2019
ANNUAL REPORT

PACIFIC ONLINE
SYSTEMS CORPORATION
LOTO

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MISSION, VISION AND CORE VALUES

OUR MISSION

Create Hope. Live Life.

OUR VISION

To be the Gaming Partner of Choice.

OUR 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.

ABOUT THE COMPANY

Pacific Online Systems Corporation (Pacific Online) is engaged in the management of online lottery systems for the Philippine gaming industry. It was incorporated in November 1993 and was publicly listed in 2007 with the stock symbol LOTO.

In 1995, the Company entered into an Equipment Lease Agreement (ELA) with Philippine Charity Sweepstakes Office (PCSO) for its lotto operations in Visayas and Mindanao and subsequently was granted entry into the Luzon lotto market in June 2012.

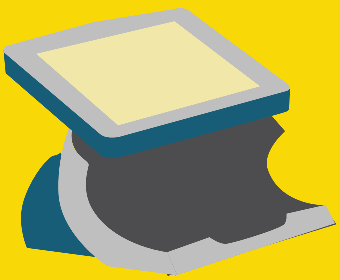
Through its subsidiary Total Gaming Technologies Inc. (TGTI), Pacific Online leases Keno terminals and online operating system nationwide to PCSO through an ELA signed in 2004. Also included in the Company's business portfolio is the operation of more than 200 PCSO retail outlets nationwide through another subsidiary, Loto Pacific Corporation.

In order to provide products and services to its customers, a number of important supply chain routes are in place, such as lottery terminals and draw equipment, equipment spare parts, third party warehousing/logistics, and co-location facilities for data centers, to name a few.

Pacific Online has a policy of forming partnerships with other organizations, which complement its own offerings and bring increased benefits to its customers.

The Company's technology partners for the online lottery system are Scientific Games International, Inc. (SGI) and Intralot S.A. Integrated Lottery Systems & Services (Intralot). SGI and Intralot are both leaders in the global lottery and gaming industry with experience of over 40 years and 20 years, respectively. SGI has been working with over 100 lotteries in 50 countries in 6 continents; while Intralot has presence in 57 jurisdictions in 5 continents. Both are members of the World Lottery Association (WLA). They are certified by various international accreditation agencies.

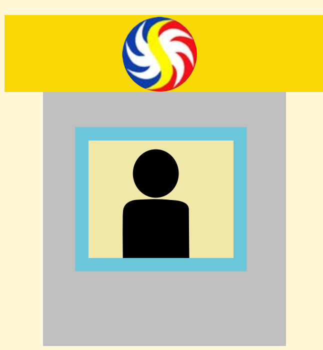
BY THE NUMBERS



5,618
Terminals nationwide

3,785 *Lotto*	**1,833** *Keno*

Retail Stores nationwide



233

781

Total Number of Employees

P990M
Net Revenues

P2.2B
Total Capitalization

MESSAGE TO OUR SHAREHOLDERS

"Pacific Online has accepted the challenge of adapting its strategies to the changes of the industry."

With over two decades of experience and expertise in the industry, Pacific Online Systems Corporation (Pacific Online) has paved the way to provide a reliable and reputable lottery gaming platform to face the challenges of a new decade. The ever-changing market demands were met through the use of advances in technology available in the landscape of the Philippine gaming industry.

Your Company maintains its long-standing commitment to creating hope in partnership with state-run Philippine Charity Sweepstakes Office (PCSO). Together we nurture the optimism and aspirations of our stakeholders, who are PCSO's agents, players and beneficiaries, by creating business opportunities and generating funds for charity through the application of quality gaming technologies.

The fiscal year of 2019 saw more challenges. along with unforeseen events such as the temporary closure of lotto and keno operations for about 2 months. The competition provided by the nationwide expansion of PCSO's Small Town Lottery (STL) operations over the last two years have cut and cannibalized the lotto digit games. Furthermore, the imposition of prize taxes and higher documentary sales taxes (DST) on lottery prizes in sales has continued to contribute to the decline of the market's appetite for lottery games in 2019. Despite the return of the ticket price of the keno games to include taxes, the accompanying lower payout further decreased keno sales by about two thirds in 2019.

As a result, your Company's revenues fell from P1.94 billion in 2018 to P946.6 million in 2019, representing a 49 percent decrease. Operating income likewise dropped from P321 million in 2018 to an operating loss of P308 million in 2019. Net income decreased by P622 million, from P304 million in 2018 resulting to a net loss of P318 million in 2019.

Despite the drop in sales, Lotto continues to be a key source of revenue, contributing 43 percent of the Company's consolidated total gross revenues in 2019, while Pacific Online's subsidiaries contributed 57 percent. Total Gaming Technologies, Inc. (TGTI) ended the year with 1,833 terminals in 2019, while Lucky Circle Corporation finished the year with 234 outlets.

There is now no legal impediment for the Company to lease to PCSO's lotto operations in Luzon. The Company can now install lotto terminals to Luzon agents whose per capita sales are more than double than the lottery sales of the average VISMIN agent. Furthermore, Luzon agents are more accessible for equipment repairs and maintenance. The Company continues to work closely with the PCSO in launching more creative and innovative marketing programs to help improve lottery sales nationwide.

The keno game exhibited a significant decline due to prize structure changes. However, PCSO has acknowledged that keno is still a viable revenue source for its charity fund and has expressed the urgent need to improve sales, which have been severely hampered in the past 2 years. TGTI has been working closely with PCSO to come up with an improved keno game to increase revenues.

Pacific Online has accepted the challenge of adapting its strategies and evolving itself to the changes of the industry. Moreover, your Company has maintained its ISO certification for Quality Management (ISO 9001:2015) and Information Security Management (ISO/IEC 27001:2013), with SGS as its certifying body since 2015; proving once again its topflight quality within the industry. With technology at the center of it all, your Company has fulfilled the rigorous demands of the lottery customers of the country, in order to help fulfill their desire to fund charity projects and for a better future. We are proactive in finding opportunities, believing that we must not standby idly, we create our own opportunities. As PCSO is expected to hold a re-bidding for its Nationwide Online Lottery System (NOLS) this year, we are confident that the Company is ready to assert itself as a front-runner given our track record of over 20 years in the lottery business in collaboration with our technology partners that are global leaders in the gaming industry.

As we enter the new decade, we remember that while maintaining a profit is paramount, we also have to stand by our duty to help steward the nation, environment, and the world. Over the decades, we have come to understand the synergy of working together with our stakeholders, local communities, customers, employees and investors in order to build towards our shared vision. Henceforth, we are proud to initiate our maiden Sustainability Report, prepared in accordance with Global Reporting Initiative (GRI) Standards, presenting our performance on the economic, social, environmental and governance issues.

Due to our steadfast commitment to full transparency and accountability, we emphasize that Pacific Online's network offers the most efficient and transparent online lottery system promoting responsible gaming, complete with the proper monitoring and auditing procedures to ensure the remitting of the proper dues and revenues to PCSO and to its charity fund, and taxes to the government. We believe that the backbone of a sustainable and legitimate program for the government's charity work remains with the online gaming sector.

Even if the challenges in the current lottery climate persist, Pacific Online chooses to bravely face them, remaining optimistic and confident that the recent hampered performance will only be a blip in the radar. At Pacific Online, our greatest asset has always been our people. We keep in mind that the Company would not have achieved our greatest heights without them as our building blocks, and that by renewing our commitment in them, the company can re-affirm its position as a market leader and innovator in the gaming industry.

WILLY N. OCIER
Chairman & President

INTRODUCING THE TEAM

JOSEPH C. TAN
Independent Director

LAURITO E. SERRANO
Independent Director

JERRY C. TIU
Independent Director

REGINA O. REYES
Director

HENRY N. OCIER
Director

BOARD OF DIRECTORS

MA. VIRGINIA V. ABO-HAMDA
Director

WILLY N. OCIER
Chairman & President

ARMIN ANTONIO B. RAQUEL-SANTOS
Director

TARCISIO M. MEDALLA
Director

DIRECTORS

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

WILLY N. OCIER, Filipino, 63, is the Chairman and President of the Company and a Director since July 29, 1999. He is an Executive Director and Co-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., and Abacore Capital Holdings Inc. He also serves as the Chairman, Chief Executive Officer and President 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. In recognition of Mr. Ocier's corporate leadership and role in providing employment opportunities to Filipinos, the University of Batangas conferred him a degree in Doctor of Humanities, honoris causa.

TARCISIO M. MEDALLA, Filipino, 71, is a Director of the company since December 10, 2001. He is currently the Chairman and President of listed firm Paxys, Inc. He is also a Director of All Asia Customer Services Holdings Ltd., the principal shareholder of Paxys, Inc. 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 Business School. He is a Certified Public Accountant.

HENRY N. OCIER, Filipino, 60, is a Director of the company since June 29, 2009. He serves as Senior Manager for Corporate Social Responsibility for Belle Corporation. He currently holds the position of President & 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, 55, 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, 60, 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, 52, 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.

LAURITO E. SERRANO, Filipino, 59, 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 Independent Director, Chairman of the Audit and Compliance Committee and a member of the Risk Oversight Committee of Rizal Commercial Banking Corporation. He is likewise an Independent Director of the APC Group, Inc., 2GO Group Inc., and Axelum Resources Corp., and a director of MRT Development Corporation. Mr. Serrano is a former partner of the Corporate Finance Consulting Group of SGV & Co.. He is a Philippine Certified Public Accountant and has a Master's degree in Business Administration from Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance.

JERRY C. TIU, Filipino, 63, 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 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.

JOSEPH C. TAN, Filipino, 62, is the Founding Partner of MOST Law Firm from September 2006 to present. 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. He is currently an Independent Director of 2GO Group, Inc., Premium Leisure, Corp., and LMG Chemicals Corporation. He was also 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 (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).

CORPORATE SECRETARIES

MR. A. BAYANI K. TAN, Filipino, 64, 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 Group of Mutual Fund Companies (since 1997), Premium Leisure Corporation (since December 1993, Publicly-Listed), Sterling Bank of Asia Inc (A Savings Bank) (since December 2006), 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). 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), Managing Trustee of the SCTan Foundation, Inc. (since 1986), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013), Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011) and Trustee of Guimaras Forest Foundation, Inc. (since September 2019), Reintegration for Care and Wholeness (RCW) Foundation, Inc. (since April 2014) and St. Scholastica's College Manila (since October 2019). 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). Mr. Tan placed 6th in the bar examinations in 1981. 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, 48, 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, and Crown Asia Chemicals 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.

MANAGEMENT TEAM

DIVISION HEADS

CARMELITA DL. CHAN
Online Lottery Head

MA. CONCEPCION T. SANGIL
Human Resources Management Head

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

GRACE L. GATDULA
Administration Head & Compliance Officer

HEADS OF SUBSIDIARIES

ANTONIO P. REYES
Chief Operating Officer,
Total Gaming Technologies, Inc.

LUCILA A. TAGUBA
President,
Lucky Circle Corporation

DEPARTMENT HEADS

CHRISTOPHER C. VILLAFLOR
Central Systems & Network Management

ROMEO J. ROQUE
Agent Management

VALENTINO L. KINTANAR
Technical Services

IRENE L. BAUTISTA
Controllership

ANNA JOSEFINA G. ESTEBAN
Internal Audit

MISCHEL GABRIELLE O. MENDOZA
Corporate Planning / IMR / Risk Officer

MA. MELIZA C. ROMILLO
MIS/IT / Data Protection Officer

CORPORATE SECRETARIES

ATTY. JASON C. NALUPTA
Asst. Corporate Secretary

ATTY. A. BAYANI K. TAN
Corporate Secretary

2019 was a challenging year for the Company. Curveballs and unexpected events such as the PCSO games closure aggravated the weakening sales this year. Pacific Online practiced belt-tightening to make up for the decrease in income. Despite these challenges, the Company is confident that with its continued emphasis on its core values of quality and service and trimming the fat and going back to its basic essence as a company, the next year can see Pacific Online returning to the path of continued sustainable growth.

EQUIPMENT LESSOR FOR LOTTO

Pacific Online ended the year 2019 with a total of 3,785 terminals installed, that generated P7.13 billion in lotto sales. This was a 37% decrease versus the previous year's revenues of P11.24 billion. The decline in lotto sales can be partially attributed to the Documentary Stamp Tax (DST) implementation on July 23, 2018 which increased the minimum lotto bet amount by 20 percent.

Terminal installations for the year declined by 6 percent compared to 2018's 4,029 installations. Visayas had the most number of installed terminals at 50 percent followed by Mindanao at 38 percent and Luzon at 13 percent for the year ending 2019.

The jackpot games decreased by 35 percent or P2.11 billion while the Lotto digit games decreased by 43 percent or P1.60 billion compared to 2018 sales figures. The decrease in jackpot sales can partially be attributed to a slowdown after the previous year's record high 6/58 jackpot of P1.18 billion, hit in October 2018. For comparison, 2019's jackpot high was P244.93 million for 6/58, hit in October 2019. The decrease in Lotto digit sales can generally be attributed to the competition provided by PCSO's Small Town Lottery (STL) whose operations found a home ground in the Company's territories. This year, the names of the lotto digit games, including our top selling game Swertres, were changed by PCSO to generic names. These names, which were originally coined specifically for the lottery, were re-assigned to STL, adversely affecting the brand recall and causing confusion amongst players, drawing them towards STL and away from the lotto digit games.

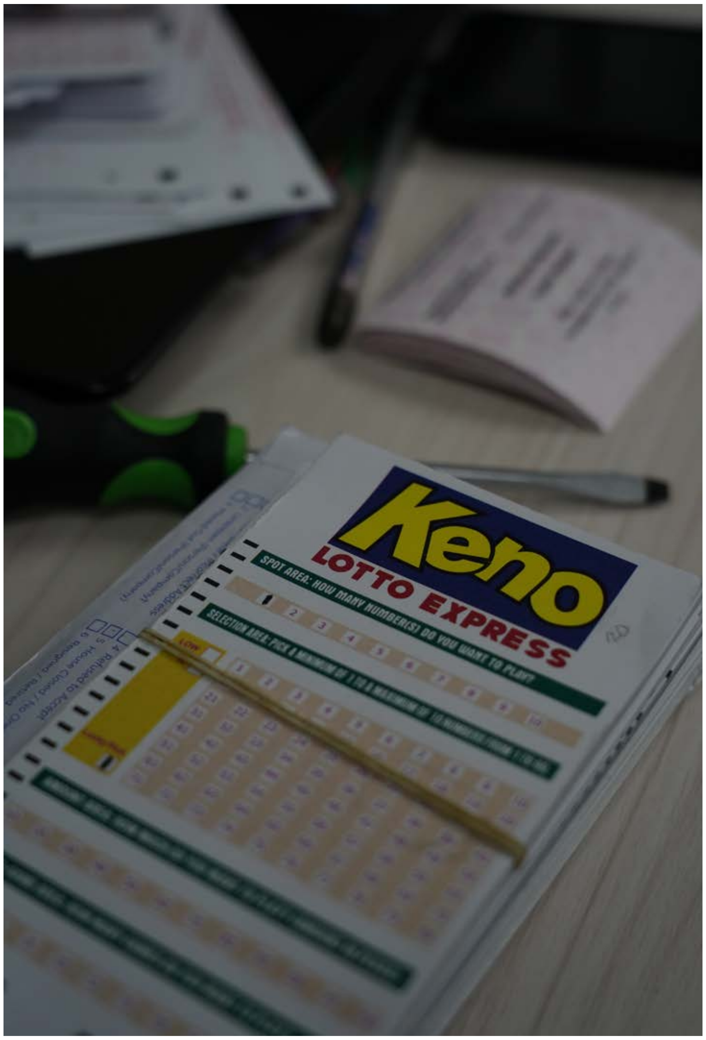
In July 2019, the Company maintained its certification for its ISO/IEC 27001:2013 Information Security Management and its Quality Management System ISO 9001:2015 with an audit conducted by Societe Generale de Surveillance (SGS). On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. For the year 2020, the Company is readying for the bidding for the Nationwide Online Lottery System (NOLS) provider. In the meantime, the Company has been expanding its lottery network into Luzon, after it has been ruled that there is no longer a territorial restriction for this. It is also planned to leverage the existing keno network to also offer the lotto games. 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)

TGTI ended the year with a total of 1,833 terminals nationwide, which generated keno sales of P1.75 billion for 2019. Luzon agents contributed 89 percent of the total sales or P1.56 billion, while Vismin outlets covered the remaining 11 percent or P194 million of the total sales. Terminal installations lowered by 25 percent or a decrease of 621 terminals for 2019 as compared to 2,454 terminals for yearend 2018. With this decline in number of terminals, keno sales declined by 60 percent or P2.64 billion as compared to last year's sales of P4.4 billion. The decrease was partially 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. Another major factor in the decline of sales was the suspension the sale of PCSO games on July 27, 2019, which was only lifted on September 27 for keno, causing 2 months of lost sales.

On October 1, 2019, the ELA was amended to a lower lease rate, inclusive of VAT. The minimum price per keno bet was reduced from Twelve Pesos (P12.00) to Ten Pesos (P10.00), inclusive of DST. However, with this new price, the prize payout structure was also adversely affected. The substantial decline in keno sales was brought about by (1) increase in minimum keno bet amount by 20% in compliance with the implemetation of DST in July 2018; (2) the suspension of PCSO keno sales by the Philippine president for 2 months in 2019; and (3) adjustment of the prize structure due to amendment of ELA in October 2019.

With the ELA of TGTI with the Company due to expire on October 1, 2020, PCSO has expressed an urgent need to improve the severely hampered keno sales. TGTI has been directed to work closely with PCSO to come up with possible solutions, and is currently formulating a proposal for an improved keno game and contract terms that will be a win-win for the Company's sustainability and PCSO's charity fund in the next 5 years.



RETAIL NETWORK: LUCKY CIRCLE CORPORATION

LCC closed the year with total retail sales of P2.95 billion nationwide, which was a 36 percent decline versus the previous year's sales of P4.60 billion in 2018. Of its 234 sites, 84 percent are located in SM Malls. This decline is mainly due to the temporary suspension of operations mandated by the President, corresponding to lost sales for 4 days for lotto and 2 months for keno and instant tickets.

Luzon sales accounted for 82 percent of the sales at P2.4 billion as of yearend 2019. Visayas and Mindanao regions cover the remaining 18 percent which is equivalent to P543 million. Instant tickets now contributes the largest percentage of retail sales of 58 percent, followed by lotto contributing 37 percent, and keno at 5 percent.

FINANCIAL REVIEW

CONSOLIDATED INCOME STATEMENT	2019	2018	2017	2016
Revenues	989.87	1,935.94	2,319.99	1,888.10
Costs and Expenses	1,370.09	1,614.49	1,652.40	1,290.55
EBITDA	(160.88)	544.66	893.04	768.72
Net Income after Taxes	(320.97)	304.05	492.87	400.37
CONSOLIDATED FINANCIAL POSITION	**2019**	**2018**	**2017**	**2016**
Total Assets	1,712.83	2,103.08	2,633.85	2,427.20
Total Liabilities	399.41	342.46	631.77	466.57
Total Equity	1,313.42	1,760.62	2,020.07	1,960.63
Dividends paid	447.66	253.47	338.27	498.40

(Note: Amounts above are in million pesos)

The Company's total revenues for the year 2019 fell to P990 million, a decrease of P947 million, or 49 percent over last year's P1.9 billion revenues. The decrease in revenue was due to lower lotto sales, which was cannibalized by the continuing expansion of Small-Town Lottery (STL). In addition, President Duterte ordered the suspension of all PCSO games, which meant lost sales of four (4) days for lotto, two (2) months for both keno and instant scratch tickets.

Total costs and operating expenses, however, lowered to P1.4 billion, a decrease by P247 million, or 15 percent over P1.6 billion incurred in 2018. The decrease in costs and expenses is mainly attributable to lower operating supplies expense, software license fees, rent and utilities expense, management fees expense and personnel costs.

The Company realized net loss after taxes of about P321 million, which represents a P625 million decline over the prior year's net income of P304 million. For the year 2019, the keno equipment leasing business unit contributed 5 percent to the consolidated net loss, while the lotto business unit was at 58 percent. The remaining 37 percent net loss share came from the retail/distribution business.

From 2016 to 2019, the Company issued a total of P941 million cash dividends, 50% stock dividend worth P149 million in 2016 and 100% stock dividend worth P448 million in 2019.

KEY PERFORMANCE INDICATORS:

	2019	2018	2017	2016
Earnings Per Share (EPS)	-0.3781	0.3579	0.5733	0.5393
Return on Assets (ROA)	-18.7%	14.5%	18.7%	16.5%
Return on Equity (ROE)	-24.4%	17.3%	24.40%	20.4%
Current Ratio	2.39:1	4.00:1	2.16:1	2.65:1
Debt to Equity Ratio	0.30:1	0.19:1	0.30:1	0.24:1

SUSTAINABILITY

The publication of our maiden sustainability report aligned to the GRI standards is part of a country-wide effort to adopt sustainable practices and integrate this information into our reporting and disclosures. This as part of a bigger movement will hopefully encourage not just the publicly-listed companies, but all companies in the Philippines to understand and adopt the mindset and practice of sustainability.

Our sustainability journey began with the mandate of our Board of Directors to take a more active role in improving the Company's corporate governance and sustainability programs. Headed by our Management team, Pacific Online continues to establish, maintain, and improve the sustainable practices of the Company through target setting, progress monitoring, and analysis of our outputs. Part of the thrust of the Sustainability Report is to be aligned with the UN Sustainable Development Goals in order to have a holistic approach in improving the company's and society's sustainable future. We have indicated which specific goals we have chosen to address.

PACIFIC ONLINE'S SUSTAINABILITY FRAMEWORK

The Company is able to achieve sustainable development through 3 major pillars:

- Partnership Enhancement
  - Improving our services for the benefit of the PCSO and its agents
  - Partnering with accredited external providers for responsible disposal
  - Compliance with standards of our regulators
- Resource Optimization
  - Prudent fiscal management and sustainable operating models
  - Business continuity planning and disaster recovery protocols
  - Implementation of recycling and electronic systems to minimize waste
- Value Creation
  - Economic value generation and distribution
  - Good governance and risk management
  - Human capital development
  - Creation of systems to improve data analysis for efficient operations

ECONOMIC PERFORMANCE

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

IN PHP MILLIONS	TOTAL
Economic Value Generated	989.87
Economic Value Distributed	
Operating Costs	1,032.26
Employee Wages and Benefits	314.09
Payments to the Government	23.98
Economic Value Retained	(380.46)

EFFLUENTS AND WASTE MANAGEMENT

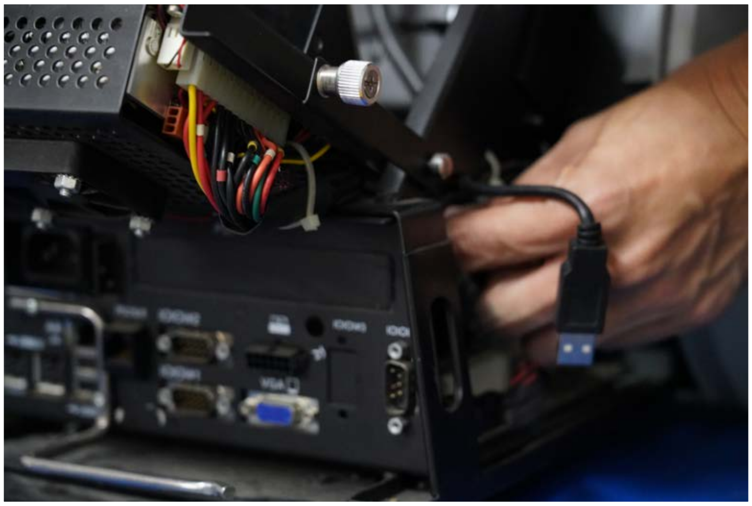
Pacific Online regularly disposes its waste through DENR accredited facilities. Majority of its waste is from lottery terminals and peripherals. The Company's efforts to actively lessen waste and to recycle items within the organization has led to a marked decrease in the amount of waste generated.

9,977 KG

Total volume of waste generated by the company in 2019

25%

Decrease from 2018



ENERGY

Pacific Online strives to implement and maintain energy-efficiency in its operations in terms of fuel, electricity and water consumption.

FUEL

1,337,053 L
Total fuel consumed by company vehicles in 2019

6%
Decrease in consumption from 2018

ELECTRICITY

1,815,322 KWH
Total electricity consumption in 2019

37%
Decrease in consumption from 2018

1,046,336 KWH
Reduction in absolute total electricity consumption

WATER

75,198 M³
Total water consumption in 2019

27%
Decrease in consumption from 2018

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

HUMAN RESOURCE MANAGEMENT

MARKET PRESENCE

Pacific Online and TGTI have no minimum wage earners. Entry rates for the two are higher than the local minimum wage.

Pacific Online Entry Rate higher by

11%
IN MANILA

19%
IN CEBU

The Company employs its personnel from the local communities. All senior managers located in the Cebu office were hired from Cebu.

100%
Senior Managers hired from local community

14
in Luzon

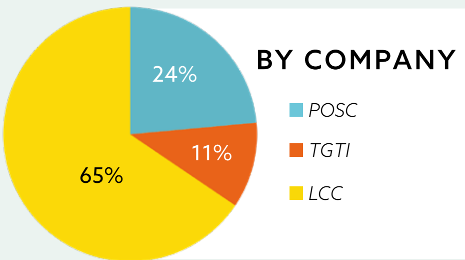
5
in Visayas

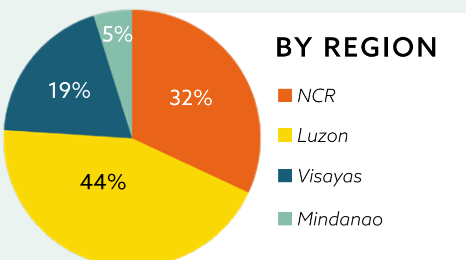
EMPLOYMENT

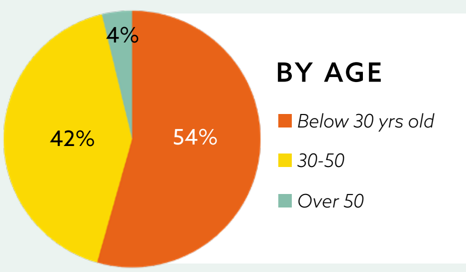
Pacific Online is steadfast in its duty to provide opportunities for gainful employment to the people of the country. The Company does not discriminate against any individual based on gender or age.

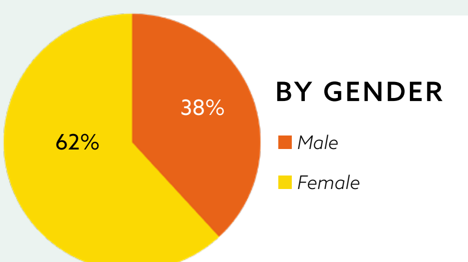
EMPLOYEE PROFILE

781
Employees







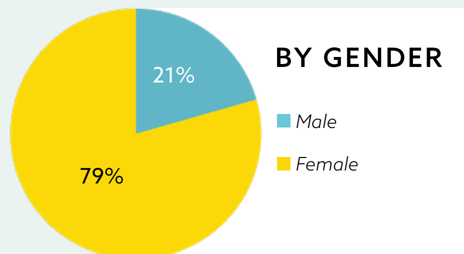


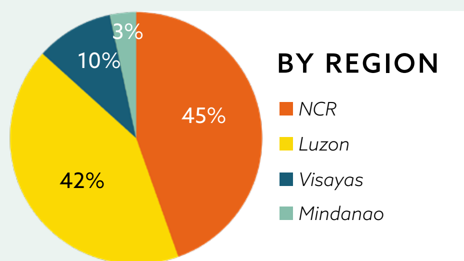
58%
Women in Senior Management positions

44%
Women in Managerial positions

NEW HIRES AND EMPLOYEE TURNOVER

300
New Hires in 2019





38%
Hiring Rate

79%
Female new hires

14%
Turnover Rate for Pacific Online Group of Companies

1%
Pacific Online turnover

50
Employees who took parental leave in 2018

41
of these still employed in 2019

OCCUPATIONAL HEALTH & SAFETY

8 DECENT WORK AND ECONOMIC GROWTH

Pacific Online is committed to provide safe, healthy and environmentally-friendly areas for all its employees.

It promotes fair, safe and productive work practices in all its business aspects.

The Company will at all times comply with all regulatory requirements of the Philippines, its customers and other external parties.

BENEFITS PROVIDED TO EMPLOYEES FOR PROMOTION OF WORKER HEALTH

- Full HMO coverage (room & board and maximum benefit limit based on rank) of all employees upon hiring and extended to 2 dependents upon regularization. Benefit package includes preventive healthcare, out-patient care and hospitalization, emergency care, dental care, and financial assistance.

HMO CLAIMS BY EMPLOYEES

CLAIM TYPE	AMOUNT	%
In-Patient	1,096,686.57	36%
Out-Patient	1,542,907.35	50%
Annual Physical Examination	83,749.50	3%
Dental Care	84,700.00	3%
Emergency Care	263,309.92	9%
TOTAL	3,071,353.34	100%

- Life Insurance coverage upon hiring, amount of insurance is based on rank. Benefit coverage includes basic life, accidental death, dismemberment & disablement, total & permanent disability, unproved murder & assault, and accident medical reimbursement.

- Group Accident Insurance coverage upon hiring. Benefit coverage includes accidental death, dismemberment & disablement, total & permanent disability, unproved murder & assault, accident medical reimbursement, accident burial benefit, and daily hospital income.

- Wellness Benefit Allowance for Managers-Up – qualified Officers are allowed to reimburse their health and wellness related expenses up to certain amount per year.

- Uniform Allowance for all regular employees

- Annual Physical Exam / Executive Check-Up – this is being scheduled annually to check the employees' health condition and suitability to perform their job.

ANNUAL PHYSICAL EXAMINATION OF EMPLOYEES

	NO. OF PERSONNEL	DATES
Manila	63	March 1 - April 15, 2019
Cebu	117	October 1 - 31, 2019

- Various health and wellness activities are being conducted to help employees improve further their health and well-being.

WORKER TRAINING ON OCCUPATIONAL HEALTH AND SAFETY

OCCUPATIONAL HEALTH & SAFETY	2019
Safe man-hours recorded, in man-hours	722,485
No. of work-related injuries reported	3
No. of work-related fatalities reported	-
No. of work-related ill-health	-
No. of safety drills conducted	5

POSC SEMINARS/TRAININGS:

Disaster Preparedness Training (May 6, 2019)

Conducted to orient the attendees on various disaster scenarios and train them on what to do before, during and after the disaster

Occupational First Aid & CPR with AED Workshop (July 11-12, 2019)

Designed to help non-medical professionals provide assistance in times of emergency situations

Road Safety & Disaster Preparedness Seminar (Dec. 11, 2019)

Aimed to remind and refresh our Field Service Representatives on the importance of road safety and disaster preparedness

WELLNESS ACTIVITIES

MANILA

WELLNESS PROGRAM / ACTIVITY	TIMES CONDUCTED
Skin Wellness	2
Basketball	5
Badminton	1
Trampoline	1
Ice Skating	1
Wall Climbing	1
Lazer Tagging	2
Health Talk: Workplace Hygiene	1
Mystery Manila	1
Bowling	1
Archery	1

CEBU

WELLNESS PROGRAM / ACTIVITY	TIMES CONDUCTED
Yoga	3
Basketball	9
Zumba	7
Taichi	9
Badminton	6
Massage	10
Ice Skating	2
Swimming	1

TRAINING & EDUCATION

Pacific Online believes in the continuous improvement of its staff. It invests a lot of time and manpower in ensuring that the proper skills necessary to perform functions are present.

10,632
Total No. of training hours recorded

1,151
Employees trained in 2019

PHP 1.55 MILLION
Total amount spent on training and development of employees

100%
of employees appraised

PROGRAMS FOR UPGRADING EMPLOYEE SKILLS AND TRANSITION ASSISTANCE PROGRAMS

TRAINING TYPE/ CLASSIFICATION	SPECIFIC CLASSES/SESSIONS INCLUDED IN THIS TRAINING CATEGORY	# OF SESSIONS CONDUCTED
Core/Business Compliance	Pacific Online: Annual Company Updates , ISO Refresher Seminar, Cybersecurity Forum, Tuberculosis Health talk, Disaster Preparedness Seminar, IMS Audit Workshop, Occupational First Aid & CPR with AED Workshop, Orientation for New hires, Employee Re-orientation on Selected Policies, Processes and Systems, Updates on MIS/IT, Data Privacy & Workforce TGTI: Basic Occupational Safety & Health Training/ Mandatory 8 hr Safety & Health Seminar/Emergency Preparedness LCC: Dole Compliance on Occupational Safety and Health Standards, Data Privacy, Safety and Emergency, Dole Inspections	46
Job-based/Professional Skills	Pacific Online: Preparing Quality Audit Workshop, Hands-On Training for Field Services Representatives (FSR), Tools and Techniques for IA Staff, Assessing Risk Ensuring Internal Audit Value, Be informed: Keep up with the Tax Reform!, Written Business Communications Skills Workshop, Telephone Handling Skills Training, COSO Framework Demystified, Electronic Records Management, Records, Filing Management, Building and Property Management, TRAIN Beyond-Rise and Shine!, Lunch and Learn Session on Initiative, Fundamentals of IT Auditing, MS Excel training, Identify and Access Management Seminar for Non-IT Auditors, Road Safety & Disaster Preparedness Seminar TGTI: Bench Repair Training LCC: Business and Income Taxation, Enhancement on Administrative Skills, IT Auditing, Financial Analysis, Financial Analysis, BIR Tax Assessment, Installation of CCTV Security, Enhancement on Customer Relation, Marketing Strategies and Techniques, Managing Cost and Profits, Guaranteed Actionable Results to Improve Customer Service	36
Leadership	Pacific Online: Foundations of Leadership (FLEX), The Hows and Whys of Supervision Workshop, Cornerstone of Learning Organization Workshop , Tools & Techniques for IA Manager, ACIIA CAE Leadership Forum TGTI: The How's & Why's of Supervision LCC: Enhancement on Leadership Skills	10
Others, please specify	Pacific Online: Spiritual Deepening Activities	2

CSR INITIATIVES

Our company has conducted numerous CSR projects over the course of the year. This 2019, listed below are the notable intiatives and their corresponding UN Sustainable Development Goals they address:

CYBERGUARDIANSPH

3 GOOD HEALTH AND WELL-BEING

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

CyberguardiansPH is an initiative spearheaded by Pacific Online, in partnership with the Department of Information and Communications Technology (DICT) to conceptualize and implement various Cybersafe programs in the Philippines. The principal objective of this undertaking is to raise the level of awareness of the general public in protecting children against online sexual abuse & exploitation and cyberbullying.

Among the different projects implemented during the year are the following:

1. Eco-system Activation & Planning Workshop – As a kick-off activity for the collaboration efforts to fight Online Sexual Abuse and Exploitation of Children (OSAEC), Pacific Online and DICT co-sponsored said workshop
2. Pacific Online has successfully recruited program partners which has allowed it to create awareness campaigns with minimal funding requirements, such as Caritas Manila Foundation, TV Maria Foundation, Communications Foundation for Asia (CFA) and Jesuit Communication Foundation.
3. The Company also provided invaluable support for CyberGuardiansPH to produce CyberChat, a TV talk show that provided free air time and studio/equipment rental) and an MTV, Pag-asa Ng Bayan which offered its recording studio for free in support of the cause.
4. The Company has likewise helped expand the CyberGuardians network as it continuously holds Engagement Meetings in order to introduce the CyberGuardiansPH coalition and its mission/vision and programs. Philippine Mental Health Association, Commission for Filipinos Overseas (CFO), Department of Justice/Inter-Agency Council Against Trafficking (IACAT) and the Office of the VP are among its new partner-recruits.
5. Hub sessions & Engagement Meetings were conducted to raise awareness of the CyberGuardians activities and advocacy through the Theory U method of Presencing Institute of MIT Cambridge.
6. Pacific Online was the Executive Producer and Writer/ Co-Director of CyberChat, a TV Talk show about cybercrime awareness and prevention. 4 episodes have been taped in 2019.
7. Creation of Pag-Asa Ng Bayan, a call-to-action MTV produced by the Company with various celebrity artists participating pro bono.
8. Hearts Filled With Joy – Pacific Online, along with other members of the CyberGuardians, held its first Medical Mission and Psychosocial activities for the benefit of 200 OSAEC survivors and other children living in high risk areas.










BLOODLETTING

3 GOOD HEALTH AND WELL-BEING

In both Manila and Cebu, a bloodletting drive was conducted this year to encourage people to donate their blood on a voluntary basis for the benefit of those in need and the Red Cross Blood Bank. 44 people donated blood in 2019, and for the 4 years since the program's inception, 167 donations have been made.

OPERATION TULI

3 GOOD HEALTH AND WELL-BEING

For the children of Cordova and Lapu Lapu, Cebu who did not have the means for quality medical circumcision, "Operation 'Tuli'" was initiated in May 2019 to provide free circumcision to 32 boys.

TREE PLANTING

15 LIFE ON LAND

As a part of its Corporate Social Responsibility initiatives, the Company participated in the tree planting activities of Belle Corporation's Kaagapay: One Tree at a Time and also of the LGU in Cebu City. Pacific Online contributed 175 trees to combat deforestation and promote ecologically friendly values. To date, it has planted 625 trees since November 2015.

CARITAS EDUCATION

4 QUALITY EDUCATION

CARITAS MANILA YSLEP
YOUTH SERVANT LEADERSHIP AND EDUCATION PROGRAM

To promote and support quality education opportunities for all, the Company supports Caritas Manila's Youth Servant Leadership & Education Program. The Youth Servant Leadership and Education Program (YSLEP) is the flagship program of CARITAS MANILA that aims to break the chains of poverty in the Philippines by providing opportunities for a college education for poor, underprivileged but deserving youth. In 2019, Pacific Online provided scholarships to 2 youths, and since June 2017, it has had 6 beneficiaries. Furthermore, a donation was made to Redemptorist Province Cebu City: Redemptorist Education Assistance Program last Dec. 1, 2019.

VITAMIN & GIFT CHECK DONATIONS

3 GOOD HEALTH AND WELL-BEING

Pacific Online, TGTI and LCC participated in the PCSO's 80th anniversary celebration entitled Handog Pasasalamat sa Pamilyang Pilipino. The Company hosted 3 television segments from the month-long event and donated 50 boxes of vitamins, as well as P100,000 worth of gift certificates to indigenous families.

Furthermore, 150 boxes of vitamins were donated through Caritas Manila to the victims of the 6.6 Magnitude Earthquake in North Cotabato and Davao Del Sur.

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 the Company'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 touch points 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 therefore 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. The Company Code of Business Conduct and Ethics, and any amendments thereto, should be properly disseminated to the Board, Management and employees and posted in the company website. The Board shall ensure proper implementation and monitor compliance with the Company Code of Business Conduct and Ethics. The Code should include, among others, the anti-corruption policies 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.

   k. Responsible for ensuring and adopting an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value. This includes adopting a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the corporation.

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 Board shall delegate specific responsibilities to board committees with defined terms of reference.

4. The Board shall be guided by a Board Charter which shall serve as a guide to the directors in the performance of their functions. For transparency, the Board Charter shall be made available on the Company's website.

5. 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 Board decisions. 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. 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.

   b. 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.

c. 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 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.

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

f. 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.

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

6. The Board of Directors should, as far as practicable, be composed of qualified individuals with diverse backgrounds (gender, age, ethnicity, culture, skills, competence and knowledge) to effectively enable the Board to decide on corporate matters with the benefit of the varied experiences of the board members, and at least a majority should be non-executive directors.

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 2019, all of the members of the Board of Directors complied with the minimum attendance requirements.

DESIGNATION	NAME	DATE OF ELECTION	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS ATTENDED	%
Chairman	Willy N. Ocier	30-May-19	11	11	100%
Member	Armin Antonio B. Raquel-Santos	30-May-19	11	10	91%
Member	Ma. Virginia V. Abo-Hamda	30-May-19	11	10	91%
Member	Tarcisio M. Medalla	30-May-19	11	11	100%
Member	Henry N. Ocier	30-May-19	11	9	82%
Member	Regina O. Reyes	30-May-19	11	9	82%
Independent	Jerry C. Tiu	30-May-19	11	11	100%
Independent	Laurito E. Serrano	30-May-19	11	10	91%
Independent	Joseph C. Tan	30-May-19	11	11	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 which 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.

DESIGNATION	NAME	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS ATTENDED	%
Chairman (ED)	Willy N. Ocier	4	4	100%
Member (NED)	Armin B. Raquel-Santos	4	4	100%
Member (ED)	Ma. Virginia V. Abo-Hamda	4	4	100%

Audit Committee

The Audit Committee 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.

DESIGNATION	NAME	DATE OF APPOINTMENT	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS ATTENDED	%
Chairman (ID)	Laurito E. Serrano	30-May-19	5	5	100%
Member (ID)	Jerry C. Tiu	30-May-19	5	5	100%
Member (NED)	Tarcisio M. Medalla	30-May-19	5	5	100%
Member (ID)	Joseph C. Tan	30-May-19	5	3	60%

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.

DESIGNATION	NAME	DATE OF APPOINTMENT	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS ATTENDED	%
Chairman (ID)	Jerry C. Tiu	30-May-19	2	2	100%
Member (ID)	Laurito E. Serrano	30-May-19	2	2	100%
Member (NED)	Tarcisio M. Medalla	30-May-19	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.

DESIGNATION	NAME	DATE OF APPOINTMENT	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS AT-TENDED	%
Chairman (ID)	Joseph C. Tan	30-May-19	2	2	100%
Member (ID)	Laurito E. Serrano	30-May-19	2	2	100%
Member (ID)	Jerry C. Tiu	30-May-19	2	1	50%

Related Party Transactions

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.

DESIGNATION	NAME	DATE OF APPOINTMENT	NO. OF MEETINGS HELD DURING THE YEAR	NO. OF MEETINGS ATTENDED	%
Chairman (ID)	Joseph C. Tan	30-May-19	3	3	100%
Member (ID)	Laurito E. Serrano	30-May-19	3	3	100%
Member (ID)	Jerry C. Tiu	30-May-19	3	2	67%
Member (ID)	Regina O. Reyes	30-May-19	3	3	100%
Member (ID)	Henry N. Ocier	30-May-19	3	3	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).

SHAREHOLDING & TRADING INFORMATION OF BOARD & OFFICERS (2018-2019)

NAME OF DIRECTOR/OFFICER	POSITION	SHARES AS OF 12/31/2019	% OF CLASS	SHARES AS OF 12/31/2018	% OF CLASS
Willy N. Ocier	Chairman & President	80,794,500	9.02%	40,397,250	9.02%
Armin B. Raquel-Santos	Director	200	0.00%	100	0.00%
Ma. Virginia V. Abo-Hamda	Director	2,000	0.00%	1,000	0.00%
Henry N. Ocier	Director	1,209,000	0.13%	604,500	0.13%
Regina O. Reyes	Director	300	0.00%	150	0.00%
Joseph C. Tan	Independent Director	200	0.00%	100	0.00%
Jerry C. Tiu	Independent Director	450	0.00%	225	0.00%
Tarcisio M. Medalla	Independent Director	300	0.00%	150	0.00%
Laurito E. Serrano	Independent Director	2,400	0.00%	1,200	0.00%
Atty. A. Bayani K. Tan	Corporate Secretary	1,413,000	0.15%	706,500	0.15%
Atty. Jason C. Nalupta	Asst. Corporate Secretary	0	0.00%	0	0.00%
Mischel Gabrielle O. Mendoza	AVP- Corporate Planning	585,000	0.06%	292,500	0.06%
Anna Josefina G. Esteban	AVP- Internal Audit	0	0.00%	0	0.00%
Grace L. Gatdula	AVP- Administration & 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	6,000	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	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Armin Antonio B. Raquel Santos	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Ma. Virginia V. Abo-Hamda	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Tarcisio M. Medalla	Nov. 8, 2019	Corporate Governance	Risks, Opportunities, Assessment and Management, Inc.
Henry N. Ocier	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Regina O. Reyes	Oct. 23, 2019	Technology Governance for Directors	Institute of Corporate Directors
Jerry C. Tiu	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Laurito E. Serrano	May 2, 2019	Corporate Governance Orientation Program	Institute of Corporate Directors
Atty. Joseph C. Tan	Mar. 28, 2019	Corporate Governance	SyCip Gorres Velayo & Co.
Atty. A. Bayani K. Tan	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Atty. Jason C. Nalupta	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Grace L. Gatdula	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Anna Josefina G. Esteban	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Irene L. Bautista	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Ma. Concepcion T. Sangil	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Ma. Meliza C. Romillo	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Carmelita DL. Chan	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Christopher C. Villaflor	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Valentino L. Kintanar	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors
Romeo J. Roque	Aug. 15, 2019	Advanced Corporate Governance Training	Institute of Corporate Directors

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

	SEMINARS & TRAININGS	NO. OF TIMES CONDUCTED	NO. OF PARTICIPANTS	TOTAL TRAINING HOURS
	A. Regular Programs	**10**	**198**	**1008**
1	Annual POSC Updates Leaders At Your Service Workshop of FSR's	1	13	91
2	Employee Re-orientation on Selected Policies, Processes and Systems	4	180	885
3	New Hire Orientation	5	5	32
	B. Work Specific Development Programs (Specialized Programs)	**18**	**293**	**1862**
1	2019 Risk Summit	1	3	21
2	Assessing Risk Ensuring Internal Audit Value	1	1	14
3	Be informed: Keep up with the tax Reform!	1	2	12
4	Building and Property Management	1	1	6
5	COSO Framework Demystified	1	1	6
6	Cybersecurity Forum by DICT	1	65	455
7	Fundamentals of IT Auditing	1	3	42
8	Hands-On Training for Field Services Representatives (FSR)	1	1	110
9	Hands-On Training for Lottery Terminal Trouble Shooting	1	49	196
10	Identify and Access Management Seminar for Non-IT Auditors	1	1	13
11	IMS Audit Workshop	2	20	124
12	ISO Refresher Seminar by CQL	2	141	807
13	Preparing Quality Audit Workshop	1	1	7
14	Tools & Techniques for IA Manager	1	2	14
15	Tools and Techniques for IA Staff	1	1	28
16	Train Beyond-Rise and Shine!	1	1	7
	C. General Development Programs	**20**	**262**	**1816**
1	ACIIA CAE Leadership Forum	1	1	14

2	Cornerstone of Learning Organization Workshop	1	25	150
3	Disaster Preparedness Seminar	1	25	100
4	Electronic Records Management	1	1	6
5	Foundations of Leadership (FLEX)	1	7	98
6	Lunch and Learn Session on Initiative	1	15	15
7	MS Excel Training	1	10	310
8	Occupational First Aid & CPR with AED Workshop	1	29	203
9	Records, Filing Management	1	2	14
10	Road Safety & Disaster Preparedness Seminar	1	45	180
11	Telephone Handling Skills Training	2	8	52
12	The Eco-System Activation workshop	1	1	19
13	The Hows and Whys of Supervision Workshop	2	18	234
14	Tuberculosis Health talk	1	13	13
15	Updates on MIS/IT, Data Privacy & Workforce	1	46	184
16	Written Business Communications Skills Workshop	3	16	224
	D. Values Enhancement Programs	**2**	**49**	**196**
1	Lenten Reflection/ Spiritual Deepening	2	49	196
	TOTAL	**50**	**802**	**4,882**

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	Executive 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
	PhilEquity Management Inc.	Director
	Philippine Global Communications, Inc	Director (Chairman, President & CEO)
Armin Antonio B. Raquel-San-tos	Premium Leisure Corp.	Director (President & CEO)
	Premium Leisure and Amusement Inc.	Director (President & CEO)
	Tagaytay Highlands International Golf Club, Inc.	Director
	MELCO Resorts (Philippines) Foundation	Trustee (Vice President)
Tarcisio M. Medalla	Paxys Inc.	Director (Chairman & President)
Regina O. Reyes	Abacore Capital Holdings, Inc.	Director (President and CEO)

Ma. Virginia V. Abo-Hamda	Falcon Resources, Inc. Total Gaming Technologies, Inc. Lucky Circle Corporation MCR Industries, Inc. Packagemakers, Inc.	Director (President) Director Director Director Director
Laurito E. Serrano	Rizal Commercial Banking Corporation 2Go Group, Inc. Atlas Consolidated Mining Corporation Axelum Resources Corp. APC Group Inc. MRT Development Corporation	Independent Director Independent Director Independent Director Independent Director Independent Director (AGM) Director
Jerry C. Tiu	Tagaytay Higlands Int'l. Golf Club, Inc. The Country Club at Tagaytay Highlands, Inc. Tagaytay Midlands Golf Club, Inc. The Spa & Lodge at Tagayatay Higlands Inc. Tagaytay Highlands Community Condominium Ass'n. Inc. Tagaytay Midlands Community Homeowners' Ass'n, Inc. Greenlands Community Homeowners' Association, Inc.	Director (President) Director (President) Director (President) Director (President) Director (President) President President
Joseph C. Tan	2GO Group Inc., Premium Leisure Corporation LMG Chemicals Corporation	Lead Independent Director Independent Director Independent Director

ACCOMPLISHMENTS OF THE BOARD AND COMMITTEES

COMMITTEE	ACCOMPLISHMENTS
Board of Directors	• Reviewed quarterly Reports on Operations • Reviewed Audited Financial Statement Yr 2018 • Reviewed Retirement of fully depreciated assets • Approved Audited Financial Statement Yr 2018 • Approved Designation of Authorized Representative for BIR E-Filing and Payment System (EFPS) • Approved Setting of Record date for stock dividend declaration • Approved Authority to lease and/or renew lease of facilities • Approved Quarterly Financial Report • Approved Audit Committee Recommendation to Re-Appoint R.G. Manabat & Co. as external auditors for 2019 • Approved Application for Tax Clearance Certificate with the Bureau of Internal Revenue • Approved Participation in the Philippine Charity Sweepstakes Office Bidding • Approved Designation of Authorized Court Representatives Re: TMA Australia and TMA Group Case • Reviewed and Approved Recommendation of Management to Partipate in the Bidding for PLS as joint venture partner of Scientific Games • Reviewed Sale of Motor Vehicle • Approved Quarterly Financial Report • Approved Supplemental Equipment Lease Agreement with PCSO • Reviewed and Approved Recommendation of Management to Opening Safety Deposit Boxes with Union Bank of the Philippines - Tektite Branch • Approved Reactivation and Updated of Bank Accounts with Metropolitan Bank & Trust Company • Reviewed and Approved Sale of Premium Leisure Corp. Shares • Reviewed final terms of the divestment option for LCC • Approved Quarterly Financial Report • Reviewed Business Plan and Budget for 2020 • Approved Material Related Party Transaction Policy • Approved Insurance Claim from Paramount Life & General Insurance Corporation • Approved Report on Operations for the year 2019 • Approved Impact of Recent Event • Approved Managements update on the Luzon rollout • Approved the updated Sale of LCC • Reviewed Winding Down of Operations/Sale of Falcon Resources, Inc. • Approved the updated PCSO Lottery System Bidding • Revised Business Plan and Budget for 2020
Audit Committee	• Reviewed and approved Audited Financial Statement Yr 2018 • Approved 2019 Audit Plan presented by Internal Audit • Recommended to the Board appointment of External Auditor • Reviewed Audit Comm Charter with no changes to be implemented • Reviewed and approved 2019 External Audit Plan • Approved quarterly Reports presented by Internal Audit
Corporate Governance Committee	• Reviewed Corporate Governance Committee Charter • Reviewed and approved Annual Corporate Governance Report • Reviewed and made changes to the Corporate Governance Manual for board approval • Pre-screened and submitted to the board list of nominees for directorship for the ASM • Performance evaluation of the Board thru engagement of GGAP
Board Risk Oversight Committee	• Reviewed Board Risk Oversight Committee Charter • Reviewed and approved Enterprise Risk Matrix • Reviewed Business Continuity Plan presented by Management
Related Party Transactions Committee	• Reviewed Related Party Transaction Committee Charter • Reviewed quarterly RPT report • Revised Related Party Transaction Policy • Reviewed Related Party Transaction Policy and Guidelines • Reviewed quarterly RPT report • Approved related Party Transaction Policy

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 involved 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 interests 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 to ensure that policies and regulations of the Company are practiced by the employees. Should violations occur, management should ensure that appropriate disciplinary sanctions & actions are applied including or up to termination of employment.	Each employee is expected to follow all Company policies and regulations at all times.
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 from the oral or written communication and transmission of confidential and/or non-public information to any person.	

BUSINESS CONDUCT & ETHICS	DIRECTORS	SENIOR MANAGEMENT	EMPLOYEES
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 regularly.	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 by senior management for all employees 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.		

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 (3) Subsidiaries (4) Entries Under Common Control (5) Substantial Stockholders (6) Officers including spouse/children/siblings/parents (7) Directors including spouse/children/siblings/parents (8) Interlocking director relationship of Board of Directors	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.

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
vvabohamda@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".

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 20 for details)

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

Grace L. Gatdula

Compliance Officer

19F Unit 1901-B West Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
glgatdula@pacificonline.com.ph

For other governance related issues or concerns, stakeholders may contact:

Mischel Gabrielle O. Mendoza

Risk Officer

28F Unit 2803-A&B East Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
momendoza@pacificonline.com.ph

Ma. Meliza C. Romillo

Data Protection Officer

28F Unit 2803-A&B East Tower,
Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City, 1605 PH
mmcromillo@pacificonline.com.ph

For more information on corporate governance, please refer to our website:
https://www.loto.com.ph/corporate-governance/governance-pacific-online-0

MANAGEMENT DISCUSSION & ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

2019 Compared to 2018

The Group generated total revenues from operating sources of about P989.87 million for the year ended December 31, 2019, a decrease of P946.6 million (49%) over total revenues of P1.936 billion during the same period in 2018. The decrease in revenue was due to lower lotto sales, which was cannibalized by the continuing expansion of Small-Town Lottery (STL). In addition, President Duterte ordered the suspension of all PCSO games, which meant lost sales of four (4) days for lotto, two (2) months for both keno and instant scratch tickets, and one (1) month for STL. It also took about three (3) months before retail sales levels returned to pre-suspension period for instant scratch tickets. Furthermore, Keno revenues decreased during the fourth quarter due to reduced ELA rate on top of much lower sales, which resulted from implementing the Keno ticket price to pre-TRAIN Law level with lower prize structure.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2019 decreased by P247.06 million (15%) to P1.370 billion, from P1.614 billion in 2018. The decrease is attributed to the following:

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;
- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;
- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;
- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;
- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;
- Operating supplies expense decreased by P104.9 million (66%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

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

- Travel and accommodation expense increased by P10.9 million (15%) mainly due to the increased volume of field visits;
- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;
- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;
- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;
- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;
- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

The Group's net loss after tax of P317.6 million represents a P621.7 million (204%) decline from last year's net income of P304.0 million. The lower net income in 2019 was a result of the 42% drop in overall sales across all products.

Total assets of the Company decreased by P386.7 million (18%) to P1.72 billion as of December 31, 2019, from P2.10 billion as of December 31, 2018. Decreases in assets are attributable to the following:

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;
- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;
- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;
- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;
- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;
- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;
- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

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

- Other current assets increased by P69.8 million (48%) due to pre payments and additional creditable withholding tax;
- Other noncurrent assets increased by P84.7 million (41%) mainly due to the prepayments of technical and advisory services pertaining to software development;

Total liabilities of P399.6 million was up by P57.1 million (17%) over last year's P342.5 million due principally to the following:

- Loan payable increased from zero to P140.8 million (1530%) due to a P150 million loan from Asia United Bank;
- Lease liability ROU-current increased by P41.5 million (100%), due to the effect of adopting the new accounting standard PFRS 16- Leases;
- Defined benefit liability increased by P29.2 million (from 0 in 2018) due to the accrual of retirement expense for 2019;
- Lease liability ROU-noncurrent portion increased by P9.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

The increases in the liabilities were offset by the following decreases:

- Trade and other current liabilities decreased by P100.8 million (41%) due to lower trade payables resulting from lower operating expenses;
- Current portion of obligations under finance lease decreased by P3.4 million (17%) due to the amortization of capital lease for 2019;
- Withholding taxes payable decreased by P2.6 million (43%) due to lower withholding taxes resulting from lower operating expenses;
- Income tax payable decreased by P5.1 million (55%) due to less income tax as a result of lower net income for the year;
- Obligations under finance lease – net of current portion decreased by P16.0 million (100%) due to reclassification to current portion;
- Deferred tax liability decreased by P37.3 million (100%) as it was offset to deferred tax asset.

As of December 31, 2019, 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. No material 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

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

	As of	
	Dec. 31, 2019	**Dec. 31, 2018**
Current Ratio	2.39:1.00	4.00 : 1.00
Debt-to-Equity Ratio	0.30:1.00	0.19 : 1.00
Asset-to-Equity Ratio	1.30:1.00	1.19 : 1.00

	For the year ended	
	Dec. 31, 2019	**Dec. 31, 2018**
Return on Equity	-24.12%	17.27%
Return on Assets	-18.51%	14.46%
Interest Coverage Ratio	(54.95):1.00	79.04 : 1.00
Solvency Ratio	(0.23):1.00	1.56 : 1.00
Book Value per Share	1.56	10.84

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;

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, 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

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 $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

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

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

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

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

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of 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, 2019 and 2018, 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 from 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
Chief Executive Officer

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Signed this 20th day of February 2020

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, 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.

PFRS 16, Leases

Refer to Notes 4 and 20 to the consolidated financial statements.

The risk

The Group adopted the new standard on leases, PFRS 16, Leases which replaces PAS 17, Leases. PFRS 16 introduces a new lease accounting model where lessees are required to recognize a right-of-use (ROU) asset and a lease liability.

As at December 31, 2019, the Group has ROU assets - net of depreciation and lease liabilities amounting to P50,298,070 and P67,602,005, respectively.

The assessment of the impact of the new standard is significant to our audit, as the relevant balances and amounts recognized by the Group are material.Substantial time and effort was required to audit the right-of-use assets and lease liabilities recognized due to numerous lease contracts subjected to the transition and significant judgement was required for the assumptions and estimates made in order to determine the ROU assets and lease liabilities.

Our response

Our audit procedures included inquiries with management and review of relevant documents to understand the Group's approach to implementing PFRS 16. We evaluated whether the new accounting policies on leases are appropriate and consistent with PFRS 16. We evaluated the design and operating effectiveness of key controls over new processes introduced to apply PFRS 16, including those relevant to transition.

We tested the completeness of the population of leases subjected to PFRS 16's requirements by verifying the lease contract database against the rental payments made. We reviewed lease contracts to assess whether leases have been appropriately identified and measured. We obtained the Group's quantification of ROU assets and lease liabilities and evaluated the appropriateness of inputs used including discount rates and lease terms, and performed computation checks.

We also evaluated the adequacy of disclosures required by PFRS 16 in the consolidated financial statements.

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, 2019, 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, 2019 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 Enrico E. Baluyut.

R.G. MANABAT & CO.

ENRICO E. BALUYUT
Partner

CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
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PTR No. MKT 8116756
Issued January 2, 2020 at Makati City

February 20, 2020 | Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2019**	**2018**
ASSETS			
Current Assets			
Cash and cash equivalents	7	P337,471,529	P571,260,258
Marketable securities	8	140,456,581	155,704,892
Trade and other receivables - net	9	172,501,609	285,063,895
Other current assets	10	214,265,314	144,938,786
Total Current Assets		864,695,033	1,156,967,831
Noncurrent Assets			
Investments in stocks	11	347,630,880	455,705,930
Property and equipment - net	12	107,415,991	259,876,260
Right-of-use assets	20	50,298,070	-
Goodwill	13	-	17,046,266
Deferred tax assets - net	19	52,501,395	-
Retirement benefits asset	22	-	7,855,553
Other noncurrent assets	2, 10	290,288,060	205,627,541
Total Noncurrent Assets		848,134,396	946,111,550
		P1,712,829,429	P2,103,079,381
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	14	P144,231,951	P245,071,466
Loan payable	15	150,000,000	-
Lease liabilities	20	58,353,121	-
Current portion of obligations under finance lease	20	-	19,379,463
Withholding taxes payable		3,458,412	6,096,017
Income tax payable		4,274,940	9,415,467
Current portion of installment payable		-	9,205,042
Total Current Liabilities		360,318,424	289,167,455
Noncurrent Liabilities			
Lease liabilities - net of current portion	20	9,248,884	-
Obligations under finance lease - net of current portion	20	-	15,995,011
Defined benefit liability	22	29,842,768	-
Deferred tax liabilities - net	19	-	37,297,139
Total Noncurrent Liabilities		P39,091,652	P53,292,150
Total Liabilities		P399,410,076	P342,459,605
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	16	P895,330,946	P447,665,473
Additional paid-in capital	16	257,250,677	257,250,677
Treasury stock	16	(285,267,558)	(285,267,558)
Stock dividend distributable	16	-	422,431,981
Fair value reserve	11	(396,801,971)	(288,726,921)
Retirement benefits reserve	22	(17,614,609)	538,390
Retained earnings	11, 16	855,178,425	1,199,822,935
		1,308,075,910	1,753,714,977
Non-controlling Interest		5,343,443	6,904,799
Total Equity		1,313,419,353	1,760,619,776
		P1,712,829,429	P2,103,079,381

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Note	2019	2018	2017
REVENUES				
Equipment rental	2, 6, 20	**P681,483,757**	P1,448,317,611	P1,840,520,991
Commission and distribution income	2, 6	**308,381,639**	487,626,385	479,472,385
		989,865,396	1,935,943,996	2,319,993,376
COSTS AND EXPENSES	18	**1,370,091,622**	1,614,488,192	1,652,402,460
OPERATING INCOME (LOSS)		**(380,226,226)**	321,455,804	667,590,916
OTHER INCOME (CHARGES)				
Dividend income	8, 11	**31,657,224**	29,082,445	20,628,055
Impairment loss on goodwill	13	**(17,046,266)**	(110,933,996)	-
Mark-to-market gain (loss) on marketable securities	8	**(15,248,311)**	(11,903,085)	2,204,528
Finance charges	20	**(7,022,938)**	(6,187,352)	(10,859,855)
Interest income	7	**1,549,514**	1,475,133	853,644
License fee income		**-**	203,459,171	-
Others - net	21	**(9,050,668)**	56,430,481	41,329,074
		(15,161,445)	161,422,797	54,155,446
INCOME (LOSS) BEFORE INCOME TAX		**(395,387,671)**	482,878,601	721,746,362
INCOME TAX EXPENSE (BENEFIT)	19			
Current		**7,603,380**	131,398,272	230,041,358
Deferred		**(82,018,677)**	47,432,314	(1,160,984)
		(74,415,297)	178,830,586	228,880,374
NET INCOME (LOSS)		**(P320,972,374)**	P304,048,015	P492,865,988
Attributable to:				
Equity holders of the Parent Company	23	**(319,411,018)**	P302,659,366	P490,101,221
Non-controlling interest		**(1,561,356)**	1,388,649	2,764,767
		(P320,972,374)	P304,048,015	P492,865,988
Attributable to Equity Holders of the Parent Company				
Basic Earnings Per Share	23	**(P0.3781)**	P0.3579	P0.5733
Diluted Earnings Per Share	23	**(P0.3781)**	P0.3579	P0.5733
NET INCOME (LOSS)		**(P320,972,374)**	P304,048,015	P492,865,988
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefits, net of tax	22	**(18,152,999)**	12,377,190	1,248,962
Fair value gain (loss) on investments in stocks	11	**(108,075,050)**	(306,782,380)	118,997,550
		(126,228,049)	(294,405,190)	120,246,512
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P447,200,423)**	P9,642,825	P613,112,500
Attributable to:				
Equity holders of the Parent Company		**(P445,639,067)**	P8,254,176	P610,347,733
Non-controlling interest		**(1,561,356)**	1,388,649	2,764,767
		(P447,200,423)	P9,642,825	P613,112,500

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

		Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES					
Income (loss) before income tax			**(P395,387,671)**	P482,878,601	P721,746,362
Adjustments for:	Depreciation and amortization	12	**173,219,615**	223,200,081	225,444,278
	Depreciation of right-of-use assets	20	**46,133,826**	-	-
Impairment loss on:	Goodwill	13	**17,046,266**	110,933,996	-
	Trade and other receivables	9, 17	**2,147,391**	-	25,000,000
	Dividend income	8, 11	**(31,657,224)**	(29,082,445)	(20,628,055)
	Interest income	7, 21	**(10,149,516)**	(14,031,615)	(853,644)
	Retirement cost	22	**18,265,466**	12,183,420	11,181,859
	Fair value loss (gain) on marketable securities	8	**15,248,311**	11,903,085	(2,204,528)
	Finance charges	20	**7,022,938**	6,187,352	10,859,855
Gain on sale of:	Marketable securities	21	**-**	(1,548,225)	-
	Property and equipment	21	**(839,812)**	(1,038,518)	(155,142)
	Unrealized foreign exchange loss	21	**885,057**	886,280	1,589,733
Operating income (loss) before working capital changes			**(158,065,353)**	802,472,012	971,980,718
Decrease (increase) in:	Trade and other receivables		**110,414,895**	218,239,380	(114,098,994)
	Other current assets		**(69,326,528)**	(32,960,265)	40,341,826
	Right-of-use assets		**(87,806,627)**	-	-
	Other noncurrent assets		**(84,660,518)**	(126,319,638)	(9,583,987)
Increase (decrease) in:	Trade and other current liabilities		**(100,839,515)**	(163,095,695)	41,212,426
	Withholding taxes payable		**(2,637,605)**	(4,985,780)	(7,435,063)
	Lease liabilities		**128,087,652**	-	-
	Interest received		**10,149,516**	14,031,615	853,644
	Income tax paid		**(13,924,737)**	(149,371,845)	(243,607,667)
	Retirement contributions	22	**(6,500,000)**	(1,000,000)	(11,004,983)
Net cash flows (used) provided by operating activities			**(275,108,820)**	557,009,784	668,657,920
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:	Marketable securities	8	**-**	-	(P17,034,130)
	Investments in stocks	11	**-**	(34,490,020)	(68,203,070)
	Property and equipment	12	**(29,536,476)**	(45,671,156)	(156,774,695)
	Dividends received	8, 11	**31,657,224**	29,082,445	20,628,055
Proceeds from sale of:	Marketable securities		**-**	12,423,090	6,746,030
	Property and equipment		**991,674**	1,610,461	1,069,280
	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			**3,112,422**	(37,045,180)	36,060,123
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash dividends paid			**-**	(P337,273,130)	(P255,092,323)
Loan proceeds		15	**150,000,000**	-	-
Decrease (increase) in:	Obligations under finance lease	20	**(35,374,474)**	(39,488,510)	(44,479,612)
	Installment payable		**(9,205,042)**	3,761,219	5,443,823
	Payment of lease liabilities	20	**(60,485,647)**	-	-
	Acquisitions of treasury shares	16	**-**	(16,606,788)	(211,841,592)
	Finance charges paid	20	**(7,022,938)**	(6,187,352)	(10,859,855)
Net cash flows provided by (used in) financing activities			**37,911,899**	(395,794,561)	(516,829,559)
NET INCREASE (DECREASE) IN CASH			**(234,684,499)**	124,170,043	187,888,484
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			**571,260,258**	447,130,976	258,944,786
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		21	**295,770**	(40,761)	297,706
CASH AND CASH EQUIVALENTS AT END OF YEAR		7	**P337,471,529**	P571,260,258	P447,130,976

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, 2019, 2018 AND 2017

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, 2019		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
Net loss		-	-	-	-	-	-	(319,411,018)	(319,411,018)	(1,561,356)	(320,972,374)
Other comprehensive loss	11, 22	-	-	-	-	(108,075,050)	(18,152,999)	-	(126,228,049)		(126,228,049)
Total comprehensive loss for the year		-	-			(108,075,050)	(18,152,999)	(319,411,018)	(445,639,067)	(1,561,356)	(447,200,423)
Transactions with owners											
Cash dividends	16	-	-	-	-	-	-	-	-	-	-
Stock dividend distributed	16	447,665,473	-	-	(422,431,981)	-	-	(25,233,492)	-	-	-
Acquisition of treasury shares	16	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
December 31, 2019		P895,330,946	P257,250,677	(P285,267,558)	P -	(396,801,971)	(P17,614,609)	P855,178,425	P1,308,075,910	P5,343,443	P1,313,419,353

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, 22	-	-	-	-	(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	16	-	-	-	-	-	-	(253,471,225)	(253,471,225)	(951,441)	(254,422,666)
Stock dividend	16	-	-	-	422,431,981	-	-	(422,431,981)	-	-	-
Acquisition of treasury shares	16	-	-	(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	16	-	-	-	-	-	(338,274,700)	(338,274,700)	(3,552,240)	(341,826,940)
Acquisition of treasury shares	16	-	-	(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

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 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's registered office address is at 28th Floor, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila.

The Group is a 50.1% owned subsidiary of Premium Leisure Corporation (PLC) "Immediate Parent Company") and its ultimate parent company is Belle Corporation (Belle). Belle and PLC are corporations with shares listed on the PSE.

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
Lucky Deal Leisure Inc. (LLI)***	-	100.00
Lucky Fortune Business Ventures, Inc. (LBVI)***	-	100.00
Lucky Pick Leisure Club Corp. (LLCC)***	-	100.00
Lucky Ventures Leisure Corp. (LLC)***	-	100.00
Lucky Games Entertainment Ventures Inc. (LGE-VI)***	-	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 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 operating 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, instant game tickets, and other lottery and gaming tickets, including, but not limited to, those introduced by PCSO; 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.

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 leased online lottery equipment from the Parent Company for PCSO's VisMin online lotto operations. This was amended on February 13, 2004, wherein the Parent 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, communications 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 latter 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 10).

2019 Amended ELA. On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. The PCSO announced that a bidding for its nationwide lottery system (NOLS) will be conducted during the early part of 2020. The Parent Company has expressed its readiness to participate in the said bidding, as it had joined the PCSO bidding exercises held in 2019. The Parent Company's ELA with PCSO is currently on an annual basis because of the failed bidding in 2019 of its NOLS. This means that the Parent Company will have to continue to operate under the current ELA terms beyond July 2020; i.e., when PCSO is able to hold its bidding, award the new ELA contract and undertake a transition from the current lottery system to the new system. Should the PCSO bidding for NOLS be held in 2020, the Parent Company is well positioned to be a front runner in said bidding due to its credentials and track record. But should POSC not win the bid, the Parent Company will continue to operate given that the Parent Company's contract with PCSO will be extended for another one (1) to two (2) years due to the transition period required for a new service provider to take over the NOLS.

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 3,785 and 4,029 as at December 31, 2019 and 2018, respectively. The Parent Company's equipment rental revenue amounted to

P427.9 million, P788.6 million, and P1,036.9 million in 2019, 2018 and 2017, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P42.7 million and P76.2 million as at December 31, 2019 and 2018, 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 instant 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, , 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, were allowed to be marketed continuously until fully sold and the corresponding winnings thereof were 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 cash bond. The cash bond is presented as "Bonds and deposits" under "Other Current Assets" 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 the 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 paper 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.

2019 Amended ELA. On October 1, 2019, the ELA was amended to a lower lease rate, inclusive of VAT. The minimum price per keno bet was reduced from Twelve Pesos (P12.00) to Ten Pesos (P10.00), inclusive of DST.

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 TGTI's online keno lottery terminals, 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 1,833 and 2,454 as at December 31, 2019 and 2018, respectively. TGTI's equipment rental revenue amounted to P253.6 million, P659.7 million, and P803.6 million 2019, 2018 and 2017, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P22.7 million and P77.1 million as at December 31, 2019 and 2018, respectively (Note 9).

On July 27, 2019, the President of the Philippines, suspended the sale of PCSO games - lotto, keno instant scratch tickets and small-town lottery (STL). The suspension was eventually lifted on July 31, 2019 for lotto, August 24, 2019 for STL and September 27, 2019 for keno and scratch tickets.

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 Board of Directors (BOD) on February 20, 2020.

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 benefits 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 Parent Company's functional currency. All amounts 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 shareholders with a right to vote 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 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.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following amendments to standards starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise stated, the adoption did not have a material impact on the Group's consolidated financial statements.

- 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.

The Group has adopted PFRS 16 on the date of initial application, January 1, 2019 (Note 20). Refer to Note 20 for the impact to the consolidated financial statements. The transition to PFRS 16 is discussed under the succeeding accounting policy for leases. The minimum future rental payments as at December 31, 2018 amounted to P90,335,553.

	Amount
Lease commitments disclosed at December 31, 2018	**P90,335,553**
Weighted average incremental borrowing rate at January 1, 2019	**7%**
Discounted operating lease commitments as at January 1, 2019	**79,023,014**
Less: Commitments relating to short-term leases	**101,822,646**
Less: Commitments relating to leases of low-value assets	**-**
Add: Commitments relating to leases previously classified as finance leases	**35,374,474**
Add: Payments in optional extension periods not recognized at December 31, 2018	**91,117,872**
Lease liability recognized at January 1, 2019	**P103,692,714**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The average rate applied for lease contracts with duration of 13 months to 23 months is 6% and the rate applied for lease contracts with duration of 24 months to 35 months is 6.5%.

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

- Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments).
- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates and Joint Ventures).
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits).
- Annual Improvements to PFRSs 2015 - 2017 Cycle.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019. 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, 2020

- Amendments to References to Conceptual Framework in PFRS Standards sets
- Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).
- Definition of a Business (Amendments to PFRS 3 Business Combinations).

Effective January 1, 2023

PFRS 17 Insurance Contracts.

Financial Instruments

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 assets.

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:

- 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.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- 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.
- 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 investments 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 elects 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 not 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:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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, cash equivalents, trade and other receivables, deposits and guarantee bonds.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in 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;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 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.

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 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 and loan payable.

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.

The carrying amount of the asset is reduced is through use of an allowance account. The impairment loss for the period is recognized in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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, right-of-use assets 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 statements of 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 interest 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.

Intangible Assets

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequently to initial recognition, an internally generated intangible asset is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated to write off the cost of intangible assts less their estimated residual values using the straight-line method over their estimated useful lives, and generally recognized in profit or loss. The estimated useful life is 2 - 3 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 is 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

Retained earnings include 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

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.

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.

Commission and Distribution Income. Revenue from the distribution of lottery tickets such as lotto, keno, sweepstakes and instant scratch tickets to customers, including retailers and sub-distributors, is recognized upon delivery of the tickets to the customers. Revenue is computed based on a percentage of lottery ticket sales in accordance with the agreement.

Determining whether the Group is Acting as Principal or an Agent

The Group assesses its revenue arrangements using the following processes to determine whether it is acting as a principal or an agent:

- identify the specified goods or services to be provided to the customer (which for example, could be a right to a good or service to be provided by another party); and

- assess whether it controls each specified good or service before that good or service is transferred to the customer.

The Group has determined that it is acting as an agent in its commission and distribution income arrangements.

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 service to the customer is performed. Service income consists 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 that 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 Group has applied PFRS 16 using the modified retrospective approach with the cumulative effect of initially applying the Standard recognized at January 1, 2019, the date of initial application, and therefore the comparative information has not been restated and continues to be reported under PAS 17 and Philippine Interpretation IFRIC 4 Determining whether an Arrangement contains a Lease. The details of accounting policies under PAS 17 and Philippine Interpretation IFRIC 4 are disclosed separately.

Definition of a Lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under Philippine Interpretation IFRIC 4. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to PFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and Philippine Interpretation IFRIC 4 were not reassessed for whether there is a lease under PFRS 16. Therefore, the definition of a lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Policy Applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains. a lease. A contract is. or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into, on or after January 1, 2019.

As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However. for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments. including in-substance fixed payments;
- variable lease payments that depend on an index or a rate. initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group used a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- used hindsight when determining the lease term.

Short-term Leases and Leases of Low-value Assets

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies PFRS 15 to allocate the consideration in the contract.

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 lease 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. Contigent rents are recognized as revenue in the period in which they are earned.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from PFRS 16.

Policy Applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a Lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's consolidated statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

As a Lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

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 lease 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.

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 Group 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefits liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), 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 the consolidated statements of 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 period.

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 period. 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 Earnings 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.

The current and prior-period amounts for basic and diluted EPS are adjusted for transactions that, other than the conversion of potential ordinary shares, adjust the number of ordinary shares outstanding without a corresponding change in resources. This includes stock dividends that do not have cash alternative, from which additional shares issued are treated as if they had been issued since the beginning of the earliest period presented, necessitating retrospective adjustments to EPS.

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 PFRSs 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 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 judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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 collectability 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 P2.1 million and nil as at December 31, 2019 and 2018, respectively. Trade and other receivables amounted to P172.5 million and P285.1 million as at December 31, 2019 and 2018, 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 and intangible asset with useful life would increase the recorded operating expenses and decrease noncurrent assets. There were no changes in estimated useful lives in 2019 and 2018.

The carrying amount of property and equipment as at December 31, 2019 and 2018 amounted to P107.4 million and P259.9 million, respectively (Note 12).

Impairment of Non-financial Assets (except Goodwill) and Deferred Tax Assets. PFRSs require that an impairment review be performed on property and equipment and when certain impairment indicators are present. Determining the recoverable amount of property and equipment 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, 2019 and 2018.

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 profitability of LCC and Nine Entities in estimating the expected cash flows as at December 31, 2019, and the effect of 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 P17.0 million and P110.9 million in 2019 and 2018 respectively. The carrying amount of goodwill amounted to nil and P17.0 million as at December 31, 2019 and 2018 (Note 13).

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 P128.8 million and P72.9 million as at December 31, 2019 and 2018, respectively (Note 22).

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 considers 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 P8.6 million and P12.6 million in 2019 and 2018, respectively (Note 21).

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. During 2019, the Group also has derecognized and unrecognized deferred tax assets amounting to P6.3 million and P17.0 million respectively.

Deferred tax assets (liabilities) - net amounted to P52.5 million and (P37.3 million) as at December 31, 2019 and 2018 respectively (Note 19).

Contingencies. The Group currently has few 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.

- *TMA Group of Companies, et al. vs. Philippine Charity Sweepstakes Office (PCSO), et al.* This is a complaint for specific performance and damages filed by TMA Australia Pty. Ltd. and its local subsidiary, TMA Group Philippines, Inc. (TMAP), against PCSO as regards their contract for the supply of lotto paper. The complainants subsequently amended their complaint to include Pacific Online and Philippine Gaming Management Corporation (PGMC) as defendants. They prayed for a temporary restraining order and/or writ of preliminary injunction to enjoin all defendants from doing anything in violation or derogation of the contractual terms of the Joint Venture Agreement (JVA) dated December 4, 2009 for the supply of lotto paper. No damages were prayed for against Pacific Online. On June 22, 2017, a Notice of Dismissal dated June 15, 2017 was received from TMAP praying for the dismissal of the Supplemental Complaint against Pacific Online pursuant to Section 1 of Rule 17. No objection was interposed to and/or comment on the Notice of Dismissal. Thus, in an Order dated June 28, 2017, the court dismissed the case against Pacific Online.

- *TMA Australia Pty. Ltd. And TMA Group Philippines, Inc. v. Pacific Online.* This refers to a complaint for Tortious Interference and payment of Damages filed by TMA Australia Pty. Ltd. and TMA Philippines (the "TMA Group") against Pacific Online in August 2017. The TMA Group alleged that Pacific Online wrongfully interfered with the implementation of the Contractual Joint Venture Agreement (CJVA) between the TMA Group and PCSO when it entered into several equipment lease agreements with the latter that included a supply of paper provision. The TMA Group also applied for a writ of preliminary injunction (WPI) against Pacific Online and prayed for damages in the amount of at least One Million Pesos (P1,000,000.00).

  On 21 March 2018, the RTC granted the TMA Group's application for WPI, enjoining Pacific Online from continuing to deliver lotto paper to PCSO. Prior to the issuance of the WPI, however, Pacific Online already completed delivery of all remaining lotto paper requirements under its ELA with PCSO. Thus, the WPI obtained by the TMA Group did not really have any adverse effect on Pacific Online. Nevertheless, Pacific Online still moved for the reconsideration of the RTC's Order granting the WPI. The RTC has yet to resolve this Motion.

  During the mediation proceedings on the case, Pacific Online and the TMA Group agreed, in principle, to an amicable settlement and are now in the process of drafting a Compromise Agreement. The financial impact is still impracticable to determine.

- *Philippine Charity Sweepstakes Office, et al.* v. Hon. Rommel C. Baybay et al. This case arose when Judge Rommel Baybay of RTC-Makati, Br. 143, in Civil Case 12-530, granted PGMC's application for injunction enjoining Pacific Online from leasing its equipment for PCSO's 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 (RTC) 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 or allowing the 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 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. This matter was not resolved by the Court of Appeals.

  On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC of 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 because, to a certain extent, the Petition already served its purpose as after the same was filed, the RTC Makati put on hold the hasty implementation of the injunction. Subsequent events have likewise rendered moot the issues in the case, since, aside from the ICA arbitration decision, the ELA at issue in the case has also been amended and superseded several times. With these developments, the adverse effect against Pacific Online - 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 PFRSs, 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 24.

The fair value of financial assets amounted to P1.1 billion and P1.6 billion as at

December 31, 2019 and 2018, respectively. The fair value of financial liabilities amounted to P360.0 million and P286.7 million as at December 31, 2019 and 2018, respectively (Note 24).

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 69%, 75%, and 79% of the Group's revenues in 2019, 2018 and 2017, 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:

	2019			
	Leasing Activities	**Distribution and Retail Activities**	**Eliminations**	**Consolidated**
Revenue				
Equipment rental	**P681,483,757**	**P -**	**P -**	**P681,483,757**
Commission and distribution income	**-**	**308,381,639**		**308,381,639**
Total revenue	**P681,483,757**	**P308,381,639**	**P -**	**P989,865,396**
Segments Results				
Income (loss) before income tax	**(P375,765,509)**	**(P130,886,208)**	**P111,264,045**	**(P395,387,672)**
Income tax expense (benefit)	**(64,714,850)**	**(9,700,448)**		**(74,415,298)**
Net income (loss)	**(P311,050,659)**	**(P121,185,760)**	**P111,264,045**	**(P320,972,374)**
Segment assets	**P1,949,630,084**	**P434,910,553**	**(P672,311,208)**	**P1,712,229,429**
Deferred tax assets - net	**P27,277,145**	**P24,547,842**	**P676,408**	**P52,501,395**
Segment assets (excluding deferred tax assets)	**P1,922,352,939**	**P410,362,711**	**(P672,987,616)**	**P1,659,728,034**
Segment liabilities	**P320,033,751**	**P229,654,430**	**(P150,278,105)**	**P399,410,076**
Other Information				
Capital expenditures	**P19,359,959**	**P10,176,519**	**P -**	**P29,536,478**
Depreciation and amortization	**159,503,099**	**59,850,342**	**-**	**219,353,441**
Finance charges	**4,367,236**	**2,655,702**	**-**	**7,022,938**
Interest income	**1,129,011**	**420,504**	**-**	**1,549,515**
Finance charges	**4,367,236**	**2,655,702**	**-**	**7,022,938**
Interest income	**1,129,011**	**420,504**	**-**	**1,549,515**

	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)	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)	P492,865,988
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 -	P185,439.478
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 assets - net and retirement benefits asset.*

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Note	2019	2018
Cash on hand and in banks		**P299,209,748**	P571,260,258
Cash equivalents		**38,261,781**	-
	24	**P337,471,529**	P571,260,258

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Interest income from cash in banks amounted to P1.5 million, P1.5 million, and P0.9 million in 2019, 2018 and 2017, 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	2019	2018
Balance at beginning of year		P155,704,892	P178,482,842
Acquisitions		-	-
Disposals		-	(10,874,865)
Mark-to-market loss		(15,248,311)	(11,903,085)
Balance at end of year	24	P140,456,581	P155,704,892

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 P4.7 million, P5.0 million, and P5.7 million in 2019, 2018 and 2017, respectively.

9. TRADE AND OTHER RECEIVABLES

	Note	2019	2018
Accounts receivable	2	**P126,602,764**	P235,290,703
Accrued license fee income - current portion	24	**40,062,153**	37,892,531
Advances:			
Officers and employees		**4,575,259**	4,939,898
Contractors and suppliers		**2,249,254**	3,847,376
Other receivables		**1,159,570**	3,093,387
		174,649,000	P285,063,895
Less allowance for impairment loss		**2,147,391**	-
		P172,501,609	P285,063,895

Accounts receivable is generally on a 30-to-60-day credit terms. The risks associated on this account are disclosed in Note 24.

Accounts receivable includes advance payments for instant scratch tickets amounting to nil and P71.8 million as at December 31, 2019 and 2018, respectively.

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

	Note	2019	2018
Balance at beginning of year		**P -**	P -
Impairment losses recognized during the year	18	**2,147,391**	-
Balance at end of year		**P2,147,391**	P -

Allowance recognized during the year pertains to the accounts receivables from suppliers.

10. OTHER CURRENT AND NONCURRENT ASSETS

Current Assets

	Note	2019	2018
Creditable withholding taxes		**P99,767,274**	P59,092,139
Prepayments		**71,897,116**	11,249,590
Spare parts and supplies at cost	2	**37,430,916**	60,978,544
Input VAT		**5,170,008**	3,618,513
Cash bond	2, 24	**-**	10,000,000
		P214,265,314	P144,938,786

Prepayments represent mainly the unexpired portion of insurance and rent. It also includes prepaid technical training, advisory and maintenance services related to the software development contract in 2019.

Noncurrent Assets

	Note	2019	2018
Software development		**P104,545,455**	P -
Accrued license fee income - net of current portion		**96,553,502**	130,123,122
Prepaid service & maintenance		**40,227,273**	-
Refundable deposits	24	**35,424,154**	34,930,697
Guaranteed deposits	2, 24	**12,000,000**	32,000,000
Others		**1,537,676**	8,573,722
		P290,288,060	P205,627,541

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).

Software development represents payments for the creation and development of new gaming solutions to enable selling of lottery tickets through different channels and enhance existing lottery system efficiencies in response to the changing economic conditions of the environment.

Prepaid service and maintenance pertains to advance payment for technical and training support service.

11. INVESTMENTS IN STOCKS

The movements in investments in stocks are as follows:

	Note	2019	2018
Balance at beginning of year		**P455,705,930**	P727,998,290
Acquisitions		**-**	34,490,020
Disposals		**-**	-
Fair value loss		**(108,075,050)**	(306,782,380)
Balance at end of year	24	**P347,630,880**	P455,705,930

There were no acquisitions or disposals in 2019 for the above investments. The fair value loss on investments in stocks is reported as "Other Comprehensive Income (Loss)" in the consolidated statements of comprehensive income.

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 P27.0 million, P24.1 million, and P14.9 million in 2019, 2018 and 2017, 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, 2018		P1,204,933,561	P86,026,218	P198,555,042	P80,810,148	P1,570,324,969
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
Acquisitions		7,759,051	2,984,917	8,826,345	9,966,163	29,536,476
Reclassifications		(163,499,020)	-	-	-	(163,499,020)
Disposals		(13,280,268)	(87,500)	(3,762,911)	(11,742,906)	(28,873,585)
December 31, 2019		**742,769,119**	**102,167,530**	**201,111,088**	**76,077,001**	**1,122,124,738**
Accumulated Depreciation and Amortization						
January 1, 2018		P880,721,990	P72,888,038	P132,109,044	P46,628,769	P1,132,347,841
Depreciation and amortization	18	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**
Depreciation and amortization	18	114,088,548	9,701,117	34,492,864	14,937,086	173,219,615
Reclassifications		(154,873,751)		44,983	(44,983)	(154,873,751)
Disposals		(13,280,266)	(87,500)	(3,762,911)	(11,591,047)	(28,721,724)
December 31, 2019		**696,805,264**	**93,203,302**	**174,238,015**	**50,462,166**	**1,014,708,747**
Carrying Amount						
December 31, 2019		**P45,963,855**	**P8,964,228**	**P26,873,073**	**P25,614,835**	**P107,415,991**
December 31, 2018		**P160,918,623**	**P15,680,428**	**P52,584,575**	**P30,692,634**	**P259,876,260**

Lottery equipment acquired under finance lease as of January 1, 2019 were reclassified to right-of-use assets.

13. 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 represents the fair value of expected synergies from the acquisition of LCC in 2007 and the Nine Entities in 2017.

	2019	2018
LCC	P -	P13,363,484
Nine Entities	-	3,682,782
	P -	P17,046,266

Goodwill from Acquisition of LCC and 9 Entities

The recoverable amount of goodwill from the acquisition of LCC by LotoPac and Nine Entities by LCC 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 Weighted Average Cost of Capital (WACC). The discount rate applied to pretax cash flow projections was 14.1% and 1% for the terminal growth rate.

Impairment loss on goodwill amounted to P17.0 million, P110.9 million and nil in 2019, 2018 and 2017, respectively.

14. TRADE AND OTHER CURRENT LIABILITIES

	Note	2019	2018
Accounts payable		**P75,397,172**	P154,248,020
Accrued expenses:			
Professional fees		**25,181,600**	26,405,592
Communications		**11,996,294**	9,486,430
Rental and utilities		**5,670,542**	6,596,842
Management fees		**-**	1,274,775
Consultancy, software and license fees payable		**17,207,061**	37,585,238
Output tax		**494,845**	494,845
Others		**8,284,437**	8,979,724
	24	**P144,231,951**	P245,071,466

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:

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 nil, P30.3 million, and P65.6 million in 2019, 2018 and 2017, respectively (Note 18).

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.

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.

On September 4, 2019, the contract with Scientific Games was further amended to extend the period until July 31, 2020.

Software and license fees amounted to P22.0 million, P37.8 million, and

P52.9 million in 2019, 2018 and 2017, respectively (Note 18).

Intralot

- 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.

  On July 1, 2019, the contract with Intralot was further amended to extend the period until July 31, 2020.

  Software and license fees amounted to P71.6 million, P96.4 million, and P80.7 million in 2019, 2018 and 2017, respectively (Note 18).

- 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 undertook 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 was previously recognized under "Other noncurrent assets" in the consolidated statements of financial position.

  Software and license fees amounted to P42.7 million, P61.6 million, and P58.1 million in 2019, 2018 and 2017, respectively (Note 18).

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 TGTI's earnings before interest, taxes, depreciation and amortization.

Management fees amounted to nil, P44.7 million and P69.9 million in 2019, 2018 and 2017, respectively (Note 18).

15. LOAN PAYABLE

On December 18, 2019, the Parent Company availed of a P150.0 million unsecured loan from Asia United Bank with an interest rate of 5.25% per annum, payable in monthly installments for a period of one (1) year.

16. EQUITY

Capital Stock

	2019		2018	
	Number of Shares	**Amount**	Number of Shares	Amount
CAPITAL STOCK				
Authorized:				
Common shares - P1 par value	**2,288,000,000**	**2,288,000,000**	500,000,000	P500,000,000
Issued:				
Balance at beginning of year	**447,665,473**	**447,665,473**	447,665,473	447,665,473
Issuance during the year	**447,665,473**	**447,665,473**	-	-
Balance at end of year	**895,330,946**	**895,330,946**	447,665,473	447,665,473
Treasury stock:				
Balance at beginning of year	**25,233,492**	**285,267,558**	23,755,492	268,660,770
Effect of stock dividend	**25,233,492**	**-**		
Purchases during the year	**-**	**-**	1,478,000	16,606,788
	50,466,984	**285,267,558**	25,233,492	285,267,558
Outstanding shares	**844,863,962**	**P610,063,388**	422,431,981	P162,397,915

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 was approved by the SEC on February 28, 2019.

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 SEC 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. The increase in authorized capital stock was subsequently approved by SEC last February 28, 2019. On March 15, 2019, the SEC approved the record date of March 29, 2019 and the payment date of on or before April 29, 2019 for the Parent Company's 100% stock dividend.

Dividends

No cash or stock dividends were declared in 2019.

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

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, 2019		December 31, 2018	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of the year	**25,233,492**	**P285,267,558**	23,755,492	P268,660,770
Effect of stock dividend	**25,233,492**	**-**		
Acquisitions	**-**	**-**	1,478,000	16,606,788
Balance at end of the year	**50,466,984**	**P285,267,558**	25,233,492	P285,267,558

Retained Earnings

	Note	2019	2018
Unappropriated		**P855,178,425**	P969,822,935
Appropriated:			
TGTI	a	-	200,000,000
LCC	b	-	30,000,000
		-	230,000,000
		P855,178,425	P1,199,822,935

- 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. In 2019, the appropriation was reversed.
- 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. In 2019, the appropriation was reversed as LCC decided to delay the renovations of the outlets and opening of new sites and purchase of office and computer equipment.

17. 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	2019	a	(P3,928,115)	P -	P2,657,914	On demand, non-interest bearing	Un-secured
	2018	a	-	-	16,586,029		
Dividend income received	2019	c	-	-	-		
	2018	c	6,732,636	-	-		
Dividends paid	2019	b	-	-	-		
	2018	b	99,048,559	-	-		
Treasury stock	2019	c	-	-	-		
	2018	c	174,384,130	-	-		
Reimburse-ments	2019	a	31,259,301	-	-		
	2018	a	75,624,181	-	-		
FRI							
Advances	2019	a	(10,000,000)	-	-	On demand, non-interest bearing	Un-secured
	2018	a	-	-	10,000,000		
LOTO PAC							
Advances	2019	a	150,967	-	986,855	On demand, non-interest bearing	Un-secured
	2018	a	111,456	-	841,489		
LCC & Nine Entities							
Dividends paid	2019		-	-	-		
	2018		39,055,276	-	-		
Advances	2019	a	79,287,018	986,855	108,375,661	On demand, non-interest bearing	Un-secured
	2018	a	-	-	29,958,498		
Rental expense	2019	d	76,662,787	-	-		
	2018	d	32,287,272	-	-		
Security deposits	2019	d	22,929,104	-	-		
	2018	d	23,104,654	-	-		
TOTAL	2019			P986,855	P112,020,430		
TOTAL	2018			P -	P57,386,016		

- 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 in cash 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 was converted to equity during the year.

- The Parent Company received cash dividends from TGTI and LCC.
- TGTI purchased traded shares 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.
- 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 P1.5 million and P139.3 million, respectively.

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

	2019	2018	2017
	(In Millions)		
Short-term employee benefits	P27.6	P32.02	P34.26
Post-retirement benefits	2.3	2.33	2.50
	P29.9	P34.35	P36.76

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 18 to the consolidated financial statements.

18. COSTS AND EXPENSES

	Note	2019	2018	2017
Personnel costs		**P314,086,424**	P345,490,508	P262,964,539
Depreciation and amortization	12	**219,353,441**	223,200,081	225,444,278
Rent and utilities	20	**163,959,364**	214,003,791	164,356,377
Software and license fees	14	**136,317,928**	195,747,032	191,656,399
Communications		**129,697,749**	125,035,510	121,106,618
Repairs and maintenance		**113,263,948**	72,500,789	55,210,127
Travel and accommodation		**83,475,380**	72,535,071	68,941,903
Operating supplies	2	**54,871,681**	159,806,141	217,083,894
Marketing and promotion		**48,013,099**	38,989,441	71,317,276
Taxes and licenses		**35,967,998**	32,732,310	39,334,232
Entertainment, amusement and representation		**25,583,939**	19,565,548	15,483,481
Professional fees		**15,054,919**	14,752,874	13,567,826
Provision for impairment loss	9	**2,147,391**	-	25,000,000
Management fees	14	**-**	44,665,897	69,853,146
Consultancy fees	14	**-**	30,312,175	65,571,479
Others		**28,298,361**	25,151,024	45,510,885
		P1,370,091,622	P1,614,488,192	P1,652,402,460

Personnel costs are as follows:

	Note	2019	2018	2017
Salaries and wages		**P238,721,271**	P268,125,674	P214,117,350
Other short-term employee benefits		**57,099,687**	65,181,414	37,665,329
Post-employment benefits	22	**18,265,466**	12,183,420	11,181,860
		P314,086,424	P345,490,508	P262,964,539

19. INCOME TAX

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

	2019	2018	2017
Income (loss) before income tax	**(P395,387,671)**	P482,878,601	P721,746,362
Income tax expense at statutory income tax rate (30%)	**(P118,616,301)**	P144,863,580	P216,523,909
Additions to (reductions in) income tax:			
Nondeductible expenses	**21,996,444**	5,433,994	15,653,680
Unrecognized NOLCO	**17,048,667**	-	-
Nontaxable income	**(9,497,167)**	(8,724,733)	(6,087,628)
Derecognized NOLCO	**6,270,418**	-	-
Impairment loss on goodwill	**5,113,880**	33,280,199	-
Mark-to-market loss (gain) on marketable securities	**4,574,493**	3,570,926	(147,361)
Income subjected to final tax	**(512,443)**	(553,175)	(215,749)
Gain on sale of marketable securities	**-**	(464,468)	-
Others	**(793,288)**	1,424,263	3,153,523
	(P74,415,297)	P178,830,586	P228,880,374

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

	2019	2018	2017
Amount charged (credited) to profit or loss	**(P82,018,677)**	P47,432,314	(P1,160,984)
Amount charged (credited) to other comprehensive income	**(7,779,857)**	5,304,510	578,076
	(P89,798,534)	P52,736,824	(P582,908)

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

As at December 31, 2019

	Beginning	Movements	Ending
Items Recognized in Profit or Loss			
Unamortized past service cost	**P10,002,926**	**P1,985,835**	**P11,988,761**
Allowance for impairment losses on trade and other receivables	**4,045,557**	**140,595**	**4,186,152**
NOLCO	**2,602,457**	**69,258,693**	**71,861,150**
Accrued expenses	**2,417,100**	**(1,349,256)**	**1,067,844**
Unrealized foreign exchange gain	**265,884**	**56,176**	**322,060**
Prepayments	**(310,551)**	**(404,900)**	**(715,451)**
Retirement benefits liability (asset)	**(5,642,271)**	**2,911,534**	**(2,730,737)**
Accrued license fee income	**(50,404,696)**	**9,420,000**	**(40,984,696)**
	(37,023,594)	**82,018,677**	**44,995,083**
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	**(273,545)**	**7,779,857**	**7,506,312**
	(P37,297,139)	**P89,798,534**	**P52,501,395**

As at December 31, 2018

	Beginning	Movements	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)

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:

- Reduction in personal income taxes
- 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 ½ of 1%)
- Amendments to other taxes
  - 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
  - Increased documentary stamp taxes (DST) rates by 50% to 100%
  - 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.

20. LEASE COMMITMENTS

Leases as Lessee (PFRS 16)

The Group leases office space, outlets and warehouses. The leases typically run for a period of 2-5 years, with an option to renew the lease after that date. Previously, these leases were classified as operating leases under PAS 17.

- Right-of-use assets

  Right-of-use assets related to leased properties whose lease terms are more than 12 months.

	Note	Offices, Outlets and Warehouses	Equipment	Total
Balance at January 1, 2019		**P70,434,635**	**P8,625,269**	**P79,059,904**
Depreciation charge for the year	18	**(37,508,557)**	**(8,625,269)**	**(46,133,826)**
Additions to right-of-use assets		**17,371,992**	**-**	**17,371,992**
Balance at December 31, 2019		**P50,298,070**	**P -**	**P50,298,070**

- Lease liabilities

	2019
Balance at January 1, 2019	**P68,318,240**
Reclassification from finance lease*	**35,374,474**
Interest charge for the year	**7,022,938**
Payments made	**(60,485,647)**
Additions to lease liabilities	**17,372,000**
Balance at December 31, 2019	**P67,602,005**

- Amounts to be recognized in profit or loss

	Note	2019
2019 - Leases under PFRS 16		
Interest on lease liability		**P7,022,938**
Depreciation expense	18	**46,133,826**
Rent expense relating to short-term leases	18	**92,024,069**
2018 - Operating Leases under PAS 17		
Rent expense		**P214,003,791**
Total cash outflows for leases in 2019		**P145,180,833**

21. OTHER INCOME (LOSS)

"Others" under Other income consists of:

	Note	2019	2018	2017
Excess input VAT		**(P28,913,770)**	P32,627,219	P28,754,377
Accreted interest income	2, 5	**8,600,002**	12,556,482	-
Service income		**5,396,307**	5,163,930	11,835,830
Gain on sale of:				
Marketable securities		**-**	1,548,225	-
Property equipment		**839,812**	1,038,518	155,142
Foreign exchange losses		**(1,180,826)**	(845,519)	(1,887,440)
Others		**6,207,807**	4,341,626	2,471,165
		(P9,050,668)	P56,430,481	P41,329,074

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:

- 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

- 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 or expense which is presented as "Excess input VAT" in the consolidated statements of income.

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

22. RETIREMENT PLAN

The Parent Company, TGTI, LCC and Nine Entities have funded, noncontributory defined benefits 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, 2019. 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.

During 2019, the Group amended their plan asset to include the death and disability benefits which resulted to the recognition of past service cost.

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Defined Benefits Liability (Asset)		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Balance at beginning 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)
Acquisition of Nine Entities		-	716,002		-	-		-	716,002
Recognized in Profit or Loss									
Current service cost	**9,816,655**	12,297,526	11,438,381	**-**	-		**9,816,655**	12,297,526	11,438,381
Past service cost	**9,357,392**			**-**			**9,357,392**	-	-
Interest expense	**5,750,268**	4,749,206	3,980,142	**-**	-		**5,750,268**	4,749,206	3,980,142
Interest income	**-**	-	-	**7,123,506**	4,998,686	4,309,150	**(7,123,506)**	(4,998,686)	(4,309,150)
Interest on effect of asset ceiling	**-**	-	-	**(464,657)**	(135,374)	(72,487)	**464,657**	135,374	72,487
	24,924,315	17,046,732	15,418,523	**6,658,849**	4,863,312	4,236,663	**18,265,466**	12,183,420	11,181,860
Remeasurements Recognized in Other Comprehensive Income									
Actuarial (gains) losses arising from:									
Experience adjustments	**(681,139)**	(691,375)	(2,846,877)	**-**	-	-	**(681,139)**	(691,375)	(2,846,877)
Changes in financial assumptions	**33,150,515**	(22,323,512)	(2,475,821)	**-**	-	-	**33,150,515**	(22,323,512)	(2,475,821)
Changes in demographic assumptions	**(1,548,460)**	(5,235,516)	(575,931)	**-**	-	-	**(1,548,460)**	(5,235,516)	(575,931)
Return on plan asset excluding interest	**-**	-	-	**(293,111)**	(7,194,150)	(3,170,012)	**293,111**	7,194,150	3,170,012
Effect of asset ceiling	**-**	-	-	**5,281,172**	(3,374,553)	(801,697)	**(5,281,172)**	3,374,553	801,697
	30,920,916	(28,250,403)	(5,898,629)	**4,988,061**	(10,568,703)	(3,971,709)	**25,932,855**	(17,681,700)	(1,926,920)
Others									
Benefits paid	**-**	(96,206)	-	**-**	(96,206)	-		-	-
Contributions paid	**-**	-	-	**6,500,000**	1,000,000	11,004,983	**(6,500,000)**	(1,000,000)	(11,004,983)
	-	(96,206)	-	**6,500,000**	903,794	11,004,983	**(6,500,000)**	(1,000,000)	(11,004,983)
Balance at end of year	**P128,758,005**	P72,912,774	P84,212,651	**P98,915,237**	P80,768,327	P85,569,924	**P29,842,768**	(P7,855,553)	(P1,357,273)

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

	2019	2018
Balance at beginning of period	**P5,884,879**	P2,374,952
Remeasurement gain on the change in the effect of asset ceiling	**(5,281,172)**	3,374,555
Interest expense on effect of asset ceiling	**464,657**	135,372
Balance at end of period	**P1,068,364**	P5,884,879

The fair value of plan assets consists of the following:

	2019	2018
Cash and cash equivalents	**P6,462,730**	P2,742,797
Debt instruments - government bonds	**49,620,862**	44,713,835
Debt instruments - other bonds	**2,994,707**	34,209,897
Unit investment trust funds	**38,169,995**	2,478,901
Others	**1,666,943**	(3,377,103)
	P98,915,237	P80,768,327

All debt instruments and unit investment trust funds have quoted prices in active markets. The 2018 figures were adjusted to align with 2019 breakdown.

The Parent Company, TGTI and LCC expect to contribute P10.0 million, P5.0 million and P1.5 million to the benefit plan in 2020.

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

	2019		
	Parent Company	**LCC**	**TGTI**
Discount rate	**5.25%**	**5.10%**	**5.22%**
Future salary increase	**8.00%**	**5.00%**	**8.00%**

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

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, 2019, the weighted average duration of the retirement liability of the Group is 12.4 years to 30.8 years.

Maturity analysis of total benefit payments of the Group:

	Expected Benefit Payments			
Period	Parent Company	LCC	TGTI	Total
2020	P15,759,746	P3,305,656	P9,188,153	P28,253,555
2021	3,795,865	57,149	-	3,853,014
2022	1,549,034	91,928	-	1,640,962
2023	3,237,372	315,258	270,629	3,823,259
2024	913,788	177,638	-	1,091,426
2025-2029	25,982,001	5,677,095	-	31,659,096

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	(14,485,000)	17,877,142
Future salary increase rate	17,308,756	(14,348,550)

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.

23. DILUTED EARNINGS PER SHARE (DEPS)

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

	2019	2018	2017
Issued - beginning of year	**P447,665,473**	P447,665,473	P447,665,473
Treasury shares at beginning of the year	**(25,233,492)**	(23,755,492)	(4,983,946)
Outstanding at beginning of year, before stock dividends	**422,431,981**	423,909,981	442,681,527
100% stock dividends			
All issued shares	**447,665,473**	447,665,473	447,665,473
On treasury shares	**(25,233,492)**	(23,755,492)	(4,983,946)
Retrospective Effect of Stock dividends	**422,431,981**	423,909,981	442,681,527
Outstanding at beginning of year, after stock dividends (a)	**844,863,962**	847,819,962	885,363,054

	2019	2018	2017
Effect of acquisition of treasury shares on weighted average, before effect of stock dividends	**P -**	(P1,113,439)	(P15,256,425)
Effect of 100% stock dividends	**-**	(1,113,439)	(15,256,425)
Effect of acquisition of treasury shares, after stock dividends (b)	**P -**	(P2,226,878)	(P30,512,850)
Weighted average number of shares outstanding during the year for Basic EPS and Diluted EPS (a+b)	**P844,863,962**	P845,593,084	P854,850,204
Net income (loss) attributable to equity holders of the Parent Company (c)	**(319,411,018)**	302,659,366	490,101,221
Basic EPS and Diluted EPS (c/b)	**(P0.3781)**	P0.3579	P0.5733

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

During 2019, the Group issued a 100% stock dividend to its shareholders. The earnings per share presented is computed with retrospective application of the stock dividends to the earliest period presented.

Diluted EPS is calculated in the same manner as basic EPS adjusted for dilutive instruments. The calculation for 2017 includes the effect of the 100% stock dividend declared during the year. The increase in authorized capital stock was approved by the SEC on February 28, 2019. (Note 16).

24. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash in banks, cash equivalents, trade and other receivables, marketable securities, investments in stocks, refundable deposits, guarantee bonds, trade and other current liabilities, loan payable, lease 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, 2019 and 2018 without taking into account any collateral and other credit enhancements:

	Note	2019	2018
Cash in banks and cash equivalents	7	**P332,880,313**	P564,886,238
Trade and other receivables - net*	9	**212,881,594**	334,550,292
Marketable securities	8	**140,456,581**	155,704,892
Refundable deposits	10	**35,424,154**	34,930,697
Investments in stocks	11	**347,630,880**	455,705,930
Guarantee bonds**		**12,000,000**	42,000,000
Total credit exposure		**P1,081,273,522**	P1,587,778,049

**Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and P130.1 million and exclusive of advances amounting to P56.2 million and P80.6 million as at December 31, 2019 and 2018, 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, 2019 and 2018:

	2019		
	Neither Past Due nor Impaired	Impaired	Total
Trade and other receivables - net	**P75,106,370**	**P -**	**P75,106,370**
Accrued receivable*	**136,615,655**	**-**	**136,615,655**
Guarantee bonds**	**12,000,000**	**-**	**12,000,000**
Refundable deposits	**35,424,154**	**-**	**35,424,154**
Other receivables	**1,159,570**	**-**	**1,159,570**
	P260,305,749	**P -**	**P260,305,749**

** Inclusive of noncurrent portion of license fee income of P96.6 million and exclusive of advance payments of P56.2 million.*
*** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.*

	2018		
	Neither Past Due nor Impaired	Impaired	Total
Trade and other receivables - net*	P163,441,252	P -	P163,441,252
Accrued receivables*	168,015,653	-	168,015,653
Guarantee bonds	42,000,000	-	42,000,000
Refundable deposits	34,930,697	-	34,930,697
Other receivables	3,093,387	-	3,093,387
	P411,480,989	P -	P411,480,989

** 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.*

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 following table 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:

	2019			
	Grade A	**Grade B**	**Grade C**	**Total**
At amortized cost:				
Cash in banks and cash equivalents	**P332,880,313**	**P -**	**P -**	**P332,880,313**
Trade and other receivables - net*	**76,265,939**	**136,615,655**	**-**	**212,881,594**
Refundable deposits	**-**	**35,424,154**	**-**	**35,424,154**
Guarantee bonds	**-**	**-**	**12,000,000**	**12,000,000**
At FVPL:				
Marketable securities	**140,456,581**	**-**	**-**	**140,456,581**
At FVOCI:				
Investments in stocks	**347,630,880**	**-**	**-**	**347,630,880**
	P897,233,713	**P172,039,809**	**P12,000,000**	**P1,081,273,522**

** Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and exclusive of advance payments of P56.2 million.*

	2018			
	Grade A	Grade B	Grade C	Total
At amortized cost:				
Cash in banks	P564,886,238	P -	P -	P564,886,238
Trade and other receivables - net*	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.*

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.

Estimating ECL

The following table presents the Group's exposure to credit risk and shows the credit quality of the financial assets as at December 31, 2019 by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost				
December 31, 2019	**12-Month ECL**	**Lifetime ECL not Credit Im-paired**	**Total**	**ECL**	**Carrying Amount**
Cash in banks and cash equivalents	**P332,880,313**	**P -**	**P332,880,313**	**P -**	**P332,880,313**
Trade and other receivables - net*	**215,028,985**	**-**	**215,028,985**	**(2,147,391)**	**212,881,594**
Refundable security deposits	**35,424,154**	**-**	**35,424,154**	**-**	**35,424,154**
Guarantee bonds	**12,000,000**	**-**	**12,000,000**	**-**	**12,000,000**
	P595,333,452	**P -**	**P595,333,452**	**(P2,147,391)**	**P593,186,061**

** Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and exclusive of advance payments of P56.2 million.*

	Financial Assets at Amortized Cost				
December 31, 2018	12-Month ECL	Lifetime ECL not Credit Impaired	Total	ECL	Carrying Amount
Cash in banks and cash equivalents	P564,886,238	P -	P564,886,238	P -	P564,886,238
Trade and other receivables - net*	334,550,292	-	334,550,292	-	334,550,292
Refundable security deposits	34,930,697	-	34,930,697	-	34,930,697
Guarantee bonds	42,000,000	-	42,000,000	-	42,000,000
	P976,367,227	P -	P976,367,227	P -	P976,367,227

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

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience. Any adjustments to the loss rates for forecasts of future economic conditions are not expected to be material. The Group applies the simplified approach in providing for ECL prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

Cash in banks and cash equivalents are considered of good quality as these pertain to deposits in reputable banks.

Impairment on cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash has low credit risk based on the external credit ratings of the counterparties.

Receivables and refundable security deposits are considered of good quality since these are transacted with counterparties with high external credit ratings. the credit quality of these financial assets is considered to be high grade.

Marketable Securities and Investment in Stocks are considered good quality since these are invested in companies listed in the PSE.

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
2019	**5%**	**P7,022,829**
	(5%)	**(7,022,829)**
2018	5%	P7,785,245
	(5%)	(7,785,245)

Investments in Stocks

	Increase (Decrease) in Equity Price	Effect on Comprehensive Net Income
2019	**8%**	**P27,810,470**
	(8%)	**(27,810,470)**
2018	8%	P36,456,475
	(8%)	(36,456,475)

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:

				2019		
	Note	Less than 3 Months	3-6 Months	6-12 Months	More than 12 Months	Total
Trade and other current liabilities*	14	P61,145,802	P52,988,151	P634,800	P27,627,805	P142,396,558
Loans payable	15	37,500,000	75,000,000	37,500,000	-	150,000,000
Lease liabilities**	20	9,736,270	18,392,708	30,224,143	9,248,884	67,602,005
		P108,382,072	P146,380,859	P68,358,943	P36,876,689	P359,998,563

** Excluding statutory liabilities amounting to P1.8 million.*
*** Inclusive of noncurrent portion*

			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*

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, 2019 and 2018, assets and liabilities denominated in US$ include cash in banks amounting to P51.8 million ($1,022,373) and P20.5 million ($391,254), and consultancy and software and license fees payable amounting to P17.2 million ($339,792) and P37.6 million ($716,411), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P50.64 and P52.46 to US$1, the Php to US$ exchange rates, as at December 31, 2019 and 2018, 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
2019	**5%**	**(P1,728,296)**	**(P1,209,807)**
	(5%)	**1,728,296**	**1,209,807**
2018	5%	(691,698)	(484,188)
	(5%)	691,698	484,188

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.

There were no changes in the Group's approach to capital management during the year.

As at December 31, 2019 and 2018, the Group is compliant with the minimum public float requirement by the PSE.

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

There were no changes in the Company's approach to capital management during the year. As at December 31, 2019 and 2018, the Company is compliant with the minimum public float requirement by PSE.

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, 2019 and 2018 are as follows:

Current Ratio

	2019	2018
Current assets	**P864,695,033**	P1,156,967,831
Current liabilities	**360,318,424**	289,167,455
Current ratio	**2.40:1.00**	4.00:1.00

Debt-to-Equity Ratio

	2019	2018
Total liabilities	**P399,410,076**	P342,459,605
Total equity	**1,313,419,353**	1,760,619,776
Debt-to-equity ratio	**0.30:1.00**	0.19:1.00

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, 2019 and 2018:

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash and cash equivalents	**P337,471,529**	**P337,471,529**	P571,260,257	P571,260,257
Trade and other receivable*	**212,881,594**	**212,881,594**	334,550,292	334,550,292
Refundable deposits	**35,424,154**	**35,424,154**	34,930,697	34,930,697
Guarantee bonds	**12,000,000**	**12,000,000**	42,000,000	42,000,000
At FVPL:				
Marketable securities	**140,456,581**	**140,456,581**	155,704,892	155,704,892
At FVOCI:				
Investments in stocks	**347,630,880**	**347,630,880**	455,705,930	455,705,930
	P1,085,869,738	**P1,085,869,738**	P1,594,152,068	P1,594,152,068

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	**P142,396,558**	**P142,396,558**	P242,160,015	P242,160,015
Loan payable	**150,000,000**	**150,000,000**		
Lease liabilities (inclusive of noncurrent portion)	**67,602,005**	**67,602,005**	-	-
Obligations under finance lease (inclusive of noncurrent portion)	-	-	35,374,474	35,374,474
Installment payable (inclusive of noncurrent portion)	-	-	9,205,042	9,205,042
	P359,998,563	**P359,998,563**	P286,739,531	P286,739,531

**Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and P130.1 million and exclusive of advances amounting to P56.2 million and P80.6 million as at December 31, 2019 and 2018, respectively.*
***Excluding statutory liabilities of P1.8 million and P2.9 million in 2019 and 2018, respectively.*

The carrying amounts of cash and cash equivalents, trade and other receivables (excluding accrued license fee income), deposits, trade and other current liabilities and loan payable approximate their fair values due to the relatively short-term maturities of the financial instruments.

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, lease liabilities, obligations under finance lease, and installment payable approximate their fair values 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				
2019	**P140,456,581**	**P -**	**P -**	**P140,456,581**
2018	155,704,892	-	-	155,704,892
Investments in Stocks				
2019	**347,630,880**			**347,630,880**
2018	455,705,930	-	-	455,705,930

There were no transfers between Levels in 2019 and 2018.

25. EVENTS AFTER THE FINANCIAL REPORTING PERIOD

On February 6, 2020, the management of Parent Company and Loto Pacific has approved the plan to sell LCC and Nine Entities (LCC Group) in light of the need for the Company to focus on its core business and subsequently on February 13, 2020, the sale of LCC Group was completed with a third party. The total assets and total liabilities of the LCC Group as at December 31, 2019 are P290,905,660 and P189,902,249 respectively. The total revenue and net loss of LCC Group for the year ended December 31, 2019 are P282,915,888 and P121,137,728 respectively. The Company received a consideration amounting to P137,413,459.

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