424,263**	3,153,523	2,343,831
	P178,830,586	P228,880,374	P183,092,977

The components of the Group's deferred tax recognized in comprehensive income are as follows:

	2018	2017	2016
Amount charged (credited) to profit or loss	**P47,432,314**	(P1,160,984)	P28,271,202
Amount charged (credited) to other comprehensive income	**5,304,510**	578,076	(643,330)
	P52,736,824	(P582,908)	P27,627,872

The components of deferred tax assets (liabilities) are as follows:

As at December 31, 2018

	Beginning	Movement	Ending
Items Recognized in Profit or Loss			
Unamortized past service cost	**P8,462,746**	**P1,540,180**	**P10,002,926**
Allowance for impairment losses on trade and other receivables	**4,045,557**	**-**	**4,045,557**
NOLCO	**1,466,822**	**1,135,635**	**2,602,457**
Accrued expenses	**2,788,503**	**(371,403)**	**2,417,100**
Unrealized foreign exchange gain	**476,920**	**(211,036)**	**265,884**
Prepayments	**(310,551)**	**-**	**(310,551)**
Retirement benefits asset	**(6,521,277)**	**879,006**	**(5,642,271)**
Accrued license fee income	**-**	**(50,404,696)**	**(50,404,696)**
	10,408,720	**(47,432,314)**	**(37,023,594)**
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	**5,030,965**	**(5,304,510)**	**(273,545)**
	P15,439,685	**(P52,736,824)**	**(P37,297,139)**

As at December 31, 2017

	Beginning	Movement	Ending
Items Recognized in Profit or Loss			
Unamortized past service cost	P8,897,303	(P434,557)	P8,462,746
Allowance for impairment losses on trade and other receivables	3,241,935	803,622	4,045,557
Accrued expenses	2,387,472	401,031	2,788,503
NOLCO	-	1,466,822	1,466,822
Unrealized foreign exchange losses	427,037	49,883	476,920
Prepayments	-	(310,551)	(310,551)
Retirement benefits asset	(5,706,011)	(815,266)	(6,521,277)
	9,247,736	1,160,984	10,408,720
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	5,609,041	(578,076)	5,030,965
	P14,856,777	P582,908	P15,439,685

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of that date.

The TRAIN Law, which took effect on January 1, 2018, represents Package 1 of the comprehensive tax reform program of the current administration that aims to correct gaps in the present tax system, allowing it to be more effective and equitable. Below are the salient points of the TRAIN Law:

a. Reduction in personal income taxes
b. Changes in capital income taxes
- Final withholding tax on interest from foreign-currency deposits increased to 15% (from 7.5%)
- Capital gains tax on unlisted/untraded shares increased to 15% (from 5%/10%)
- Stock transaction tax on listed/traded shares increased to 6/10 of 1% (from 1/2 of 1%)

c. Amendments to other taxes
c.1 Value-added tax (VAT)
- Certain VAT zero-rated transactions to become subject to 12% VAT upon implementation of VAT refund system
- VAT exemption threshold for sale of goods and services increased to Php3M (from Php1.9M)
- Included in VAT-exempt transactions, among others: Transfers of properties pursuant to a tax-free merger; Association dues, membership fees, and other assessments and charges collected by homeowners associations and condominium corporations

c.2 Increased documentary stamp taxes (DST) rates by 50% to 100%
c.3 Excise taxes
- Revised excise taxes on cigars and cigarettes, manufactured oils and other fuels, petroleum products, automobiles, and minerals
- Expanded scope of excise tax to include non-essential services and sweetened beverages

Although most of the changes will affect individuals, the TRAIN Law also introduced changes to income tax, VAT and excise taxes.

19. LEASE COMMITMENTS

a. Finance Lease

Lottery Equipment. The contracts for the supply of online lottery system with Scientific Games and Intralot contain leases which are classified as finance lease. These are included as part of Lottery equipment under "Property and equipment" in the consolidated statements of financial position. The details as at December 31 are as follows:

	2018	2017
Lottery equipment under finance lease	**P452,082,222**	P587,136,528
Less accumulated depreciation	**421,173,427**	483,477,209
	P30,908,795	P103,659,319

The additions amounted to nil in P35.7 million in 2018 and 2017, respectively. The disposals amounted to P143.7 million and P38.4 million in 2018 and 2017.

Future minimum lease payments under these finance leases together with the present value of the minimum lease payments as at December 31 are as follows:

	2018	2017
Within one year	**P22,253,929**	P45,340,826
After one year but not more than five years	**16,690,446**	38,944,375
Total future minimum lease payments	**38,944,375**	84,285,201
Less amount representing interest	**3,569,901**	9,422,217
Present value of lease payments	**35,374,474**	74,862,984
Less current portion of Obligations under finance lease	**19,379,463**	39,488,510
Noncurrent portion of obligations under finance lease	**P15,995,011**	P35,374,474

The contracts of the Parent Company are until July 31, 2019 while the contract of TGTI with Intralot is until September 30, 2020, which are the expiration dates of the respective ELAs with PCSO. Payments are based on a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of lottery operations under the respective systems of Scientific Games and Intralot. These payments include the non-lease elements which are presented as "Software and license fees" under "Cost and expenses' in the consolidated statements of income (Notes 14 and 17).

b. Operating Lease

As Lessor
The Parent Company leases to PCSO online lotto equipment and accessories for a period of 1 years and 7 months until July 31, 2019 as provided in the 2018 Amended ELA. The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales of lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher (Note 2).

TGTI leases to PCSO online keno equipment and accessories for a period of 10 years from the time the ELA will run in commercial operations. Rental payment is based on certain percentage of gross amount of online keno games from the operation of all PCSO's terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher (Note 2).

Rental income amounted to P1,448.3 million in 2018, P1,840.5 million in 2017, and P1,579.7 million in 2016. Future minimum rental income for the remaining lease term are as follows:

	2018	2017
Within one year	**P180,418,750**	P182,252,083
After one year but not more than five years	**73,620,000**	141,400,000
	P254,038,750	P323,652,083

As Lessee

a. The Parent Company leases some office spaces for periods of one to three years up to 2019. The lease agreements provide for minimum rental commitments with annual rental escalation rate of 5% to 10%.

b. LotoPac, LCC, Nine Entities and FRI lease some retail outlets and office spaces that are renewed annually at the option of all companies.

c. TGTI leases office space for a period of five years with annual escalation rate of 5% to 10% and warehouses for a period of four to seven years with annual escalation rate of 8% effective on the third year.

The above operating leases have no restrictions and contingent rentals.

Rent expense amounted to P126.6 million in 2018, P87.1 million in 2017, and P52.6 million in 2016. Future minimum rental expense for the remaining lease terms are as follows:

	2018	2017
Within one year	**P71,155,328**	P87,509,954
After one year but not more than five years	**19,180,225**	42,407,810
	P90,335,553	P129,917,764

20. OTHER INCOME

"Others" under Other income consist of:

	Note	**2018**	2017	2016
Excess input VAT		**P32,627,219**	P28,754,377	P10,083,976
Accreted interest income	*2, 5*	**12,556,482**	-	-
Service income		**5,163,930**	11,835,830	-
Gain on sale of:				
Marketable securities		**1,548,225**	-	-
Property equipment		**1,038,518**	155,142	29,997
Foreign exchange losses		**(845,519)**	(1,887,440)	(1,620,150)
Others		**4,341,626**	2,471,165	4,414,964
		P56,430,481	P41,329,074	P12,908,787

On September 1, 2005, the Commissioner of Bureau of Internal Revenue (BIR) signed Revenue Regulations (RR) No. 16-2005, which took effect on November 1, 2005. The RR, among others, introduced the following changes:

a. The government or any of its political subdivisions, instrumentalities or agencies, including government-owned or controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or of services taxed at 12% VAT pursuant to Sections 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5% of the gross payment thereof; and

b. The 5% final VAT withholding rate represents the net VAT payable of the seller. The remaining 7% effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs, in lieu of the actual input VAT. Should actual input VAT exceed 7% of gross payments, the excess may form part of the seller's expense or cost. On the other hand, if actual input VAT is less than 7% of gross payment, the difference must be closed to income.

The Group recognizes the excess of standard input VAT over actual input VAT as income which is presented as "Excess input VAT" in the consolidated statements of income.

Others consist of mainly miscellaneous income, bank charges and parts and seller's prize from winning tickets exceeding P10,000.

21. RETIREMENT PLAN

The Parent Company, TGTI, LCC and Nine Entities have funded, noncontributory defined benefit plans covering substantially all of its regular employees. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2018. Valuations are obtained on a periodic basis.

The Retirement Plans of the Parent Company, LCC and TGTI provide a retirement benefit equal to 22.5 days pay for every year of credited service. The Plans meet the minimum retirement benefit specified under Republic Act 7641.

The retirement plans of the Parent Company, LCC and TGTI are administered by a trustee bank under the supervision of a Retirement Plan Committee (Committee), as appointed by the Companies in the Trust Agreement. The Trustee is responsible for the investment strategy of the retirement plans.

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Defined Benefits Liability (Assets)		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Balance at beginning of year	**P84,212,651**	P73,976,755	P60,193,176	**P85,569,924**	P74,299,987	P55,459,736	**(P1,357,273)**	(P323,232)	P4,733,440
Acquisition of Nine Entities	**-**	716,002	-	**-**	-	-	**-**	716,002	-
Recognized in Profit or Loss									
Current service cost	**12,297,526**	11,438,381	8,379,592	**-**		-	**12,297,526**	11,438,381	8,379,592
Interest expense	**4,749,206**	3,980,142	2,943,446	**-**		-	**4,749,206**	3,980,142	2,943,446
Interest income	**-**	-	-	**4,998,686**	4,309,150	3,104,998	**(4,998,686)**	(4,309,150)	(3,104,998)
Interest on effect of asset ceiling	**-**	-	-	**(135,374)**	(72,487)	(138,140)	**135,374**	72,487	138,140
	17,046,732	15,418,523	11,323,038	**4,863,312**	4,236,663	2,966,858	**12,183,420**	11,181,860	8,356,180
Remeasurements Recognized in Other Comprehensive Income									
Actuarial (gains) losses arising from:									
Experience adjustments	**(691,375)**	(2,846,877)	6,218,556	**-**	-	-	**(691,375)**	(2,846,877)	7,558,089
Changes in financial assumptions	**(22,323,512)**	(2,475,821)	(4,131,463)	**-**	-	-	**(22,323,512)**	(2,475,821)	(4,131,463)
Changes in demographic assumptions	**(5,235,516)**	(575,931)	(833,212)	**-**	-	-	**(5,235,516)**	(575,931)	(833,212)
Return on plan asset excluding interest	**-**	-	-	**(7,194,150)**	(3,170,012)	(1,013,343)	**7,194,150**	3,170,012	1,013,343
Effect of asset ceiling	**-**	-	-	**(3,374,553)**	(801,697)	1,462,325	**3,374,553**	801,697	(1,462,325)
	(28,250,403)	(5,898,629)	2,593,414	**(10,568,703)**	(3,971,709)	448,982	**(17,681,700)**	(1,926,920)	2,144,432
Others									
Benefits paid	**(96,206)**	-	(132,873)	**(96,206)**	-	(132,873)	**-**	-	-
Contributions paid	**-**	-	-	**1,000,000**	11,004,983	15,557,284	**(1,000,000)**	(11,004,983)	(15,557,284)
	(96,206)	-	(132,873)	**(96,206)**	11,004,983	15,424,411	**(1,000,000)**	(11,004,983)	(15,557,284)
Balance at end of year	**P72,912,774**	P84,212,651	P73,976,755	**P80,768,327**	P85,569,924	P74,299,987	**(P7,855,553)**	(P1,357,273)	(P323,232)

The changes in the effect of asset ceiling are as follows:

	2018	2017
Balance at beginning of period	**P2,374,952**	P1,500,768
Remeasurement gain on the change in the effect of asset ceiling	**3,374,553**	801,697
Interest expense on effect of asset ceiling	**135,374**	72,487
Balance at end of period	**P5,884,879**	P2,374,952

The fair value of plan assets consist of the following:

	2018	2017
Cash and cash equivalents	**P2,742,797**	P8,184,393
Debt instruments - government bonds	**44,713,835**	36,250,630
Debt instruments - other bonds	**34,209,897**	33,469,715
Unit investment trust funds	**2,478,901**	2,813,184
Others	**(3,377,103)**	4,852,002
	P80,768,327	P85,569,924

All debt instruments and unit investment trust funds have quoted prices in active markets.

The Parent Company, TGTI and LCC expect to contribute P5.0 million, P10.0 million and P1.5 million to the benefit plan in 2019.

The principal assumptions used in determining the retirement liability of the Group are shown below:

	2018		
	Parent Company	**LCC**	**TGTI**
Discount rate	**8.06%**	**8.04%**	**7.53%**
Future salary increase	**8.00%**	**5.00%**	**8.00%**

	2017		
	Parent Company	LCC	TGTI
Discount rate	5.60%	5.70%	5.70%
Future salary increase	8.00%	5.00%	10.00%

Assumptions for mortality rates are based on The 2001 CSO Table - Generational (Scale AA, Society of Actuaries). Assumptions for disability rates are based on The Disability Study, Period 2 Benefit 5 (Society of Actuaries).

As at December 31, 2018, the weighted average duration of the retirement liability of the Group is 10.2 years to 32.2 years.

Maturity analysis of total benefit payments of the Group:

	Expected Benefit Payments			
Period	Parent Company	LCC	TGTI	Total
2019	P3,783,957	P2,792,356	P8,315,156	P14,891,469
2020	3,826,621	368,034	-	4,194,655
2021	6,114,408	48,830	-	6,163,238
2022	3,240,482	53,461	288,841	3,582,784
2023	1,082,732	86,166	-	1,168,898
2024-2028	21,859,643	5,145,550	-	27,005,193

As at December 31, 2018, the reasonable possible changes to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below:

	1 Percent Increase	1 Percent Decrease
Discount rate	(P6,978,056)	P8,510,445
Future salary increase rate	7,949,299	(6,656,643)

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market risk.

Asset-liability Matching (ALM)
The Group does not perform any ALM study. The overall investment policy and strategy of the retirement plan is based on the Group's suitability assessment, as provided by its trust bank in compliance with the Bangko Sentral ng Pilipinas (BSP) requirements.

22. EARNINGS PER SHARE

The following table presents information necessary to calculate basic and diluted EPS during the year:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	**P302,659,366**	P490,101,221	P397,992,034
Weighted average number of shares outstanding during the year:			
Outstanding capital stock at beginning of year	**423,909,981**	442,681,527	298,443,650
Effect of stock dividend	**-**	-	71,953,537
Effect of acquisition of treasury shares	**(1,113,439)**	(15,256,425)	(1,363,774)
For basic EPS	**422,796,542**	427,425,102	369,033,413
Effect of stock dividend distributable	**422,431,981**	-	–
For diluted EPS	**845,228,523**	427,425,102	369,033,413
Basic EPS	**P0.7159**	P1.1466	P1.0785
Diluted EPS	**P0.3581**	P1.1466	P1.0785

Basic EPS is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the year.

Diluted EPS is calculated in the same manner as basic EPS adjusted for dilutive instruments. The calculation for 2018 includes the effect of the 100% stock dividend declared during the year. The stock dividend will be issued out of the increase in authorized capital stock which is pending approval by the SEC as at December 31, 2018 (Note 15).

23. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies
The Group's principal financial instruments are composed of cash in banks, trade and other receivables, marketable securities, investment in stocks, refundable deposits, guarantee bonds, trade and other current liabilities, obligations under finance lease and installment payable. The main purpose of these financial instruments is to provide financing for the Group's capital expenditures and operations. The Group has various other financial assets and liabilities such as trade and other receivables, refundable deposits, guarantee bonds, trade and other current liabilities, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, equity price risk, liquidity risk and foreign currency risk. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks. The Group's BOD and management review and agree on the policies for managing each of these risks as summarized below:

Credit Risk
The Group's receivables arise mainly from the ELA with PCSO and the license agreement with PGEC. Since the Group has significant concentration of credit risk on its receivable from PCSO and PGEC, it is the Group's policy that all credit terms specified in the ELA and the license agreement are complied with and payment terms are observed. With respect to other receivables, the Group manages credit risk by transacting only with recognized, creditworthy third parties. It is the Group's policy that the BOD approves the major transactions with third parties. Receivable balances are monitored on an ongoing basis with the objective that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which are composed of cash in banks, marketable securities, investments in stocks, refundable deposits and guarantee bonds, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the maximum exposure to credit risk for the Group's financial assets as at December 31, 2018 and 2017 without taking into account any collateral and other credit enhancements:

	Note	2018	2017
Cash in banks	7	**P564,886,238**	P441,177,172
Accounts receivable*	9	**334,550,292**	365,721,051
Marketable securities	8	**155,704,892**	178,482,842
Refundable deposits	10	**34,930,697**	31,828,575
Investments in stocks	11	**455,705,930**	727,998,290
Guarantee bonds**		**42,000,000**	35,000,000
Total credit exposure		**P1,587,778,049**	P1,780,207,930

**Inclusive of noncurrent portion of accrued license fee income of P130.1 million and exclusive of advance payments of P80.6 and P137.6 million as at December 31, 2018 and 2017, respectively.*
***Includes the cash bond under "Other current assets" in the consolidated statements of financial position.*

The table below shows the aging analysis of receivables other financial assets as at December 31, 2018 and 2017:

	2018		
	Neither Past Due nor Impaired	**Impaired**	**Tota**
Accounts receivable	**P163,441,252**	**P -**	**P163,441,25**
Accrued receivables*	**168,015,653**		**168,015,65**
Guarantee bonds**	**42,000,000**	**-**	**42,000,000**
Refundable deposits	**34,930,697**	**-**	**31,828,57**
Other receivables	**3,093,387**	**-**	**3,093,38**
	P411,480,989	**P -**	**P411,480,98**

** Inclusive of noncurrent portion of license fee income of P130.1 million and exclusive of advance payments of P80.6 million.*
*** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.*

	2017		
	Neither Past Due nor Impaired	Impaired	Total
Accounts receivable*	P362,648,778	P -	P362,648,778
Guarantee bonds	35,000,000	-	35,000,000
Refundable deposits	31,828,575	-	31,828,575
Other receivables	3,072,273	-	3,072,273
	P432,549,626	P -	P432,549,626

Receivables that are past due but not impaired are still collectible based on the assessment of debtor's ability to pay and collection agreement.

The table below shows the credit quality of the Group's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties:

	2018			
	Grade A	**Grade B**	**Grade C**	**Total**
At amortized cost:				
Cash in banks	**P564,886,238**	**P -**	**P -**	**P564,886,238**
Accounts receivable*	**166,534,639**	**168,015,653**	**-**	**334,550,292**
Refundable deposits	**-**	**34,930,697**	**-**	**34,930,697**
Guarantee bonds	**-**	**-**	**42,000,000**	**42,000,000**
At FVPL:				
Marketable securities	**155,704,892**	**-**	**-**	**155,704,892**
At FVOCI:				
Investments in stocks	**455,705,930**	**-**	**-**	**455,705,930**
	P1,342,831,699	**P202,946,350**	**P42,000,000**	**P1,587,778,049**

**Inclusive of noncurrent portion of accrued license fee income amounting to P130.1 million and exclusive of advance payments of P80 6 million*

	2017			
	Grade A	Grade B	Grade C	Total
At amortized cost:				
Cash in banks	P441,177,172	P -	P -	P441,177,172
Accounts receivable*	217,626,927	145,021,850	3,072,274	365,721,051
Refundable deposits	-	31,828,575	-	31,828,575
Guarantee bonds	35,000,000	-	-	35,000,000
At FVPL:				
Marketable securities	178,482,842	-	-	178,482,842
At FVOCI				
Investments in stocks	727,998,290	-	-	727,998,290
	P1,600,285,231	P176,850,425	P3,072,274	P1,780,207,930

**Exclusive of advance payments of P137.6 million as at December 31, 2017.*

Grade A pertains to those cash in banks and guarantee bonds that are deposited in reputable banks, investments with reputable publicly listed companies and receivables from PCSO which are consistently collected before the maturity date. Grade B pertains to receivables that are collected on their due dates even without an effort from the Group to follow them up. Grade C pertains to receivables which are collected on their due dates provided that the Group made a persistent effort to collect them.

Equity Price Risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the value of individual stock. The Group's current exposure to equity price risk relates primarily to the Group's quoted marketable securities and investments in stocks. The Group monitors the equity investments based on market expectations. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the BOD.

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's consolidated income before income tax and equity:

Marketable Securities

	Increase (Decrease) in Equity Price	Effect on Consolidated Income before Income Tax
2018		
	5%	**P7,785,245**
	(5%)	**(7,785,245)**
2017		
	5%	P8,924,142
	(5%)	(8,924,142)

Investments in Stocks

	Increase (Decrease) in Equity Price	Effect on Comprehensive Net Income
2018		
	8%	**P36,456,475**
	(8%)	**(36,456,475)**
2017		
	3%	P21,839,949
	(3%)	(21,839,949)

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances and equity securities. To limit this risk, the Group closely monitors its cash flows and ensures that credit facilities are available to meet its obligations as and when they fall due. The Group also has a committed line of credit that it can access to meet liquidity needs.

The Group maintains sufficient cash to finance its operations. Any excess cash is invested in short-term money market placements and equity securities. These are maintained to meet the requirements for additional capital expenditures, maturing obligations and cash dividends.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

					2018
	Less than 3 Months	**3 - 6 Months**	**6 - 12 Months**	**More than 12 Months**	**Total**
Trade and other current liabilities*	**P214,803,091**	**P -**	**P10,000,000**	**P17,356,924**	**P242,160,015**
Obligations under finance lease**	**4,636,235**	**9,689,731**	**21,048,508**	**-**	**35,374,474**
Installment payable	**9,205,042**	**-**	**-**	**-**	**9,205,042**
	P228,644,368	**P9,689,731**	**P31,048,508**	**P17,356,924**	**P286,739,531**

** Excluding statutory liabilities amounting to P2.9 million.*
*** Inclusive of noncurrent portion*

					2017
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P348,681,890	P -	P -	P121,445,297	P470,127,187
Obligations under finance lease**	13,860,420	17,051,056	8,577,034	35,374,474	74,862,984
Installment payable**	670,207	670,207	1,340,414	2,762,995	5,443,823
	P363,212,517	P17,721,263	P9,917,448	P159,582,765	P550,433,994

** Excluding statutory liabilities amounting to P22.8 million.*
*** Inclusive of noncurrent portion*

Foreign Currency Risk

The Group has transactional currency exposures. Such exposure arises from cash in banks and payables to certain suppliers which are denominated in U.S. dollar (US$). The Group's financial instruments which are denominated in foreign currency include cash and consultancy and software and license fees payable. The Group maintains a US$ account to match its foreign currency requirements.

As at December 31, 2018 and 2017, assets and liabilities denominated in US$ include cash in banks amounting to P20.5 million ($391,254) and P34.9 million (US$0.7 million), and consultancy and software and license fees payable amounting to P37.6 million ($716,411) and P55.7 million (US$1.0 million), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P52.46 and P49.92 to US$1, the Php to US$ exchange rates, as at December 31, 2018 and 2017, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Php-US$ exchange rates, with all other variables held constant, of the Group's consolidated income before tax. There is no other impact on the Group's equity other that those already affecting profit or loss.

Increase (Decrease) in US$ Exchange Rate		Effect on Income before Income Tax	Effect on Equity
2018			
	5%	**(P691,698)**	**(P484,188)**
	(5%)	**691,698**	**484,188**
2017			
	5%	(P754,779)	(P528,345)
	(5%)	754,779	528,345

The increase in US$ rate means stronger US$ against Php while the decrease in US$ means stronger Php against the US$.

Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, reacquire its own shares, or issue new shares. The Group monitors capital on the basis of current ratio and debt-to-equity ratio. The Group's strategy, which was unchanged from prior year, was to maintain current ratio and debt-to-equity ratio at manageable levels.

The Group defines capital as capital stock, additional paid-in capital, treasury stock stock dividend distributable and retained earnings. Other components of equity are excluded from capital for purposes of capital management.

The Group's current ratio, calculated as total current assets over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at December 31, 2018 and 2017 are as follows:

Current Ratio

	2018	2017
Current assets	P1,156,967,831	P1,243,786,537
Current liabilities	289,167,455	575,634,737
Current ratio	4.00:1.00	2.16:1.00

Debt-to-Equity Ratio

	2018	2017
Total liabilities	P342,459,605	P613,772,206
Total equity	1,760,619,776	2,020,074,872
Debt-to-equity ratio	0.19:1.00	0.30:1.00

To address the prohibition in maintaining excess retained earnings over the paid in capital under Sec. 43 of the Corporation Code, the Group intends to continuously declare dividends and is considering various options in line with its business objectives and strategies and state of the gaming industry.

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at December 31, 2018 and 2017:

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash	**P571,260,257**	**P571,260,257**	P447,130,976	P447,130,976
Accounts receivable*	**334,550,292**	**334,550,292**	365,721,051	365,721,051
Refundable deposits	**34,930,697**	**34,930,697**	31,828,575	31,828,575
Guarantee bonds	**42,000,000**	**42,000,000**	35,000,000	35,000,000
At FVPL:				
Marketable securities	**155,704,892**	**155,704,892**	178,482,842	178,482,842
At FVOCI:				
Investments in stocks	**455,705,930**	**455,705,930**	727,998,290	727,998,290
	P1,594,152,068	**P1,594,152,068**	P1,786,161,734	P1,786,161,734
Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	**P242,160,015**	**P242,160,015**	P470,127,187	P470,127,187
Obligations under finance lease (inclusive of noncurrent portion)	**35,374,474**	**35,374,474**	74,862,983	74,862,983
Installment payable (inclusive of noncurrent portion)	**9,205,042**	**9,205,042**	5,443,823	5,443,823
	P286,739,531	**P286,739,531**	P550,433,993	P550,433,993

**Inclusive of noncurrent portion of accrued license fee income amounting to P130.1 million and exclusive of advances amounting to P80.6 million as at December 31, 2018 and exclusive of advances of P137.6 million as at December 31, 2017.*
***Excluding statutory liabilities of P2.9 million and P22.8 million in 2018 and 2017, respectively.*

The carrying amounts of cash, trade and other receivables (excluding accrued license fee income), deposits and trade and other current liabilities approximate their fair values due to the short-term nature of the transactions.

The carrying amount of accrued license fee income is based on present value using a discount rate that approximates the prevailing market rate.

The fair values of marketable securities and investments in stocks are based on quoted market prices.

The carrying amounts of guarantee bonds, deposits and obligations under finance lease, and installment payable approximate their fair value since the Group does not anticipate that the effect of discounting using the prevailing market rate is significant.

	Level 1	Level 2	Level 3	Total
Marketable Securities				
2018	**P155,704,892**	P -	P -	**P155,704,892**
2017	178,482,842	-	-	178,482,842
Investments in Stocks				
2018	**455,705,930**	-	-	**455,705,930**
2017	727,998,290	-	-	727,998,290

There were no transfers between Levels in 2018 and 2017.

CORPORATE INFORMATION

Manila Business Center
U2803 A & B East Tower Philippine Stock Exchange Centre Exchange Road, Ortigas Center Pasig City, 1605, Philippines
Tel. No.: (+632) 584-1700;
Fax No.: (+632) 571-7464

U1901-B West Tower Philippine Stock Exchange Centre Exchange Road, Ortigas Center Pasig City, 1605, Philippines
Tel. No. : (+632) 636-5281;
Fax No. : (+632) 636-1657

Cebu Business Center
16/F Metrobank Plaza F. Osmeña Blvd., 6000, Cebu City
Tel. No.: (+6332) 255-0721 Fax No.: (+6332) 255-0720

Service and Logistics Centre
J. King Warehouse No. 8 Holy Name St., Mabolo, 6000, Cebu City
Fax No.: (+6332) 238-9869

Investor Relations and Shareholders' Concerns

Ma. Virginia V. Abo-Hamda
Chief Financial Officer
Email: contactus@pacificonline.com.ph
Tel. No.: +63(02) 584-1700;
Fax No.: +63(02) 571-7464

LEGAL COUNSEL

Tan Venturanza Valdez Law Offices
2704 East Tower Philippine Stock Exchange Centre Exchange Road, Ortigas Center Pasig City, 1605, Philippines
Tel. No.: (+632) 632-0905 to 10;
Fax No.: (+632) 635-4703

Tan Acut Lopez & Pison
23rd Floor, East Tower Philippine Stock Exchange Centre Exchange Road, Ortigas Center Pasig City, 1605, Philippines
Tel. No.: (+632) 635-3671 to 78;
Fax No.: (+632) 632-1876
Website: www.talfirm.com
Email: talfirm@talfirm.com

INDEPENDENT PUBLIC AUDITOR

R.G. Manabat & Co.
The KPMG Center, 9/F 6787 Ayala Avenue, Makati City, 1226, Philippines
Tel. No.: (+632) 885-7000; Fax No.: (+632) 894-1985
Website: www.kpmg.com.ph
Email: ph-inquiry@kpmg.com.ph

STOCK TRANSFER AGENT

Professional Stock Transfer, Inc.
1003 10/F City & Land Mega PlazaADB Avenue corner Garnet Road Ortigas Center, Pasig City, 1605, Philippines
Tel. No.: (+632) 687-4053
Fax No.: (+632) 687-2733

PACIFIC ONLINE
SYSTEMS CORPORATION
LOTO

U2803 A & B East Tower Philippine Stock
Exchange Centre Exchange Road, Ortigas
Center Pasig City, 1605, Philippines