COVER SHEET

AS093-008809

SEC Registration Number

PACIFIC ONLINE SYSTEMS CORPORATION

(Company's Full Name)

28th Floor, East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City

(Business Address: No. Street City/Town/Province)

Maria Neriza C. Banaria	8584-1700
(Contact Person)	(Company Telephone Number)

12	31	17-A		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

CFD	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

60		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE

COMMISSIONSEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2022**

2. SEC Identification Number: **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**

4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**

5. **Metro Manila, Philippines** 6.__________________(SEC Use Only)Province, Country or other jurisdiction of Industry Classification Code
Incorporation or organization

7. **28/F, East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City,Metro Manila** **1605**
Address of principal office Postal Code

8. **632/8584-1700**
Registrant's telephone number, including area code

9. **Not applicable**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 par value	**895,330,946**

11. Are any or all of these securities listed on the Philippine Stock Exchange.Yes [√] No [ ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [√] No [ ]

(b) has been subject to such filing requirements for the past 90 days.Yes [√] No [ ]

13. Aggregate market value of voting stock held by non-affiliates: ₱ 528.6 million
This was computed by multiplying the number of voting stocks held by non-affiliates by the stock's closing price on December 31, 2022.

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Pacific Online Systems Corporation ("POSC", "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 Revised 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 Parent Company is a 50.1%-owned subsidiary of Premium Leisure Corp. (PLC or the "Immediate Parent Company"). The ultimate parent company is Belle Corporation (Belle). Belle and PLC are corporations with shares listed on the PSE, incorporated and domiciled in the Philippines.

The subsidiaries of the Parent Company and its interest in a joint operation, which are all incorporated and domiciled in the Philippines, are as follows:

		Percentage of Ownership					
		2022			2021		
	Industry	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Subsidiaries							
Loto Pacific Leisure Corporation (LotoPac)	Gaming	**100.0**	**–**	**100.0**	100.0	–	100.0
Total Gaming Technologies, Inc. (TGTI)	Gaming	**98.9**	**–**	**98.9**	98.9	–	98.9
Falcon Resources Inc. (FRI)	Gaming	**–**	**100.0**	**100.0**	–	100.0	100.0
TGTI Services, Inc. (TGTISI)	Gaming	**–**	**–**	**–**	–	100.0	100.0
Interest in Joint Operation							
PinoyLotto Technologies Corp. (PinoyLotto)	Gaming	**50.0**	**–**	**50.0**	50.0	–	50.0

POSC

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 on governmental, municipal or public authority, domestic or foreign.

POSC has an Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment. The existing ELA is valid until May 30, 2023

LotoPac

LotoPac was incorporated in March 2007, primarily to acquire, establish, operate and manage amusement, recreational and gaming equipment facilities, as well as places for exhibitions, recreational, 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.

On February 13, 2020, LotoPac sold its investment in shares of stock of Lucky Circle Corporation (LCC) and as a result, LotoPac ceased its operations as an investment holding entity.

TGTI

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

TGTI had an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games, which is TGTI's primary source of revenue. The ELA expired last April 1, 2022, and was no longer renewed. The Company is still evaluating its future operating plans. In the meantime, management continues to actively look for viable opportunities within the gaming industry.

<u>FRI</u>
FRI was incorporated on May 25, 1999 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.

Starting July 2020, FRI ceased commercial operations of scratch ticket distribution to diversify to projects that are more aligned with the Parent Company's strategy and to focus on technology driven games and related support services that will be more viable and sustainable in the long term.

<u>TGTISI</u>
TGTISI was incorporated on August 31, 2011 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 aspects.

On June 9, 2022, TGTI's Board of Directors (BOD) approved the sale of all its common shares in TGTISI to a third party

<u>PinoyLotto</u>
On June 21, 2021 PinoyLotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated with the SEC. PinoyLotto was awarded the five years lease of the customized PCSO Lottery System, also known as '2021 PLS Project'.

The Company's interest in PinoyLotto was considered as a joint operation. PinoyLotto is expected to commence commercial operations in October 2023.

Recent Developments

The opening up of the economy due to the better control over the COVID-19 situation in the country has driven higher lotto sales and improved the revenues of the Company for 2022. This is despite the fact that the ELA of TGTI with PCSO has not been renewed effective April 1, 2022. The resulting cessation of commercial operations of KENO has prompted the Company to implement additional cost efficiency measures to off-set the negative effects of losing an income channel.

In June 2022, the Company decided to sell TGTI's subsidiary, TGTI Services Inc., which was subsequently purchased by a third party.

POSC is experiencing continuous improvement in both lottery sales and bottom-line income as a result of the more robust economic activities during the year. The higher revenues are largely driven by multiple high jackpot prizes for lotto games throughout the year and the return of players to face to face activities. In fact, December 2022 year-to-date lotto sales of P8.5B surpassed pre-pandemic 2019 sales of P7.1B.

<u>Agreements with the PCSO</u>
PCSO is the principal government agency for "raising and providing funds for health programs, medical assistance and services, and charities of national character" by means of holding and conducting charity sweepstakes, races, and lotteries. It also engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs.

ELA between POSC and PCSO
POSC has an ELA with the PCSO for the lease of lotto terminals, which includes central computer, communications equipment, and the right to use the application software and manualsfor the central computer system and draw equipment of PCSO. This also includes the supply of betting slips and ticket paper rolls.

In relation to the amendments of contract with PCSO, POSC was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2022 and 2021, the total cash bond, included under "Other current assets" or "Other noncurrent assets" in the consolidated statement of financial position amounted to P12.0 million.

On July 31, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. The said extension was intended for PCSO to complete the bidding process for the Philippine Lottery System (PLS) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO.

Since July 31, 2019, the ELA has been extended for PCSO to complete the bidding process for the Philippine Lottery System (PLS) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO. In 2022, the ELA was extended until December 31, 2022.

In 2023, the ELA was extended for a month-to-month basis up to May 31, 2023.

The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income is based on a percentage of gross sales of lotto ticket from PCSO's VISMIN and Luzon operations. The number of installed lotto terminals totaled 3,605 and 3,129 as at December 31, 2022 and 2021, respectively. POSC's rental income amounted to P512.7 million in 2022 (P390.8 million and P245.9 million in 2021 and 2020, respectively).

ELA between TGTI and PCSO
TGTI has an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories. The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of the gross sales of the "Online KENO" terminals. The ELA may be extended and/or renewed upon the mutual consent of the parties. TGTI's revenue from equipment rental amounted to P6.3 million in 2022 (P35.6 million and P47.2 million in 2021 and 2020, respectively). As at December 31, 2022 and 2021, there are 435 and 569 Online KENO terminals in operation, respectively. There are 61 remaining terminals that remain online for validation purposes only

On December 11, 2020, the ELA was amended to extend the term of six months, effective October 1, 2020 until March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with an aggregate amount of P2.5 million. The cash bond is included under "Other current assets" or Other noncurrent assets" in the consolidated statements of financial position.

In 2021, the ELA was extended on a month-to-month basis not exceeding 1 year, commencing from April 1, 2021 and not exceeding April 1, 2022. The ELA was no longer renewed and commercial operations ceased as of said date.

Brand and Trademark Agreement with PMLC
In January 2018, POSC entered into a Brand and Trademark License Agreement (BTLA) with PMLC granting the latter a non-assignable, non-transferable and exclusive right to use POSC's instant scratch tickets' brand and trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. In consideration of the BTLA, PMLC agreed to pay POSC a guaranteed fixed monthly fee of P4.0 million starting January 2018. The agreement with PMLC was accounted for as sale of right to use the brand and trademark. POSC already transferred the control over the brand and trademark to PMLC starting January 1, 2018 and there are no other performance obligation to be provided to PMLC.

Due to the suspension of PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, PMLC was not able to supply and distribute instant scratch tickets to its customers. The management expects delay on the payment for those months, this, the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable. Impairment losses amounting to P26.0 million were recognized in 2020 and subsequently reversed in 2021.

Accrued interest income amounted to P3.7 million in 2022 (P6.1 million and 5.6 million in 2021 and 2020, respectively. Accrued license fee income amounted to P4.0 million as of December 31, 2022 (P70.3 million as of December 31, 2021). The contract with PMLC is until January 2023.

Government Regulation and Environmental Compliance

The Company does not need any government approval for its principal products or services since its business is in the development, design and management of online computer systems, terminals and software for the PCSO and not in the operation of the lottery business.

The Company has been fully compliant with environmental regulations and ordinances issued by the concerned Local Government Units (LGU) and by the Department of Natural Resources (DENR) in so far as disposal of used computer hardware, office equipment and other bulky operating supplies are concerned, pursuant to the Republic Act 9003: Ecological Solid Waste Management Act of 2000.

Technology Development, Supply and Service Contracts

<u>Scientific Games</u>
As at December 31, 2022 and 2021, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC 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 POSC's ELA with PCSO is in effect.

<u>Intralot</u>
As at December 31, 2022 and 2021, POSC and TGTI have contracts with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC and TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The Contract shall continue as long as POSC's and TGTI's ELA with PCSO are in effect.

The Philippine Lottery Sector

The Philippine lottery sector is regulated by the PCSO, a government-owned and controlled corporation that was created primarily to raise funds for health and charity programs of the government. It regulates the lottery and other games of chance in order to protect certain sectors of society, especially the youth. It is estimated that the gaming market in the Philippines is worth over P100 billion per year, and illegal gaming accounts for half of the country's gaming industry revenues.

For over 60 years, since the inception of PCSO, the traditional Sweepstakes had been the lone source of funds for the PCSO. This changed in 1995, when PCSO launched the very first online lotto in the Philippines. This innovation brought in a new dimension of fun and excitement for the betting public.

Although there are many types of lottery games worldwide, the Philippine government-authorized lotteries can generally be categorized into these groups: traditional sweepstakes, instant scratch tickets, online lotto, online keno (Lotto Express) and Small-Town Lottery (STL). The Company has partnered with PCSO in all its lottery products except for STL.

The PCSO online lotto games are basically two (2) types; i.e., jackpot draw and digit games. The winning numbers for jackpot draw and digit games are determined by a draw machine. For these lotto games, players purchase tickets from PCSO authorized retail outlets and wait for the future drawing of prizes. The jackpot draw games have three draws a week, while digit games have three draws daily. Draw lotto jackpot prizes are generally pari-mutuel or based on the number of winners and amount of total sales generated per game at the time of draw. Lotto digit games and keno prizes are based on a fixed odds payout structure, which does not rely on the number of players and winners per draw. For online keno, winning numbers are drawn via a Random Number Generator (RNG) program and has draws every ten (10) minutes on a daily basis. Keno draw frequency has been changed to five (5) minutes daily on November 6, 2020.

Currently, the PCSO online lotto portfolio consists of five (5) jackpot draw games and four (4) digit games. The jackpot draw games are: 6/42 Lotto, 6/45 Mega Lotto, 6/49 Super Lotto, 6/55 Grand Lotto and 6/58 Ultra Lotto; while the digit games are: 2D, 3D, 4D and 6D. All of the nine (9) lotto games operated by the PCSO are played nationwide. Modifications and enhancements of existing games and/orthe introduction of new games are directed by the PCSO.

Instant scratch tickets, on the other hand, are typically played by scratching off the surface of a latex coated ticket to reveal a specific pattern of numbers, characters, pictures, or symbols that correspond to a prize amount if ticket is a winner. The player will know immediately if the ticket wins a prize or not. Instant scratch tickets like the Traditional Sweepstakes have a fixed-odds prize structure.

The Group's Online Lottery Operations and Products

As of December 31, 2022, the Company together with its subsidiary TGTI, had 3,666 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

Aside from the number of lottery terminals deployed, total PCSO online lottery sales depend highly on the average sales generated by the various online lottery games launched. The next table shows the minimum jackpot amounts and the draw frequencies of the different lotto games supported by the Company.

Lotto Game	Minimum Jackpot	Draw Frequency
6/42 Lotto ………..	P 6,000,000	3x a week - Mondays, Wednesdays & Saturdays
6/45 Mega Lotto …	P 9,000,000	3x a week - Mondays, Wednesdays & Fridays
6/49 Super Lotto …	P 16,000,000	3x a week - Tuesdays, Thursdays & Sundays
6/55 Grand Lotto...	P 30,000,000	3x a week - Mondays, Wednesdays & Saturdays
6/58 Ultra Lotto…..	P 50,000,000	3x a week -Tuesdays, Fridays & Sundays
6D Lotto…………..	P 150,000	3x a week – Tuesdays, Thursdays & Saturdays
4D Lotto…………..	P 10,000	3x a week - Mondays, Wednesdays & Fridays
3D Lotto …...........	P 4,500	Thrice daily
2D Lotto ………….	P 4,000	Thrice daily

The Company did not spend on development activities in both 2022 and 2021.

Market Profile

As of December 31, 2022, Pacific Online gross lotto sales amounted to P8.545B of which P2.020B (24%) is the share of Luzon Sales. It is noted that while in Luzon, the jackpot games account for 54% of total lottery sales, the VisMin area shows that it is digit games that dominates the sales of the region, accounting for 46% of total lottery sales.

The Company's total terminal deployment in VisMin Territory covered 71 cities out of 73 total cities and 575 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment covered 58 Cities and 118 municipalities. The Company covers 100% of the VisMin sales and only 15% in Luzon due to its restricted entry since 2012 up to 2022.

Competition

The Company expects the aggressive push for Small Town Lottery (STL) and the prevalence of illegal gambling particularly in interior towns and remote areas to continue to provide competition to its online lotto revenues. This mostly affects the VisMin region due to the popularity of the digit games, which are very similar to STL games. With the removal of the legal impediment for the Company to provide lotto equipment in Luzon, the Company was able to expand its operations in Luzon, where the additional revenues offset the lost sales in VisMin due to STL.

Organization and Manpower

As of December 31, 2022, the Group had a total of 138 employees, of which, 88 belong to Operations and 50 were administrative and other support personnel. None of the employees of the Company have organized themselves into any labor union. The Company also provides its employees additional benefits such as health care, life and accident insurance, retirement plan, training and development programs, and wellness programs, among others.

The Company believes that it has maintained balanced relationships with the rank and file and does not anticipate any labor-management issues to arise in the near term. The Company believes that its relationships with its employees have been consistently good and productive.

Risks

Some of the risks that the Company and its subsidiaries may be exposed to are the following:

1. General Risks

    a. Regulator/Government Risk
    Changes in the government and PCSO administration may result to changes in policies and the way that such policies are implemented, which may be favorable or unfavorable to the Company. New legislation rules regarding taxes on lottery products have an impact in sales as well.

    b. Environmental Risk
    Environmental and natural disasters can also affect the operations in a particular area.

2. Risks Relating to the Company and its Subsidiaries

    a. Dependence on Suppliers
    The Company's lottery operations is anchored on a two-system network. The Company has existingcontracts, each distinct and entered into separately, with two global leaders in the lottery industry,namely Scientific Games and Intralot, for the supply of computer supported lottery gaming systems. In the event that the contracts, whether collectively or individually, are terminated or suspended,operations and business of the Company may be impaired.

    b. Business Interruption Risk
    The operations of the Company and its subsidiaries are dependent on the reliability of its central computer system and the communications infrastructure needed to run it. Any breakdown or failure in the system provided by its suppliers, or failure in the communication infrastructure may negativelyaffect the Company's financial performance. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe.

<u>Item 2. Properties</u>

The Company's online lottery operations are conducted mainly in Cebu, where its central system data center and logistics center are located. It also has set up 8 logistics hubs in 8 major Visayas and Mindanao cities to ensure efficient service delivery to the PCSO lottery agents. The Company Head Office is located in Pasig City.

There are no real properties owned and there are no plans to acquire them in the next twelve (12) months. The Company, together with its subsidiaries, lease all of its data center, logistics centers and hubs, and business offices. These properties are not mortgaged nor are there any liens and encumbrances that limit ownership or usage of the same.

The leased properties for business offices, data center and logistics facilities, were reduced to 1,622 sqm for the year ended Dec. 31, 2022 from the previous 2,588 sqm by year end 2021. About 20% of these properties are located in Luzon, and 80% in Visayas and Mindanao. Majority of the properties in Luzon are found in Metro Manila while those in Visayas and Mindanao are in Cebu based on area of coverage. The logistics centers' areas are about 772 sqm in total, with 586 sqm in Cebu and 186 sqm in various hubs in Visayas and Mindanao areas. Lease terms for most office and warehouse spaces range from month-to-month basis up to one (1) year. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates at around 5%. One (1) warehouse unit located in Metro Manila was terminated in 2021.

The Company's major assets are lottery equipment, which consists mainly of lottery terminals, data center equipment, software and operating systems.

Item 3. Legal Proceedings

"TMA Australia Pty. Ltd. And TMA Group Philippines, Inc. v. Pacific Online."
RTC 66, Pasig City-Civil Case No. R-PSG-17-02130 [321-108]

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. During the pendency of this case, the Supreme Court issued a decision in *Philippine Charity Sweepstakes Office v. TMA Group of Companies (G.R. Nos. 212143, 225457, and 236888, 28 August 2019)*, stating that the WPI issued by RTC Makati againstPCSO directing it to source its paper from TMA was improperly issued, and that the CJVA – the same CJVA in this case before RTC Pasig – could not have been a valid source of rights against PCSO. TMA filed a Motion for Reconsideration, but this was denied by the Supreme Court in a Resolution dated 04 March 2020. Pacific Onine then filed a Manifestation and a Supplemental Manifestation asking for the dismissal of the tortious interference case by the TMA Group.

On 08 February 2021, the court dismissed the case against Pacific Online.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the Annual Stockholders' Meeting, there were no other matters submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters Market Information

1. Market Information

The principal market where the registrant's common equity is traded is the Philippine Stock Exchange ("PSE").

The high and low sales prices for each quarter within the last two (2) fiscal years of the registrant's common shares as quoted on the PSE, are as follows:

2022	High	Low
First Quarter	1.77	1.70
Second Quarter	1.44	1.37
Third Quarter	1.36	1.36
Fourth Quarter	1.70	1.56

2021	High	Low
First Quarter	2.47	1.90
Second Quarter	2.27	2.02
Third Quarter	2.48	1.92
Fourth Quarter	2.15	1.70

As of December 31, 2022, the Company's market capitalization amounted to P1,477,296,061 based on the closing price of P1.65 per share.

2. Security Holders

As of December 31, 2022, Pacific Online had 60 shareholders, corresponding to total common shares outstanding of 895,330,946. The top 20 stockholders as of the same date are listed below:

Name	No. of Shares Held	% to Total
1. PREMIUM LEISURE CORP.	448,560,806	50.1000
2. PCD NOMINEE CORPORATION Filipino = 286,253,081 Non- Filipino = 41,566,696	327,381,777	37
3. OCIER, WILLY N.	71,819,350	8.0215
4. ABACORE CAPITAL HOLDINGS, INC	43,761,930	4.8878
5. OCIER WILLY &/OR GERALDINE E.Y. OCIER	1,439,000	0.1607
6. SY, HANS TAN	800,000	0.0894
7. OCIER, MISCHEL GABRIELLE E.Y.	390,000	0.0436
8. KILAYKO, GREGORIO U.	200,000	0.0223
9. LIM, MAURICE D.	100,000	0.0112
10. BENITEZ, ALFREDO B.	68,200	0.0076
11. CHAN, CARMELITA	66,000	0.0074
12. VILLANUEVA, MYRA P.	23,400	0.0026
13. CHAN, CARMELITA D.L.	33,300	0.0037
14. TAGUBA, LUCILA A.	20,000	0.0022
15. SY, CAROLINE TANCUAN	20,000	0.0022
16. SY, HANS JR. TANCUAN	20,000	0.0022
17. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
18. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
19. PEREZ, JOSE DEXTER F.	18,000	0.0020
20. LOMARQUEZ, MA. AIMEE R.	12,000	0.0013

Dividends

On February 28 2023, POSC declared cash dividends of P0.10 per share, to shareholders as of record on March 15, 2023, and to be paid out on March 28, 2023.

No cash or stock dividends were declared and paid from 2019 to 2022.

Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

Voting Rights

At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Company at the time of closing of the transfer books for such meeting.

Dividend Rights of Common Shares

The Company's board of directors is authorized to declare cash, property, or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds of the Company's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares will be entitled to the full dividend declared without regard to any subsequent transfer of share. Other than statutory limitations, there are no restrictions that limit the Company from paying dividends on common equity.

Appraisal Rights

As provided for by law, any stockholder shall have a right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines and;

3. In case of merger or consolidation.

Item 6. Management Discussion and Analysis of Operating Performance and Financial Condition

Results of Operations
2022 Compared to 2021

Pacific Online realized consolidated net income amounting to P191.1 million for 2022, increasing significantly by Php331.8 million or more than 200% from the net loss of Php140.7 million incurred in 2021. The considerable improvement in the Company's financial results was brought about by a combination of higher revenues and better control on costs.

Revenues
In line with the economic recovery from the effects of the COVID-19 pandemic and despite the termination of KENO operations after the first quarter of 2022, the Group generated total revenues from operating sources amounting to P519.1 million for the year ended December 31, 2022, recording an increase of P92.7 million (22%) over total revenues of P426.3 million for the year ended December 31, 2021. Aside from the more robust economy in 2022, the high jackpot prizes of the Lotto games throughout the year helped drive sales volume.

Cost of services
Cost of services decreased by P131.1 million (35%) from P378.6 million in 2021 to P247.5 million in 2022. This decrease was mainly due to lower depreciation expense because of property and equipment being fully depreciated in 2022 as well as the savings on costs in line with the termination of the KENO operations during the year. Aside from this, the Company is also reaping the effects of cost efficiency measures to rationalize manpower and telecommunication lines and optimize office and warehouse space. The decreases mentioned above were partially offset by higher software license fees paid to suppliers and higher cost of operating supplies that both increased in line with the higher sales.

General and administrative expenses
General and administrative expenses of the Company decreased by P69.7 million (42%) from P165.5 million in 2021 to P95.8 million in 2022. This was mainly brought about by the cost reduction efforts extended at the backoffice level.

Financial Condition
2022 Compared to 2021

TOTAL ASSETS
Total assets of the Company increased by P260.2 million (30%) from P855.2 million as at December31, 2021 to P1,115.4 million as at December 31, 2022.

Cash
Cash increased by P203.0 million (206%) due to the higher revenues from the Lotto segment in line with higher Lotto sales as well as the better collections for the year.

Marketable securities
The Company's marketable securities increased by P9.7 million (16%) from P61.6 million as at December 31, 2021 to P71.3 million as at December 31, 2022 because of the increase in market value of listed shares held by the Company. As at December 31, 2022, this account consists of investments in listed shares of Leisure and Resorts World Corporation, Vantage Equities, Inc, and APC Group, Inc.

Trade and other receivables
Trade and other receivables decreased by P28.1 million (12%) from P229.4 million as at December 31, 2021 to P201.2 million as at December 31, 2022. The decrease is due mainly to the collection of accrued license fee income.

Other current assets
Other current assets of the Company is composed of advances to supplier, creditable withholding taxes, spare parts and supplies and prepayments. It increased by P198.8 million (126%) from P157.3 million as at December 31, 2021 to P356.1 million as at December 31, 2022 due mainly to the additional advances to suppliers that the joint venture operation, PinoyLotto Technologies Corp. (Pinoylotto) made as down payment for the purchase of equipment as it gears towards the start of nationwide lottery operations by the end of 2023.

Financial assets at fair value through other comprehensive income (FVOCI)
The Company's financial assets at FVOCI is mainly composed of the Company's shares of stock in its parent and ultimate parent companies. This account decreased by P73M (29%) from P252.2 million as at December 31, 2021 to P179.1 million as at December 31, 2022 due to the sale of the Company's shares of stock in Belle Corporation.

Property and equipment
The Company's property and equipment is composed of lottery equipment, leasehold improvements, office furniture, fixtures and equipment and transportation equipment. This account decreased by P21.4 million (91%) from P23.4 million as at December 31, 2021 to P2.0 million as at December 31, 2022 mainly because of the depreciation recognized for the Company's assets.

Right of use assets (ROU)
Right of use assets declined by P4.9 million (73%) from P6.7 million as at December 31, 2021 to P1.8 million as at December 31, 2022 mainly because of the amortization of ROU assets during the period.

Other noncurrent assets
Other noncurrent assets mainly pertains to refundable deposits. This account decreased by P1.9 million (40%) from P4.6 million as at December 31, 2021 to P2.8 million as at December 31, 2022. The decrease is mainly because of the collection of refundable deposits by the Company during the year.

LIABILITIES
Total liabilities of the Company increased by P24.0 million (18%) from P135.9 million as at December 31, 2021 to P179.3 million as at December 31, 2022. The increase was mainly brought about by the loan payable of Pinoylotto that was consolidated in the books of the Company amounting to P67.5 million. The overall increase was partially offset by the lower trade and other current liabilities that decreased due to payment of accruals made during the year.

EQUITY
Total equity of the Company increased by P216.8 million (30%) from P719.3 million as at December 31, 2021 to P936.1 million as at December 31, 2022. The increase is mainly brought about by the net income earned in 2022.

As of December 31, 2022, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Any Known Trends, Events or Uncertainties (Material Impact on Liquidity) Material commitments for capital expenditures that are reasonably expected to have a materialimpact on the Company's short-term or long-term liquidity;
- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures:
- Any Known Trends, Events or Uncertainties (Material Impact on Sales)
- Any Significant Elements of Income or Loss (from continuing operations)

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, 2022	**Dec. 31, 2021**
Current Ratio	8.35:1.00	4.64:1.00
Asset-to-Equity Ratio	1.19:1.00	1.19:1.00
Return on Equity	20%	-17%
Return on Assets	17%	-14%
Solvency Ratio	1.25:1.00	(2.13):1.00

The above performance indicators are calculated as follows:

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Asset-to-equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Return on Stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$

Solvency Ratio	<u>Net Income + Depreciation</u> Total Liabilities

Results of Operations
<u>2021 Compared to 2020</u>

Pacific Online realized consolidated net loss amounting to P140.7 million for 2021. This amount, despite being negative, shows significant improvement by P240.6 million (63%) from the P381.4 million net loss recognized in 2020. The improvement in the Company's financial results was brought about by a combination of better revenues and a tighter control on costs.

Revenues
Even with the continuous restrictions and operational limitations due to COVID-19, the Group generated total revenues from operating sources amounting to P426.3 million for the year ended December 31, 2021, recording an increase of P127.8 million (43%) over total revenues of P298.5 million during the same period in 2020. The increase in revenues was mainly due to the more robust economy in 2021, resulting to an increase in the number of lottery agents that reopened to sell lottery tickets and higher volume of players.

Cost of services
Cost of services decreased by P135.7 million (26%) from P514.4 million in 2020 to P378.6 million in 2021. This was mainly due to lower depreciation expense because of property and equipment being fully depreciated in 2021 as well as cost efficiency measures to rationalize manpower, telecommunication lines, and operating supplies. The decrease was partially offset by higher software license fees paid to suppliers that increased due to the increase in sales as well as higher rental and utilities expense as onsite work became more regular in 2021.

General and administrative expenses
General and administrative expenses of the Company decreased by P113.7 million (41%) from P279.3 million in 2020 to P165.5 million in 2021. This was mainly brought about by the cost reduction efforts extended at the backoffice level.

Financial Condition
<u>2021 Compared to 2020</u>

TOTAL ASSETS
Total assets of the Company decreased by P248.2 million (22%) from P1,103.4 million as at December 31, 2020 to P855.2 million as at December 31, 2021.

Cash
Cash decreased by P63.3 million (39%) due to the payments of liabilities and expenses during the year, offset by the collections made for the period.

Marketable securities
The Company's marketable securities declined by P22.6 million (27%) from P84.3 million as at December 31, 2020 to P61.6 million as at December 31, 2021 because of the decrease in market value of listed shares held by the Company. As at December 31, 2021, this account consists of investments in listed shares of Leisure and Resorts World Corporation, Vantage Equities, Inc, and PLDT, Inc.

Trade and other receivables
Trade and other receivables increased by P97.0 million (73%) from P132.4 million as at December 31, 2021 to P229.4 million as at December 31, 2021. The increase is due mostly to reclassification of a receivable to current from other noncurrent assets for a portion that will fall due in the next twelve months.

Other current assets
Other current assets of the Company is composed of creditable withholding taxes, spare parts and supplies and prepayments. It decreased by P7.5 million (5%) from P164.7 million as at December 31, 2020 to P157.3 million as at December 31, 2021 due mainly to lower prepaid expenses at the end of the year.

Financial assets at fair value through other comprehensive income (FVOCI)
The Company's financial assets at FVOCI is mainly composed of the Company's shares of stock of its parent and ultimate parent companies. This decreased by P29.7M (11%) from P281.8 million as at December 31, 2020 to P252.2 million as at December 31, 2021 due to the decrease in market values of the investments.

Property and equipment
The Company's property and equipment is composed of lottery equipment, leasehold improvements, office furniture, fixtures and equipment and transportation equipment. This decreased by P60.1 million (72%) from P83.5 million as at December 31, 2020 to P23.4 million as at December 31, 2021 mainly due to disposals partially offset by additions during the year.

Right of use assets (ROU)
Right of use assets declined by P3.4 million (34%) from P10.1 million as at December 31, 2020 to P6.7 million as at December 31, 2021 mainly because of the amortization of ROU assets during the period.

Other noncurrent assets
Other noncurrent assets decreased by P97.3 million (95%) from P101.9 million as at December 31, 2020 to P4.6 million as at December 31, 2021. The decrease is mainly because of a reclassification from this account to current trade and other receivables for a portion that will be due within the next twelve months.

LIABILITIES
Total liabilities of the Company decreased by P104.4 million (43%) from P240.3 million as at December 31, 2020 to P135.9 million as at December 31, 2021. The decrease was mainly brought about by the payments of liabilities and accrued expenses during the period as well as the measurement of lease and retirement liabilities.

EQUITY
Total equity of the Company declined by P143.8 million (17%) from P863.1 million as at December 31, 2020 to P719.3 million as at December 31, 2021. The decline is mainly brought about by the net loss incurred in 2021.

As of December 31, 2021, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Any Known Trends, Events or Uncertainties (Material Impact on Liquidity) Material commitments for capital expenditures that are reasonably expected to have a materialimpact on the Company's short-term or long-term liquidity;
- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures:
- Any Known Trends, Events or Uncertainties (Material Impact on Sales)
- Any Significant Elements of Income or Loss (from continuing operations)

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, 2021	**Dec. 31, 2020**
Current Ratio	4.64:1.00	2.89:1.00
Asset-to-Equity Ratio	1.19:1.00	1.27:1.00
Return on Equity	-17%	-35%
Return on Assets	-14%	-27%
Solvency Ratio	(2.13):1.00	(3.36) : 1.00

The above performance indicators are calculated as follows:

Current Ratio	Current Assets / Current Liabilities
Asset-to-equity Ratio	Total Assets / Total Equity
Return on Stockholders' Equity	Net Income / Total Equity
Return on Assets	Net Income / Total Assets
Solvency Ratio	Net Income + Depreciation / Total Liabilities

2020 Compared to 2019

The Group generated total revenues from operating sources of about P298.53 million for the year ended December 31, 2020, a decrease of P408.42 million (58%) over total revenues of P706.95 million during the same period in 2019. The decrease in revenue was due to the lower lotto and keno sales, which were hampered severely by the closure of all lotto games due to the COVID-19 pandemic and subsequent community quarantine restrictions, which kept lotto games suspended from March to August 2020. Even when lotto and keno games were allowed to open again, many operators kept their business shut for many reasons, including safety reasons or the lower traffic due to quarantine mobility restrictions. Furthermore, Keno's payouts were once again reduced upon resumption of operations, leading to a slow pick-up of sales. In an attempt to improve sales of keno, the PCSO approved the implementation of the 5-minute draws in November 2020.

The Group's total cost of services and general and administrative expenses, including depreciation and amortization, for the year ended December 31, 2020 decreased by P161.06 million (17%) to P793.63 million, from P954.68 in 2019. The decrease is attributed to the following:

- Personnel costs decreased by P33.28 million (20%) due to implementation of no work no pay policy from May to October 2020, reduced spending on staff welfare activities and attrition of employees.

- Travel and accommodation expense decreased by P46.17 million (62%) brought about by the restricted business trips due to the COVID 19 pandemic, which started in March 2020;

- Rent and utilities expense decreased by P9.80 million (25%) due to termination of three (3) office leases, closed offices during the ECQ period and implementation of skeletal force on-site after the ECQ;

- Communication expense decreased by P34.32 million (30%) due to the rebates givenby Telco providers when lottery operations were suspended;

- Repairs and maintenance decreased by P79.44 million (77%) since repairs and maintenance work on terminals and facilities were not possible during the lottery suspension period;

- Advertising and promotion expense decreased by P38.42 million (81%) since allmarketing activities were also suspended during the lottery suspension period;

- Taxes and licenses expense decreased by P22.90 million (69%) and software licensefees decreased by P95.75 million (70%) due to lower lottery sales;

- Professional fees expense decreased by P6.33 million (52%), due to reduction inconsultancy fees brought about by the lottery suspension period; and

- Operating supplies expense decreased by P37.49 million (78%) due to lowerconsumption of paper resulting from lower lottery sales.

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

- Depreciation and amortization expense increased by P72.14 million (45%) mainly due to the amortization of prepaid software development cost;

- Provision for impairment losses increased by P182.0 million (8475%) due to provision for probable losses on non-trade receivables, operating supplies that may not be compatible with the systems upgrade with the renewal of TGTI ELA, and the pre termination of leases as part of the Group's cost cutting measures;

- Other expenses increased by P5.6 million (1585%) due to the additional spending incurred in complying with health and safety protocols of PCSO and concerned LGUs pertaining to the COVID 19 pandemic.

The net income (loss) from discontinued operation represents the operating results of LCC, which was sold to a third party on February 13, 2020. The P39.83 million net income for 2020 covers the LCC's operating results from January 1 to February 13, 2020 net of the computed gain from sale of the LCC shares. The P120.74 million net loss for 2019 covers a period of twelve (12) months, from January 1 to December 31, 2019.

The Group's net loss after tax of P381.39 million represents a P60.4 million (18.8%) increase from last year's net loss of P320.97 million. The higher net loss in 2020 was a result of over four (4) months suspension of all lottery games, the slow pace of sales recovery, and delayed reopening of the country's economy.

Total assets of the Company decreased by P609.43 million (36%) to P1.10 billion as of December 31, 2020, from P1.71 billion as of December 31, 2019. Decreases in assets are attributable to the following:

- Cash decreased by P175.20 million (52%) mainly due to lower revenues in 2020 and full payment of bank loan;

- Marketable securities decreased by P56.20 million (40%) due to unrealized mark-to-market loss of shares held and sale of LRWC preferred shares in February;

- Trade and other receivables-net decreased by P40.13 million (23%) due mainly to the lower lottery revenues and impairment of receivables from PLMC covering the quarantine period;

- Other current assets decreased by P49.53 million (23%) mainly due to the sale of LCC;

- Investment in stocks went down by P65.81 million (19%) due to lower stock market prices of investments on hand during 2020 versus 2019;

- Right of use asset decreased by P40.18 million (80%) due to the sale of LCC and provision for impairment loss of some ROU asset;

- Property and equipment decreased by P23.92 million (22%) due to depreciation of assets and sale of LCC;

- Other noncurrent assets decreased by P188.38 million (65%) due to the amortization of prepayments of technical and advisory services pertaining to software development;

The decreases in the assets above were offset by the increase in deferred tax assets of P29.91 million (57%) due to additional deferred tax provision resulting from NOLCO;

Total liabilities of P240.26 million was down by P159.15 million (40%) over last year's P399.41 million due principally to the following:

- Loan payable decreased by 100% due to the full payment of P150 million loan from Asia United Bank;

- Withholding taxes payable decreased by P1.48 million (43%) due to sale of LCC and lowerwithholding taxes resulting from lower operating expenses;

- Income tax payable decreased by P4.27 million (100%) due to payment of 2019 taxes by FRI;

- Lease liabilities decreased by P56.00 million (83%), due to sale of LCC and payment of leases.

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

- Trade and other current liabilities increased by P33.99 million (24%) due to accounts payable for spare parts and terminals purchased and delayed receipt of billings from Intralot and telco suppliers;

- Defined benefit liability increased by P18.60 million (62%) due to additional retirement expense recognized during the year.

As of December 31, 2020, the Company has:

a) No known trends or any demands, commitments, or events (other than those discussed in the Risk section above) that will result in or that are likely to result in the liquidity increasing or decreasing inany material way;
b) No events that will trigger direct or contingent financial obligation that is material to thecompany, 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, 2020	**Dec. 31, 2019**
Current Ratio	2.89:1.00	2.40 : 1.00
Debt-to-Equity Ratio	0.27:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.27:1.00	1.30 : 1.00

	For the year ended	
	Dec. 31, 2020	**Dec. 31, 2019**
Return on Equity	-49.54%	-24.44%
Return on Assets	-38.75%	-18.74%
Interest Coverage Ratio	(74.86):1.00	(86.35) : 1.00
Solvency Ratio	(3.36):1.00	(0.39) : 1.00
Book Value per Share	1.02	2.15

The above performance indicators are calculated as follows:

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Asset-to-equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Return on Stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$

Return on Assets	Net Income / Total Assets
Interest Coverage Ratio	Income Before Interest & Tax / Interest Expense
Solvency Ratio	Net Income + Depreciation / Total Liabilities
Book Value per Share	Total Equity / Total Shares Outstanding

Please note that the Income Statement figures in 2019 discussed in comparison to 2020 in the pages above were based on the "re-presented" Income Statement to show the impact of the discontinued operations on the Group's operating results.

2023 Plan of Operations

PinoyLotto, the joint venture for the nationwide lottery system, will commence commercial operations during the last quarter of 2023. POSC owns 50% of the joint venture, assuring the Company with steady income for the next 5 years.

The Company will continue to focus on streamlining operations to curtail costs and finding ways to improve profitability and cost efficiency. It will also maintain a prudent financial management mindset in decision making to capitalize on its financial position.

Pacific Online continues to remain open and is actively seeking opportunities for growth through profitable investments that will increase shareholder value for its various stakeholders.

Item 7. Financial Statements

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2022 presented in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Pursuant to the requirement on Rotation of External Auditors under SEC Memorandum Circular No. 8 Series of 2003, the registrant will recommend the accounting firm of Reyes Tacandong & Co. for reappointment at the scheduled annual meeting.

Representatives of the principal accountant (Reyes, Tacandong & Co.), the Company's external auditors for the most recently completed fiscal year are expected to be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.

Reyes, Tacandong & Co. and R. G. Manabat & Co. audited the Company's statement of financial position as at December 31, 2021 and 2020, respectively, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year ended December 31, 2021 and 2020 and a summary of significant accounting policies and other explanatory notes. Reyes, Tacandong & Co.'s responsibility is to express an opinion on these financial statements based on their audit. The audits were conducted in accordance with Philippine Standards on Auditing. The partner who handled the Company's external audit was Ms. Belinda B. Fernando.

The Company's Board of Directors in the annual shareholders' meeting on May 27, 2022 recommended, and the shareholders approved, the appointment of Reyes, Tacandong & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2022.

In the Company's three (3) most recent fiscal years, there was no event where the previous external auditor and Reyes Tacandong & Co. and the Company had disagreement on accounting principles or practices, and disclosures of financial statements or auditing scope of procedure.

The aggregate fees for each of last two (2) fiscal years for professional services rendered by the external auditors are as follows:

	2022	**2021**
Audit fee	P1,100,000	P1,050,000
Tax services Other fees	-	-
TOTAL	P1,100,000	P1,050,000

It is the policy of the Company that any draft audit report must first be reviewed by the Audit Committee prior to said report being endorsed to the Board of Directors for approval. The Audit Committee is composed of : Mr. Laurito E. Serrano (Chairman/Independent Director), Atty. Maria Gracia P. Tan (Member/Independent Director), Mr. Roberto V. Antonio (Member/Independent Director), and Mr. Tarcisio M. Medalla (Member/Non-Executive Director). The final draft of the Company's audited financial statements was discussed and reviewed by said Committee. Whereupon said Committee resolved to recommend to the Company's Board of Directors that said financial statements be approved for issuance and disclosure to the public, the PSE and all related governmental agencies. Said audited financial statements were approved by the Company's Board of Directors during its meeting held on February 28, 2023.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors and Senior Management

The following sets forth certain information as to the Directors and Executive Officers of the Company:

Name	Position with the Company
Willy N. Ocier	Chairman
Jackson T. Ongsip	Executive Director & President
Armin Antonio B. Raquel Santos	Non-Executive Director
Tarcisio M. Medalla	Non-Executive Director
Regina O. Reyes[1] (+)	Non-Executive Director
Henry N. Ocier	Non-Executive Director
Laurito E. Serrano	Lead Independent Director
Ma. Gracia M. Pulido Tan	Independent Director
Raul B. de Mesa[2]	Non-Executive Director
Roberto C. O. Lim[3]	Independent Director
Roberto V. Antonio[4]	Independent Director
Maria Neriza C. Banaria	Chief Financial Officer and Treasurer
Jason C. Nalupta	Corporate Secretary
Ann Margaret K. Lorenzo	Assistant Corporate Secretary
Christopher C. Villaflor	Head of Lottery Operations
Grace L. Gatdula	Data Privacy Officer, Administration Head and Contact for Stakeholders' Concerns
Ann Josefina G. Esteban	Chief Audit Executive
Mischel Gabrielle O. Mendoza	Business Development Head, Integrated Management Systems Representative and Chief Risk Officer
Michelle Angeli T. Hernandez[5]	Compliance Officer

**Notes:*
[1] deceased on May 5, 2022
[2] elected on June 9, 2022
[3] resigned on August 1, 2022
[4] elected on September 13, 2022
[5] appointed on September 13, 2022

Board of Directors

The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on May 27, 2022. The term of the current members of the BOD shall be until the next stockholders' meeting on May 26, 2023. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier, Filipino, 66, is the Chairman and Director of the Company since July 29, 1999. He served as the Company's President until October 2021. He is an Executive Director and Chairman of Belle Corporation. He is also the Chairman and Director of Premium Leisure Corp., APC Group, Inc., Total Gaming and Technologies, Inc. and PremiumLeisure and Amusement, Inc. and Vice Chairman of Highlands Prime, Inc. He is the Chairman and Director of Tagaytay Midlands Golf Club, Inc., and one of the Directors of Tagaytay Highlands International Golf Club, Inc. and The Country Club at the Tagaytay Highlands, Inc. Mr. Ocier is also the Chairman, President, and Chief Executive Officer of Philippine Global Communications, Inc., He is a Director of Leisure and Resorts World Corporation. He also sits as a Director to the following unaffiliated corporations, IVantage Equities, Philequity Management, Inc., Abacore Capital Holdings, Inc. and Toyota Corporation Batangas. He was formerly President and Chief Operating Officer of Eastern Securities Development Corporation. Mr. Ocier 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.

Jackson T. Ongsip, Filipino, 49, is the President and Chief Executive Officer of the Company since October 2021. He is also the President and Chief Executive Officer of Belle Corporation, Non-Executive Director of APC Group, Inc., and Vice President for Portfolio Investments of SM Investments Corporation. Mr. Ongsip is a Certified Public Accountant with an extensive audit and finance background accumulated from 5 years in external audit with SyCip, Gorres, Velayo & Co., 11 years with Globe Telecom and 10 years now with the SM Group. He graduated from the University of Santo Tomas with a Bachelor of Science in Accountancy

Tarcisio M. Medalla, Filipino, 74, 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, 65, is a Director of the Company since June 29, 2009. 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.

Raul B. De Mesa, Filipino, 79, is a newly elected director of the Company last June 9, 2022. He is the Chairman, President and CEO of AbaCore Capital Holdings, Inc. He is a distinguished banker and has gained a wealth of experience in the financial industry. He previously served as the President and Chief Executive Officer of Bank of Commerce which was preceded by about 37 years of service in the banking industry, specifically in institutions like the Security Bank, Manila Banking Corporation, and Far East Bank and Trust Company.

Armin Antonio B. Raquel Santos, 55, Filipino, is a Non-Executive Director and a member of the Executive Committee of the Company. He is the President and Chief Executive Officer of both Premium Leisure Corp. and its subsidiary PremiumLeisure and Amusement, Inc. He is also a Director of Belle Corporation, Pinoy Lotto Technologies Corporation, Sagittarius Mines, Inc. Tagaytay Highlands International Golf Club, Inc., and member of the Board of Trustees of Melco Resorts (Philippines) Foundation Corporation. Formerly, he was 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. Mr. Raquel Santos 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, Ma. Gracia M. Pulido Tan and Roberto V. Antonio as the Company's independent directors.

Laurito E. Serrano, Filipino, 62, is a Director of the Company since May 23, 2014, and is currently the Lead Independent Director. Mr. Serrano concurrently serves as Independent Director of Rizal Commercial Banking Corporation, 2GO Group Inc., Axelum Resources Corp., and Anglo-Philippine Holdings, Inc. He is also a director in privately-held MRT Development Corporation. As independent director in listed entities, Mr. Serrano serves as chairman or member of such companies' audit, compliance, and risk committees. 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 the Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance in a broad range of clients and industry sectors.

Roberto V. Antonio, Filipino, 60, is an Independent Director of the Company since September 2022. He is also an independent Director of Premium Leisure Corp., the Development Bank of the Philippines and is connected in different capacities with the following private entities: President of Kalimera, Inc., RVA & Sons, Inc., and RVA International Trading Corporation; Chairman of RVA Hatch, Inc.; Vice Chairman of Right Eight Security Agency, Inc.; Consultant of Mustang Holdings, Inc.; as well as former President of the La Salle Greenhills Foundation and former Board Member of the La Salle Greenhills Alumni. Mr. Antonio served as one of the Department of Tourism's Undersecretaries from 1998-2000 and Senior Consultant from 2004-2010. He graduated from De La Salle University with a degree in Economics major in Marketing Management in 1984. Candidate of Juris Doctor at the Ateneo De Manila University Law School in 1989. He finished his Master's in Business Economics at the University of Asia and the Pacific in 1997.

Atty. Ma. Gracia M. Pulido Tan, Filipino, 67, is an Independent Director of the Company since May 28, 2021. She is likewise an independent director of Belle Corporation and Premium Leisure Corp. She is the former Chairperson of the Commission on Audit, Undersecretary of Finance and Commissioner of the Presidential Commission on Good Government. She is a director of several Philippine corporations, a tax consultant and legal adviser of some private clients, and an accredited Arbitrator of the Construction Industry Arbitration Commission, Philippines and Philippine Dispute Resolution Center, Inc, Philippines. Atty. Tan served as Chairman of the United Nations Independent Audit Advisory Committee, the first Filipino to have been elected to this 5-member Committee. She is also a member of the Tax Faculty of the Philippine Judicial Academy, and a professor at the University of the Philippines for Mandatory Continuing Legal Education. Backed by four decades of professional work in the Philippines and abroad as a private law and counting practitioner, government official, arbitrator and international consultant, she is an expert in the fields of law, finance, audit, governance, dispute resolution and administration. She graduated from the University of the Philippines in 1977 with a degree in Bachelor of Science in Business Administration and Accountancy and in 1981 with Bachelor of Laws. In 1987, she obtained her Master of Laws (Tax) from the New York University. She is a lawyer and a Certified Public Accountant.

Executive Officers

Aside from the President listed above, the executive officers of the Company include the following:

Maria Neriza C. Banaria, Filipino, 40, is the Chief Financial Officer (CFO) of the Company since December 2021. She is concurrently the Chief Financial Officer and Treasurer of Belle Corporation and Premium Leisure Corp. As a Certified Public Accountant, her strong background in accounting, audit and finance have been accumulated through extensive experience and exposure to various industries. She holds a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines

Atty. Jason C. Nalupta, Filipino, 51, is the Corporate Secretary of the Corporation since April 2021. He is also currently the Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank Corporation, Belle Corporation, and Crown Asia Chemicals Corporation. He is also a Director and/or Corporate Secretary or Assistant Corporate Secretary of private companies, Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Belle Infrastructure Holdings, Inc. (Formerly: Metropolitan Leisure & Tourism Corporation), Belle Bay Plaza Corporation, Glypthstudios, Inc., Grabagility, Inc., Loto Pacific Leisure Corporation, Stage Craft International, Inc., FHE Properties, Inc., Stanley Electric Philippines, Inc., and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Atty. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from the Ateneo de Manila University in 1996 and 1992, respectively. Atty. Nalupta was admitted to the Philippine Bar in 1997.

Ann Margaret K. Lorenzo, Filipino, 33, is the Assistant Corporate Secretary of the Corporation since May 2021. She is concurrently the Corporate Secretary of the following companies: Arquee Corp., Green Asia Resources Corp., and GGO Realty Holdings, Inc. She is also the Assistant Corporate Secretary of Asia United Bank Corporation, Discovery World Corporation, Crown Asia Chemicals Corporation, Coal Asia Holdings, Inc., Tagaytay Highlands International Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., The Spa and Lodge at Tagaytay Highlands, Inc., Joy-Nostalg Corporation, Jin Natura Resources Corp., Jin Navitas Resource, Inc., Catmon Felix, Inc., Yeoj Commoditas, Inc., Yeoj Socialis, Inc., Yeoj Turbulentus, Inc., Yeoj Universalis, Inc., Bayby Earth, Inc., Jaman Boracay Corporation, Jaman Cebu Corporation, Jaman Hari Corporation, Jaman Reyna Corporation, Jaman Tagaytay Corporation, Corellia Ventures Incorporated, Sacareen Ventures Incorporated, Iridium

Ventures Incorporated, and Bluepanel Equities and Development Inc. She likewise serves as a director of Cloud Arch Ventures Inc. Ms. Lorenzo is a Senior Associate at Tan Venturanza Valdez where she specializes in securities law, special projects, and data privacy. She also lectures at the Paralegal Training Program of the UP Law Center on corporate housekeeping and data privacy. She obtained her Bachelor of Arts degree in English Studies (cum laude) and Juris Doctor degree from the University of the Philippines in 2010 and 2014, respectively. She was admitted to the Philippine bar in April 2015.

Christopher C. Villaflor, Filipino, 46, is the Online Lottery Division Head since December 2021. He joined the Company in March 2000 as a Bench Engineer. From June 2004 to October 2009, he served as the Systems Administrator for the Data Center Operations overseeing the lottery administration and maintenance for the Visayas and Mindanao regions. In 2009 he was promoted as Senior Manager of the Data Center Operations and in August 2017, he moved up as Vice President overseeing the Central System & Network Management Department of the Online Lottery Division. Mr. Villaflor has extensive experience in the area of system design, development and testing on both the UNIX (OpenVMS, SunOS/Solaris) environment and Microsoft Windows. He has a formal trainings on Project Management Institute, Philippines for Project Management Fundamentals Tools and Techniques, Oracle 10g Programming PL/SQL and Data Administration, AIX Unix System Administration and Operational Planning using Software Engineering for SDLC. He graduated with a degree in Bachelor of Science in Computer Engineering from the University of San Carlos in 1998.

Grace L. Gatdula, Filipino, 52, is the Administration Division Head since April 2019. She is the Company's Data Privacy Officer and Contact for Investor Relations starting September 13, 2022. Prior to this, she took positions in Marketing, Business Development, Corporate Planning and Compliance Officer with Pacific Online since 2011. Ms. Gatdula served as Marketing & Membership Head of PSMT Phils Inc. (S&R Membership Shopping/ PriceSmart Phils.) for 8 years. Earlier work experience included stints in advertising at Columbian Autocar Corporation and customer service at Singapore Telecomms. She graduated with a degree in AB Communication Arts at Miriam College.

Mischel Gabrielle O. Mendoza, Filipino, 36, is the Head of Business Development starting 2022, Apart from strategic planning and business development, she is in charge of monitoring the company's sustainability efforts and corporate image. She concurrently holds the position of Integrated Management Representative (IMR) and Risk Officer of the corporation. Prior to this, she served as Marketing,Corporate Planning Specialist, then Administration Division Head until her recent appointment back in Corporate Planning. Ms. Mendoza is also a director of Total Gaming Technologies, Inc., a subsidiary of Pacific Online, as well as director and co-founder of private company JIM Weaver Designs Corporation. She holds a Bachelor's Degree in Management Engineering from Ateneo de Manila University and took certificate courses abroad in both Tsinghua University in China and Josai International University in Japan.

Anna Josefina G. Esteban, Filipino, 55 is the Chief Audit Executive of the corporation since September 2016. She is also the Chief Audit Executive of publicly listed companies such as Belle Corporation, Premium Leisure Corp., and APC Group, Inc. Prior to joining the Belle Group, she served as Treasurer and Chief Finance Officer of Miriam (formerly Maryknoll) College Foundation, Inc. and worked at the Asian Development Bank for 18 years as Senior Officer at the Office of the Treasurer, Office of the Auditor General and Operations Evaluation Office. Earlier on, she was the Head of the Finance Systems and Audit Unit of Magnolia Nestle Corporation (a joint venture of San Miguel Corporation and Nestle S.A.). She was an auditor and management consultant at Carlos J. Valdes & Co. and was an accounting/finance professor at the College of St. Benilde and the Graduate School of Business of De La Salle University (DLSU). Ms. Esteban is a Certified Public Accountant, Certified Information Systems Auditor and Certified Data Privacy Auditor. She earned her Bachelor of Science degree in Accounting atthe College of the Holy Spirit, Manila and her Master in Business Administration (with distinction) at DLSU.

Michelle Angeli T. Hernandez, 51, Filipino, is the Compliance Officer of the Company effective September 13, 2022. Likewise, she is the Compliance Officer, Chief Risk Officer and Vice President for Governance of Belle Corporation. She is mainly responsible for developing, implementing and managing various strategies, processes and policies related to Corporate Governance, Enterprise Risk Management and Corporate Affairs for the Company and its subsidiaries. She is also the Compliance Officer and Chief Risk Officer of Premium Leisure Corp., and Chief Risk Officer of APC Group, Inc.. She has a bachelor's degree in Tourism (Cum Laude) from the University of Sto. Tomas.

Family Relationships
Henry N. Ocier and Willy N. Ocier are brothers. Mischel O. Mendoza is the daughter of Willy N. Ocier.

Significant Employees
The Company is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Company and will not compete upon termination.

Stock Option Plan
The Company's Board ("BOD") approved the proposed Stock Option Plan ("the Plan") on December 12, 2006. The Company's Stock Option Plan provides an incentive and mechanism to employees and officers to become stockholders of the Company, as well as to qualified directors, officers and employees, who are already stockholders, to increase their equity in the Company and thereby increase their concern for the Company's well-being. All such full-time and regular employees of the Company, its subsidiaries and affiliates, their officers and directors, and such other qualified persons who may be recommended from time to time by the Executive Committee or the Board to the Committee as qualified, are eligible to participate in the Plan. Shares of stock subject to the Plan amount to five per cent (5%) of the Company's total outstanding common stock.

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company's shares at the time of grant, and, in no case, be less than the Offer Price at which the Company's shares are initially offered for sale to the public. Further, the purchase price shall be subjectto adjustment for subsequent stock dividends or splits. The shares covered by any one grant shall be offered for subscription over a period of Three (3) years from and after the effectivity date of each grant that may be determined by the Committee. The Participants may exercise their right to subscribe to shares under the Plan in accordance with thefollowing schedule:

- 1/3 of total grant within One (1) year from the effectivity date of each grant
- 1/3 of total grant within Two (2) years from the effectivity date of each grant
- 1/3 of total grant within Three (3) years from the effectivity date of each grant

On February 15, 2008, SEC approved the Company's application requesting that its proposed issuance of 9,954,900 common shares be exempt from the registration requirements of the Securities Regulation Code.

On May 6, 2008, the BOD approved the allocation of 2,174,000 shares to its executives and employees and to the officers of Lucky Circle under the Plan which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The purchase price upon exercise of the option was fixed at ₱8.88 per share. At the grant date, the fair value of the Company's share amounted to P9.20 per share.

On May 19, 2008, grantees of the stock options exercised 617,000 shares of the Company's stock at ₱8.88 per share.

In 2011 and 2010, certain grantees of the stock options exercised 495,000 shares and 455,000 shares, respectively, of the Company's stock at ₱ 8.88 per share.

As at December 31, 2022, 2021 and 2020, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

Involvement in Certain Legal Proceedings
The members of the Board of Directors and Senior Management are not involved in Legal Proceedings.

Item 10. Executive Compensation

The following table shows the aggregate compensation received by the directors and executive officers of the Company for calendar years 2022 and 2021, as well as the estimated aggregate compensation for calendar year 2023.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman of the Board				
Jackson T. Ongsip President & CEO				
Christopher C. Villaflor Online Lottery Head				
Mischel O. Mendoza Business Dev't Head & Risk Officer				
Grace L. Gatdula Administration Head, Data Privacy Officer & Contact for Investor Relations				
Total for President and 4 most highly compensated Executive Officers	2023 (Estimate)			Php 7,382,972
	2022			6,891,156
	2021			15,657,915
All other executive officers and directors as a Group	2023 (Estimate)			Php 6,510,715
	2022			7,993,283
	2021			8,795,553

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

	2022	2021	2020
Salaries and wages	**₱9,319,577**	₱22,746,801	₱20,108,986
Professional fees	**-**	1,333,333	888,889
Retirement benefits	**1,565,098**	90,291	1,777,484
	₱10,884,675	₱24,170,425	₱22,775,359

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 15 and 20 of the audited consolidated financial statements.

Per Diem for Meetings Attended by Director

In 2022, all Audit Committee members received a per diem of Fifty Thousand Pesos (₱50,000.00) each per Audit Committee meeting attended while other directors received a per diem of Ten Thousand Pesos (₱10,000.00) each. For Board and Board Committee meetings, each director is given a per diem of (₱10,000.00) per day regardless of the number of meetings during the same day.

The following Board of Directors received gross per diem and compensation for their attendance to Board and Committee meetings in 2022:

NAME	POSITION	TOTAL (Php)
Willy N. Ocier	Chairman	361,111
Jackson T. Ongsip	President and Executive Director	382,356
Regina O. Reyes[1] (+)	Non-Executive Director	33,333
Tarcisio M. Medalla	Non-Executive Director	672,222
Armin Antonio B. Raquel Santos	Non-Executive Director	361,111
Henry N. Ocier	Non-Executive Director	361,111
Laurito E. Serrano	Lead Independent Director	627,778
Ma. Gracia M. Pulido Tan	Independent Director	683,333
Roberto C.O. Lim [2]	Independent Director	222,222
Raul B. De Mesa[3]	Non-Executive Director	283,333
Roberto V. Antonio[4]	Independent Director	394,444
	TOTAL	P4,382,354

**Notes:*
[1] deceased on May 5, 2022
[2] resigned on August 1,2022
[3] elected on June 9, 2022
[4] elected on September 13, 2022

Other than those disclosed above, there are no other standard or other arrangements wherein directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

There is no compensatory plan or arrangement, including payments to be received from the Company, with respect to any of its executive officer, which will result from the resignation, retirement or any other termination of any of its executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or in any of its executive officer's responsibilities, following a change-in-control and the amount involved, including all periodic payments or installments, which exceeds ₱2.5 million.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons or group are known to the Company as direct owners of more than five percent (5%) of the Company's voting securities as of December 31, 2022:

Shareholder	Number of Shares	Percent	Beneficial Owner
PREMIUM LEISURE CORP. 5/F Tower A, Two E-Com Center, Mall ofAsia Complex, Pasay City	448,560,806	50.1000	**PREMIUM LEISURE CORP.**
PCD NOMINEE CORPORATION	327,819,777	37	**VARIOUS**
WILLY N. OCIER 28/F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City	71,819,350	8.0215	**WILLY N. OCIER**

Security Ownership of Directors and Management

The following table shows the shares beneficially owned by the directors and executive officers of the Company as of 31 December 2022:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizen-ship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,983,950	80,803,500	Filipino	9.03
Common	Jackson T. Ongsip	100	0	100	Filipino	0.00
Common	Armin B. Raquel-Santos	200	0	200	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Ma. Gracia M. Pulido Tan	1,000	0	1,000	Filipino	0.00
Common	Raul B. De Mesa	300	0	300	Filipino	0.00
Common	Roberto V. Antonio	10,000	0	10,000	Filipino	0.00
Common	Maria Neriza C. Banaria	0	0	0	Filipino	0.00
Common	Jason C. Nalupta	0	0	0	Filipino	0.00
Common	Ann Margaret K. Lorenzo	0	0	0	Filipino	0.00
Common	Christopher C. Villaflor	0	0	0	Filipino	0.00
Common	Anna Josefina G. Esteban	0	0	0	Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.06
Common	Grace L. Gatdula	0	0	0	Filipino	0.00
Common	Michelle Angeli T.	0	0	0	Filipino	0.00

	Hernandez					
	All Directors & Executive Officers as a group	**72,228,950**	**10,382,850**	**82,611,800**		**9.22**

Voting Trust Holders of 5% or More

There is no party known to the Company as holding any voting trust or any similar arrangement for five percent (5%) or more of the Company's voting securities.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year. As of December 31, 2022, there are no existing or planned stock warrant offerings by the Company. There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company totaling 179.1 million and 252.2 million as at December 31, 2022 and 2021, respectively (see Note 11).

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

	2022	2021	2020
Salaries and wages	**₱9,319,577**	₱22,746,801	₱20,108,986
Professional fees	**-**	1,333,333	888,889
Retirement benefits	**1,565,098**	90,291	1,777,484
	₱10,884,675	₱24,170,425	₱22,775,359

No director or executive officer or any member of their immediate family has, during the last two years, had direct or indirect, material interest in a transaction of proposed transaction to which the Company was a party.

Related party transactions amounting to 10% or higher of the Company's consolidated total assets are subject to the approval of the BOD. Aside from these transactions, the Company has no other significant transactions that need to be disclosed.

The related party transactions are described in the Notes to Financial Statements (Related Party Transactions) of the Consolidated Financial Statements.

PART IV - CORPORATE GOVERNANCE

The Company remains focused on ensuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders. With this in mind, the Board of Directors has established corporate governance principles to ensure accountability, fairness and transparency in the organization.

Corporate Objectives

Quality Policy

Pacific Online Systems Corporation is committed to continuously improve the quality management system and meet all requirements of the stakeholders in providing reliable, efficient and effective online lottery systems.

Quality Objectives

1. To be fully responsive to the requirements of stakeholders.
2. To maintain and continuously develop a competent workforce.
3. To maintain and continuously improve financial, operational and administrative control systems to achieve the company's goals and objectives.
4. To comply with statutory and regulatory requirements.

Information Security Policy

Pacific Online Systems Corporation is committed to safeguard the confidentiality, integrity and availability of all physical and electronic information assets of the company to ensure that regulatory, operational and contractual requirements are fulfilled.

Information Security Objectives

1. To comply with statutory and regulatory requirements.
2. To comply with requirements for confidentiality, integrity and availability for employees and other users.
3. To establish controls for protecting company information and information systems against theft, abuse and other forms of harm and loss.
4. To ensure that employees maintain the responsibility for, ownership of and knowledge about information security, to minimize the risk of security incidents.
5. To sustain continuity of operations at all times.
6. To ensure that external service providers comply with the company's information security needs and requirements.

Board Attendance

Regular meetings of the Board are scheduled at the beginning of the year and are held at least six (6) times annually. Special meetings may also be called by the Chairman, the President or Corporate Secretary. A director's absence or non-participation in more than fifty percent (50%) of all meetings in a year is a ground for temporary disqualification in the succeeding election. During 2022, each of the Company's directors have complied with the requirements.

Below table shows the attendance of each board member in the meetings conducted during the year:

Name	Position	Date of Last Election	No. of 2022 Meetings Held During Term	No. of Meetings Attended	% Attendance
Willy N. Ocier	Chairman	27-May-22	8	8	100%
Jackson T. Ongsip	President	27-May-22	8	8	100%
Armin Antonio B. Raquel Santos	Director	27-May-22	8	8	100%
Tarcisio M. Medalla	Director	27-May-22	8	8	100%
Henry N. Ocier	Director	27-May-22	8	8	100%
Regina O. Reyes[1]+	Director	28-May-21	2	2	100%
Laurito E. Serrano	Independent Director	27-May-22	8	8	100%

Ma. Gracia M. Pulido Tan	**Independent Director**	**27-May-22**	**8**	**8**	**100%**
Roberto C.O. Lim[2]	**Independent Director**	**27-May-22**	**4**	**4**	**100%**
Raul B. De Mesa[3]	**Director**	**9-Jun-22**	**5**	**5**	**100%**
Roberto V. Antonio[4]	**Independent Director**	**13-Sep-22**	**3**	**3**	**100%**

Notes:
[1] Regina O. Reyes(+) deceased on May 5, 2022
[2] Roberto C.O Lim resigned effective August 1, 2022
[3] Raul B. De Mesa elected on June 9, 2022
[4] Roberto V. Antonio elected on September 13, 2022

In adherence to good governance practice, the schedule of meetings of the Board and Board Committees for the full year of 2022 was discussed and approved during the February 2022 Board of Directors meeting. On the other hand, the schedules of the Board and Board Committee Meetings in 2023 were discussed and approved by the Board of Directors in November 2022.

Board Performance Evaluation

The Company conducts annual performance evaluations of the Board, its individual members and Board Committees to ensure optimum Board performance. In this evaluation process, directors identify areas for improvement, some of which are: the timeliness and integrity of information given to them, directors' access to management, the Corporate Secretary, and other forms of assistance as needed. The Board reviews the results of these evaluations and agrees on clear action plans to address any issues raised. In line with governance best practices, the board evaluations shall be facilitated by a third-party independent assessor every three (3) years reckoned from January 1, 2017 (effectivity date of the 2016 Code of Corporate Governance for Publicly Listed Companies).

The Board members assessed the Board as a whole based on their balance/diversity, competencies, background and experience. Board efficiency and importance as well as board activities were also given the appropriate ratings.

The five (5) Board Committees were also assessed based on their performance.

Individual performances were also assessed based on independence, participation and diligence.

Likewise, Chairperson and CEO were assessed for their leadership, integrity, diligence and adherence to corporation governance, while the following key officers were also evaluated for their over-all performance:

1. Chief Risk Officer
2. Compliance Officer
3. Chief Audit Executive

The said performance evaluation for 2022 was conducted and completed within the first quarter of 2023.

Continuing Education Programs

The Board identifies areas of continuing education on corporate governance topics they require. To keep the Board and key officers well-informed of governance-related developments, regular annual education programs are conducted in coordination with SM Investments Corporation and training providers duly accredited by the SEC. Below is the list of trainings in 2022 attended by the members of our Board of Directors.

	Name of Participants	Training Provider	Date of Training	Topic
1	**Ocier, Willy N.**	BDO Unibank, Inc.	20-Jul-22	Corporate Governance
2	**Ongsip, Jackson T.**			
3	**Raquel Santos, Armin Antonio B.**			
4	**Ocier, Henry N.**			
5	**Serrano, Laurito E.**			
6	**Tan, Maria Gracia P.**			
7	**Medalla, Tarcisio M.**	Risks, Opportunities, Assessment and Management, Inc.	04-Aug-22	Corporate Governance

8	**De Mesa, Raul B.**	Risks, Opportunities, Assessment and Management, Inc.	21-Oct-22	Corporate Governance
9	**Antonio, Roberto V.**	Risks, Opportunities, Assessment and Management, Inc.	21-Oct-22	Corporate Governance

A review of the various established Board level committees and its respective charters were done for the year 2022. Short descriptions of the committees are as follows:

Executive Committee - acts on behalf of the Board in the management and direction of the business and conduct of the affairs of the Company.

Audit Committee - has general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.

Board Risk Oversight Committee – assists the Board in overseeing the Company's practices and processes relating to risk assessment and risk management; maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls,

Corporate Governance Committee – tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices. Folded in are the nomination and remuneration oversight functions as well.

Related Party Transactions Committee - assists the Board in overseeing the Company's practices and processes relating to related party transactions (RPTs). Reviews all material related party transactions of the Company and ensures that all RPTs are conducted on a fair and arms-length basis.

Members of various committees are expected to serve for a term of one (1) year. Below is the attendance of the members of the Board Committees for 2022.

Attendance of Audit Committee 2022

Name	Position	Date of Last Election	No. of 2022 Meetings Held During Term	No. of Meetings Attended	% Attendance
Laurito E. Serrano	Chairman (NED)	27-May-22	6	5	83%
Tarcisio M. Medalla	Member (NED)	27-May-22	6	6	100%
Roberto C.O. Lim*	Member (NED)	27-May-22	4	4	100%
Ma. Gracia M. Pulido Tan	Member (NED)	27-May-22	6	6	100%
Roberto V. Antonio**	Member (NED)	13-Sep-22	1	1	100%

*Note: *Roberto C.O. Lim - resigned on August 1, 2022*
***Roberto V. Antonio - elected on September 13, 2022*

Attendance of Corporate Governance Committee 2022

Name	Position	Date of Last Election	No. of 2022 Meetings Held During Term	No. of Meetings Attended	% Attendance
Roberto C.O. Lim*	Chairman (NED)	27-May-22	2	2	100%
Roberto V. Antonio**	Chairman (NED)	13-Sep-22	1	1	100%
Laurito E. Serrano	Member (NED)	27-May-22	4	4	100%
Ma. Gracia M. Pulido Tan	Member (NED)	27-May-22	4	4	100%

*Note: *Roberto C.O. Lim - resigned on August 1, 2022*
***Roberto V. Antonio - elected on September 13, 2022*

Attendance of Related Party Transactions Committee 2022

Name	Position	Date of Last Election	No. of 2022 Meetings Held During Term	No. of Meetings Attended	% Attendance
Roberto C.O. Lim*	Chairman (NED)	27-May-22	1	1	100%
Roberto V. Antonio**	Chairman (NED)	13-Sep-22	0	0	N/A
Ma. Gracia M. Pulido Tan	Member (NED)	27-May-22	2	2	100%
Laurito E. Serrano	Member (NED)	27-May-22	2	2	100%

Regina O. Reyes***	Member (NED)	28-May-21	1	1	100%
Henry N. Ocier	Member (NED)	27-May-22	2	2	100%
Raul B. De Mesa****	Member (NED)	9-Jun-22	0	0	NA

*Note: *Roberto C.O. Lim - resigned on August 1, 2022*
***Roberto V. Antonio - elected on September 13, 2022*
**** Regina O. Reyes – deceased on May 5, 2022*
***** Raul B. de Mesa – elected on June 9, 2022*

Attendance of Board Risk Oversight Committee 2022

Name	Position	Date of Last Election	No. of 2022 Meetings Held During Term	No. of Meetings Attended	% Attendance
Ma. Gracia M. Pulido-Tan	Chairman (NED)	27-May-22	3	3	100%
Tarcisio M. Medalla	Member (NED)	27-May-22	3	3	100%
Roberto C.O. Lim*	Member (NED)	27-May-22	2	2	100%
Laurito E. Serrano	Member (NED)	27-May-22	3	3	100%
Roberto V. Antonio**	Member (NED)	13-Sep-22	1	1	100%

*Note: *Roberto C.O. Lim - resigned on August 1, 2022*
***Roberto V. Antonio - elected on September 13, 2022*

Risk Oversight Committee

The Company has adopted a risk management policy that establishes a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving its goals and objectives, which include, among others, the protection and preservation its employees' and clients' safety and welfare, the value and condition of its properties and assets, and its local and global reputation.The Company aligns its risk appetite with its long-term strategic objectives.

The Risk Oversight Committee (ROC) evaluates the effectiveness of the Company's risk management system on an annual basis. The Board of Directors, through the ROC, has reviewed the Company's risk management system for 2022 and has found the same effective and adequate.

The Enterprise Risk Matrix of the Company was updated to include risks brought about by the COVID- 19 pandemic, and the closure of operations that it led to, and was presented to the ROC in November 2022.

The Audit Committee

The Audit Committee reviews annually the effectiveness of the Company's internal control system, including information technology security and controls. To facilitate their review, the Committee understands and evaluates the scope of the internal and external auditors' review of internal controls over financial reporting, and obtains regular reports on significant findings and recommendations, together with management's responses, to obtain reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with.

The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the Company's internal control system, including the information technology security controls. Effective and adequate internal control mechanisms are in place, implemented and properly complied with for the year 2022.

Manual on Corporate Governance

In compliance with the initiative of the SEC, Pacific Online submitted its Manual on Corporate Governance (the "Manual") to the SEC. The Manual institutionalizes the principles of good corporate governance in the entire Company. Pacific Online believes that corporate governance, the framework of rules, systems and processes governing the performance of the Board and Management of their respectiveduties and responsibilities, and from which the organization's values and ethics emerge, is of utmost importance to the Company's shareholders and other stakeholders, which include, among others, clients, employees, suppliers, financiers, government and community in which it operates. The Company undertakes every effort possible to create awareness throughout the entire organization.

The Company, through its Chief Compliance Officer, stresses full compliance with applicable laws and adherence to ethical practices as stated in the Code of Business Conduct and Ethics (CBCE) and the Manual. Pacific Online is not aware of any non-compliance with the Manual by any of its directors, officers or employees.

The Board approved on April 25, 2022 the Company's Revised Manual on Corporate Governance: https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf

Code of Business Conduct and Ethics

The Company remains committed to align with the best corporate governance practices following the release of the 2016 Code of Corporate Governance for Publicly-Listed Companies. In addition to the Manual, the Company's Code of Business Conduct and Ethics (CBCE) defines good governance, ethics and compliance practices expected throughout the organization. The Manual and CBCE are communicated to directors, officers and employees to ensure familiarity and adherence. These documentsare also made public through the Company's website: https://www.loto.com.ph/corporate-governance/corporate-policies.

Governance Policies

Corporate policies on governance were developed, submitted to and approved by the Board to protect the interests and rights of the shareholders and stakeholders and to promote transparency and accountability. Such governance related policies are shown below and may be viewed through the Pacific Online corporate website https://www.loto.com.ph/corporate-governance/corporate-policies . These policies and procedures are initially cascaded throughout the organization via email blast, and annual corporate governance trainings. The Board, through its various Board Committees, ensures that adequate internal control mechanisms are implemented and properly complied in all levels.

1. Whistle-Blowing Policy
2. Policy for Purchase of Goods and Services
3. Accreditation and Performance Evaluation of External Providers Policy
4. Insider Trading Policy
5. Information Technology Policy
6. Dividend Policy Statement
7. Policy on Conflict of Interest
8. Related Party Transactions Policy

Employees' Safety, Health, and Welfare

Pacific Online Systems Corporation recognizes its employees as one of its most important resource, hence, the Company endeavors to attract, inspire and retain people who demonstrate competencies and attributes that are aligned with its strategies. Some of Pacific Online's non-financial performance indicators, such as those shown on the attached Sustainability Report, identify relevant measures on how effectively the Company is achieving business objectives in the area of human resources.

Board Diversity

The Corporate values and promotes a diversity policy in the composition of our Board to reinforce its effectiveness in providing strategic direction, oversight and compliance with laws and regulations.

Diversity in age, gender, ethnicity, experience, field expertise, and personal qualities shall be considered by the Board as it installs a process of selection to ensure a mix of competent directors and key officers. Diversity will foster critical discussion and promote balanced decisions by the Board by utilizing the difference in perspective of its directors.

Pacific Online Systems Corporation prohibits the its directors, officers, and employees from using privileged corporate information for personal gain. Trading/ownership of Company shares as of December 31, 2022 is shown below:

Name of Director	Position	Shares as of 12/31/2022	% of Class	Shares as of 12/31/2021	% of Class
Willy N. Ocier	Chairman	80,803,500	9.03%	80,803,500	9.02%
Jackson T. Ongsip	Director & President	100	0.00%	100	0.00%
Tarcisio M. Medalla	Director	300	0.00%	300	0.00%
Armin Antonio B. Raquel Santos	Director	200	0.00%	200	0.00%

Henry N. Ocier	**Director**	**1,209,000**	**0.13%**	**1,209,000**	**0.13%**
Laurito E. Serrano	**Independent Director**	**2,400**	**0.00%**	**2,400**	**0.00%**
Ma. Gracia M. Pulido Tan	**Independent Director**	**1,000**	**0.00%**	**1,000**	**0.00%**
Roberto V. Antonio[1]	**Independent Director**	**10,000**	**0.00%**	**N/A**	**N/A**
Raul B. De Mesa[2]	**Director**	**300**	**0.00%**	**N/A**	**N/A**
Mischel Gabrielle O. Mendoza	**Head, Business Devt.**	**585,000**	**0.06%**	**585,000**	**0.06%**
	Other Officers	**0**	**0.00%**	**0**	**0.00%**
	All Directors and Executive Officers as a group	**82,611,800**	**9.22%**	**82,601,500**	**9.21%**

[1] *Elected on September 13, 2022*
[2] *Elected on June 9, 2022*

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

Mischel O. Mendoza
Business Development Head & Risk Officer
2803 A&B Tektite Towers, Ortigas Center, Pasig City 1605
Tel.No.:(632) 8584-1700
Email: momendoza@pacificonline.com.ph

For Investor Relations, stakeholders may contact:

Grace L. Gatdula
Administration Division Head & Contact for Investor Relations
2803 A&B Tektite Towers, Ortigas Center, Pasig City 1605
Tel.No.:(632) 8584-1700
Email: glgatdula@pacificonline.co.ph

PART V - EXHIBITS AND SCHEDULES

Item 13. Exhibits and Reports on SEC Form 17-C

a. Exhibits

There are no exhibits to be provided that are applicable to the Company.

a. Reports on SEC Form 17-C

Document	Date Filed	Item No.	Matter
SEC FORM 17-C dated February 10, 2022	11-Feb-22	Item 9	Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated February 15, 2022	15-Feb-22	Item 9	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated March 1, 2022	2-Mar-22	Item 9	Material Information/Transactions
SEC FORM 17-C dated May 5, 2022	5-May-22	Item 9	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated May 27, 2022	27-May-22	Items 4	Results of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated May 27, 2022	27-May-22	Items 4	Results of Organizational Meeting of Board of Directors
SEC FORM 17-C dated June 9, 2022	10-Jun-22	Item 9	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated August 1, 2022	1-Aug-22	Item 9	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated August 4, 2022	5-Aug-22	Item 4	Material Information/Transactions
SEC FORM 17-C dated September 13, 2022	14-Sep-22	Item 4	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated September 13, 2022	15-Sep-22	Item 4	[Amend-1] Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on April 04, 2023.

TAGUIG CITY

By:

WILLY N. OCIER
Chairman of the Board

JACKSON T. ONGSIP
CEO / President

MARIA NERIZA C. BANARIA
Chief Financial Officer

ATTY. JASON C. NALUPTA
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ________ day of APR 04 2023 2023, affiants exhibiting to me their Competent Evidence of Identity, as follows:

NAME	COMPETENT EVIDENCE OF IDENTITY	DATE OF ISSUE	PLACE OF ISSUE
WILLY N. OCIER			
JACKSON T. ONGSIP		Jan. 25, 2020	DFA Manila
MARIA NERIZA C. BANARIA		May 08, 2019	DFA NCR Central
JASON C. NALUPTA		June 26, 2018	DFA NCR South

Doc. No. 136
Book No. II
Page No. 29
Series of 2023

MELISSA JEAN G. HIPOLITO
Appointment No. 25 (2022-2023)
Notary Public for Taguig City
Until December 31, 2023
Attorney's Roll No. 70077
1105 Tower 2 High Street South Corporate Plaza
26th Street Bonifacio Global City, Taguig City
PTR No. 5675504; 01.04.23; Taguig City
IBP Receipt No. 266967; 01.04.23; Pampanga
MCLE Compliance No. VI-0019878; 4.14.22*
*until April 14, 2023, per Supreme Court En Banc
Resolution dated February 15, 2022

PACIFIC ONLINE
SYSTEMS CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Pacific Online Systems Corporation and Subsidiaries (the Group)** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2022 and 2021**, 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 financial statements including the schedules attached therein and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditors appointed by the stockholders for the periods December 31, 2022 and 2021, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Signature: **WILLY N. OCIER**
Chairman of the Board

Signature: **JACKSON T. ONGSIP**
President

Signature: **MARIA NERIZA C. BANARIA**
Chief Financial Officer

Signed this 28th day of February 2023

U2803 A&B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City, 1605 PH
16/F Metrobank Plaza, Osmena Boulevard, Cebu City, 6000 PH
t (+63)(2) 8584.1700/ (+63)(2) 8584.1816/ (+63)(2) 8584.1843
t (+63)(32) 255.0721/ t (+63)(32) 255.0716
www.loto.com.ph

SUBSCRIBED AND SWORN to before me this 28th day of February 2023 at Pasig City, Metro Manila, affiants exhibiting to me their competent evidences of identity, as follows:

Name	Competent Evidence of Identity
Willy N. Ocier	Philippine Passport No. [redacted] issued on [redacted] at DFA Manila, valid until [redacted]
Jackson T. Ongsip	Philippine Passport No. [redacted] issued on [redacted] at DFA Manila, valid until [redacted]
Maria Neriza C. Banaria	Philippine Passport No. [redacted] issued on [redacted] at DFA NCR Central, valid until [redacted]

Doc. No. 494;
Page No. 100;
Book No. 1;
Series of 2023.

PAT T. GUZMAN, JR.
Notary Public for Cities of Pasig and San Juan
and in the Municipality of Pateros
Appointment No. 212 (2022-2023)
Commission Expires on December 31, 2023
4 East Tower, Tektite Towers, Exchange Road
Ortigas Center, 1605 Pasig City
PTR No. 9004907 / 01.04.23 / Pasig
IBP No. 262535 / 01.03.23 / RSM
Roll of Attorneys No. 77106
Admitted to the Bar: 05.06.22

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	3	0	0	8	8	0	9

COMPANY NAME

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No./Street/Barangay/City/Town/Province)*

28th Floor East Tower Philippine Stock Exchange Centre, Exchange Road, Ortigas Centre, Pasig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
momendoza@pacificonline.com.ph	(02) 8584-1700	0918-906-0138

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
60	Second Friday of April	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Grace L. Gatdula	glgatdula@pacificonline.com.ph	(02) 8584-1700	0998-594-6190

CONTACT PERSON'S ADDRESS

28th Floor, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila

NOTE 1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.*

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 4782 SEC Group A
Issued August 11, 2022
Valid for Financial Periods 2021 to 2025

BDO Towers Valero
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone +632 8 982 9100
Fax +632 8 982 9111
Website www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Pacific Online Systems Corporation (POSC) and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 the 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.

Other Matter

The consolidated financial statements of the Group as at and for the year ended December 31, 2020 were audited by another auditor whose report dated March 1, 2021, expressed an unmodified opinion on those consolidated financial statements.

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.

Accounting for Joint Operation
As at December 31, 2022, the Group accounted for its 50% ownership in Pinoylotto Technologies Corp. (PinoyLotto), a joint venture entity that was awarded with the five-year lease of the customized Philippine Charity Sweepstakes Office (PCSO) Lottery System (PLS Project), as a joint operation. Accordingly, the Group's corresponding share in the assets, liabilities and expenses of PinoyLotto was recognized in the consolidated financial statements. PinoyLotto is at pre-operating stage and is currently focused on completing its acquisitions of property and equipment to meet its commitment on the PLS Project. The accounting for this joint operation is significant to our audits because of the substantial amount of the Group's share in PinoyLotto's financial position and pre-operating costs.

Our audit procedures included, among others, obtaining the relevant financial information of PinoyLotto and reviewing the provisions of the significant contracts and agreements. We also gathered sufficient audit evidence to assess the reasonableness of significant balances, focusing on key audit areas such as determining the validity and proper classification of advances made for capital expenditures, completeness of liabilities and existence of pre-operating costs, among others. We also reviewed the adequacy of the related disclosures in Note 6*, Interest in Joint Operation* of the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2022 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 audit 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 these consolidated financial statements in accordance with PFRS, 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 PSA 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, these 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess 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 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 the 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 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 audits.

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 matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters 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 Belinda B. Fernando.

REYES TACANDONG & CO.

Belinda B. Fernando

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 3, 2023, Makati City

February 28, 2023
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2022**	2021
ASSETS			
Current Assets			
Cash and cash equivalents	7	**₱301,656,383**	₱98,638,883
Investments held for trading	8	**71,288,577**	61,629,495
Trade and other receivables	9	**201,198,131**	229,355,532
Creditable withholding taxes (CWTs)	10	**129,606,983**	101,489,046
Other current assets	10	**19,411,394**	55,783,218
Total Current Assets		**723,161,468**	546,896,174
Noncurrent Assets			
Financial assets at fair value through other comprehensive income (FVOCI)	11	**179,142,925**	252,166,540
Property and equipment	12	**2,013,551**	23,398,041
Right-of-use (ROU) assets	18	**1,815,399**	6,672,570
Net deferred tax assets	17	**–**	21,398,655
Other noncurrent assets	10	**209,824,090**	4,624,920
Total Noncurrent Assets		**392,795,965**	308,260,726
		₱1,115,957,433	₱855,156,900
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and other current liabilities	13	**₱109,487,367**	₱112,922,359
Current portion of lease liabilities	18	**1,891,442**	4,886,938
Total Current Liabilities		**111,378,809**	117,809,297
Noncurrent Liabilities			
Loan payable	6	**67,500,000**	–
Net retirement liability	19	**442,153**	16,062,627
Lease liabilities - net of current portion	18	**–**	1,986,014
Net deferred tax liabilities	17	**531,152**	–
Total Noncurrent Liabilities		**68,473,305**	18,048,641
Total Liabilities		**179,852,114**	135,857,938

(Forward)

	Note	December 31 2022	2021
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	14	**₱895,330,946**	₱895,330,946
Additional paid-in capital	14	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	14	**(285,267,558)**	(285,267,558)
Other equity reserves	14	**(273,276,416)**	(477,111,708)
Retained earnings		**342,701,848**	329,713,024
		934,129,143	717,305,027
Non-controlling Interest		**1,976,176**	1,993,935
Total Equity		**936,105,319**	719,298,962
		₱1,115,957,433	₱855,156,900

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 2022 AND 2021

(With Comparative Figures for 2020)

	Note	2022	2021	2020
REVENUES FROM CONTINUING OPERATIONS				
Equipment rental	18, 21	**₱519,051,226**	₱426,345,611	₱293,104,496
Commission and distribution income		**–**	–	5,425,907
		519,051,226	426,345,611	298,530,403
COST OF SERVICES	15	**(247,547,583)**	(378,629,801)	(514,362,959)
GENERAL AND ADMINISTRATIVE EXPENSES	15	**(95,773,077)**	(165,518,554)	(279,263,749)
OPERATING INCOME (LOSS)		**175,730,566**	(117,802,744)	(495,096,305)
OTHER INCOME (CHARGES)				
Dividend income	8,11	**18,947,664**	15,368,577	29,302,224
Marked-to-market gains (losses) on investments held for trading	8	**9,659,082**	(22,631,431)	(6,195,655)
Interest income on cash and cash equivalents	7	**437,289**	122,135	676,852
Finance charges	18	**(220,505)**	(642,417)	(6,335,216)
Others - net	16	**10,579,308**	34,975,394	3,473,074
		39,402,838	27,192,258	20,921,279
INCOME (LOSS) BEFORE INCOME TAX		**215,133,404**	(90,610,486)	(474,175,026)
PROVISION FOR (BENEFIT FROM) INCOME TAX	17			
Current		**3,576,689**	–	6,039
Deferred		**20,457,202**	50,134,333	(52,959,818)
		24,033,891	50,134,333	(52,953,779)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		**191,099,513**	(140,744,819)	(421,221,247)
DISCONTINUED OPERATION				
Net income from discontinued operation	5	**–**	–	39,833,733
NET INCOME (LOSS)		**₱191,099,513**	(₱140,744,819)	(₱381,387,514)

(Forward)

	Note	2022	2021	2020
NET INCOME (LOSS)		**₱191,099,513**	(₱140,744,819)	(₱381,387,514)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Unrealized valuation gains (losses) on financial assets at FVOCI	11	**16,971,435**	(29,655,825)	(65,808,515)
Remeasurement gains (losses) on retirement benefits, net of tax	19	**8,655,956**	26,559,054	(3,082,772)
		25,627,391	(3,096,771)	(68,891,287)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱216,726,904**	(₱143,841,590)	(₱450,278,801)
Net income (loss) attributable to:				
Equity holders of the Parent Company		**₱191,117,272**	(₱140,274,063)	(₱378,508,762)
Non-controlling interest		**(17,759)**	(470,756)	(2,878,752)
		₱191,099,513	(₱140,744,819)	(₱381,387,514)
Total comprehensive income (loss) attributable to:				
Equity holders of the Parent Company		**₱216,744,663**	(₱143,370,834)	(₱447,400,049)
Non-controlling interest		**(17,759)**	(470,756)	(2,878,752)
		₱216,709,145	191,099,513	(₱450,278,801)
Earnings (loss) per share - continuing operations				
Basic / diluted earnings (loss) per share	22	**₱0.2262**	(₱0.1660)	(₱0.4480)

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 2022 AND 2021

(With Comparative Figures for 2020)

		Equity Attributable to Equity Holders of the Parent Company							
	Note	**Capital Stock** (see Note 14)	**Additional Paid-in Capital** (see Note 14)	**Cost of Parent Company Common Shares Held by a Subsidiary** (see Note 14)	**Other Equity Reserves** (see Note 14)	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at January 1, 2022		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱477,111,708)**	**₱329,713,024**	**₱717,305,027**	**₱1,993,935**	**₱719,298,962**
Net income (loss)		**–**	**–**	**–**	**–**	**191,117,272**	**191,117,272**	**(17,759)**	**191,099,513**
Other comprehensive income:									
Unrealized valuation gains on financial assets at FVOCI	11	**–**	**–**	**–**	**16,971,435**	**–**	**16,971,435**	**–**	**16,971,435**
Remeasurement gains on retirement liability - net of tax	19	**–**	**–**	**–**	**8,655,956**	**–**	**8,655,956**	**–**	**8,655,956**
Total comprehensive income (loss)		**–**	**–**	**–**	**25,627,391**	**191,117,272**	**216,744,663**	**(17,759)**	**216,726,904**
Realized portion of the fair value reserve		**–**	**–**	**–**	**182,446,041**	**(183,779,301)**	**(1,333,260)**	**–**	**(1,333,260)**
Reclassification of retirement benefit reserve		**–**	**–**	**–**	**(4,238,140)**	**5,650,853**	**1,412,713**	**–**	**1,412,713**
Balance at December 31, 2022		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱273,276,416)**	**₱342,701,848**	**₱934,129,143**	**₱1,976,176**	**₱936,105,319**

		Equity Attributable to Equity Holders of the Parent Company							
	Note	Capital Stock (see Note 14)	Additional Paid-in Capital (see Note 14)	Cost of Parent Company Common Shares Held by a Subsidiary (see Note 14)	Other Equity Reserves (see Note 14)	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2021		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱474,014,937)	₱469,987,087	₱860,675,861	₱2,464,691	₱863,140,552
Net loss		–	–	–	–	(140,274,063)	(140,274,063)	(470,756)	(140,744,819)
Other comprehensive income (loss):									
Unrealized valuation losses on financial assets at FVOCI	11	–	–	–	(29,655,825)	–	(29,655,825)	–	(29,655,825)
Remeasurement gains on retirement liability - net of tax	19	–	–	–	26,559,054	–	26,559,054	–	26,559,054
Total comprehensive loss		–	–	–	(3,096,771)	(140,274,063)	(143,370,834)	(470,756)	(143,841,590)
Balance at December 31, 2021		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱477,111,708)	₱329,713,024	₱717,305,027	₱1,993,935	₱719,298,962

	Note	Equity Attributable to Equity Holders of the Parent Company								
		Capital Stock (see Note 14)	Additional Paid-in Capital (see Note 14)	Cost of Parent Company Common Shares Held by a Subsidiary (see Note 14)	Other Equity Reserves (see Note 14)	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱411,806,226)	₱855,178,425	₱1,308,075,910	₱5,343,443	₱1,313,419,353
Net loss		–	–	–	6,682,576	(385,191,338)	(378,508,762)	(2,878,752)	(381,387,514)
Other comprehensive loss:									
Unrealized valuation losses on financial assets at FVOCI	11	–	–	–	(65,808,515)	–	(65,808,515)		(65,808,515)
Remeasurement losses on retirement liability - net of tax	19	–	–	–	(3,082,772)	–	(3,082,772)		(3,082,772)
Total comprehensive loss		–	–	–	(62,208,711)	(385,191,338)	(447,400,049)	(2,878,752)	(450,278,801)
Balance at December 31, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱474,014,937)	₱469,987,087	₱860,675,861	₱2,464,691	₱863,140,552

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 2022 AND 2021

(With Comparative Figures for 2020)

	Note	**2022**	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax from continuing operations		**₱215,133,404**	(₱90,610,486)	(₱474,175,026)
Income before income tax from discontinued operation	5	**–**	–	39,836,985
Income (loss) before income tax		**215,133,404**	(90,610,486)	(434,338,041)
Adjustments for:				
Depreciation and amortization	12	**33,728,316**	148,369,577	233,659,796
Dividend income	8, 11	**(18,947,664)**	(15,368,577)	(29,302,224)
Marked-to-market losses (gains) on investments held for trading	8	**(9,659,082)**	22,631,431	6,195,655
Retirement benefits	19	**5,920,800**	9,383,034	11,290,060
Interest income	7, 16	**(4,118,204)**	(6,235,177)	(6,267,240)
Gain on sale of:				
Property and equipment	12	**(395,719)**	(175,500)	(15,000)
Subsidiaries	5	**(542,645)**	–	(55,761,139)
Finance charges	18	**220,505**	642,417	6,335,216
Unrealized foreign exchange loss (gain)		**(170,916)**	511,428	238,218
Provision for (reversal of) impairment loss on:				
Spare parts, supplies and CWTs	10	**(32,611,784)**	(10,860,620)	44,005,570
Trade and other receivables	9	**–**	(26,000,000)	139,677,614
ROU assets		**–**	–	458,997
Loss on retirement of property and equipment	12	**–**	834,745	–
Other provisions		**–**	676,407	–
Write-off of refundable deposit		**–**	–	1,794,147
Operating income (loss) before working capital changes		**188,557,011**	33,798,679	(82,028,371)
Decrease (increase) in:				
Investments held for trading		**–**	–	50,000,000
Trade and other receivables		**18,505,553**	(64,869,022)	(97,843,325)
Other current assets		**25,961,906**	(48,496,158)	(168,956,266)
Other noncurrent assets		**(205,199,168)**	97,284,380	157,284,675
Increase (decrease) in trade payables and other current liabilities		**14,857,879**	(66,540,728)	208,065,476
Net cash generated from (used for) operations		**42,683,181**	(48,822,849)	66,522,189
Retirement contributions	19	**(10,000,000)**	(5,000,000)	–
Interest received		**120,623**	122,135	676,852
Income tax paid		**–**	(6,146)	(940,580)
Net cash flows provided by (used in) operating activities		**32,803,804**	(53,706,860)	66,258,461

(Forward)

	Note	2022	2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of:				
Financial asset at FVOCI	11	**₱88,661,790**	₱–	₱–
Property and equipment	12	**3,869,285**	913,501	671,523
Dividends received	8, 11	**18,947,664**	15,368,577	29,302,224
Disposal of subsidiaries, net of cash of the disposed subsidiaries	5	**(3,910,087)**	–	9,879,025
Acquisitions of property and equipment	12	**(36,000)**	(12,127,263)	(90,839,188)
Net cash flows provided by (used in) investing activities		**107,532,652**	4,154,815	(50,986,416)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loan availments	5	**67,500,000**	–	–
Payments of lease liabilities	18	**(4,989,872)**	(12,827,398)	(36,842,773)
Finance charges paid		**–**	–	(4,337,479)
Loan payments		**–**	–	(150,000,000)
Net cash flows provided by (used in) financing activities		**62,510,128**	(12,827,398)	(191,180,252)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**202,846,584**	(62,379,443)	(175,908,207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**98,638,883**	162,274,833	337,471,529
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		**170,916**	(1,256,507)	711,511
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**₱301,656,383**	₱98,638,883	₱162,274,833

COMPONENTS OF CASH AND CASH EQUIVALENTS	7			
Cash on hand		**₱491,500**	₱535,132	₱702,132
Cash in banks		**201,164,883**	98,103,751	161,572,701
Cash equivalents		**100,000,000**	–	–
		₱301,656,383	₱98,638,883	₱162,274,833

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(With Comparative Information for 2020)

1. **General Information**

Corporate Information

Pacific Online Systems Corporation ("POSC" 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 Revised 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 Parent Company is a 50.1%-owned subsidiary of Premium Leisure Corporation (PLC or the "Immediate Parent Company"). The Ultimate Parent Company is Belle Corporation (Belle). Belle and PLC are corporations incorporated and domiciled in the Philippines with shares listed on the PSE.

As at December 31, the subsidiaries of the Parent Company and its interest in a joint operation, which are all incorporated and domiciled in the Philippines, are as follows:

		Percentage of Ownership		
	Industry	**2022**	2021	2020
Subsidiaries				
Loto Pacific Leisure Corporation (LotoPac)	Gaming	**100.0**	100.0	100.0
Total Gaming Technologies, Inc. (TGTI)	Gaming	**98.9**	98.9	98.9
Falcon Resources Inc. (FRI)[a]	Gaming	**100.0**	100.0	100.0
TGTI Services, Inc. (TGTISI)[a][b]	Gaming	**–**	100.0	100.0
Interest in Joint Operation				
PinoyLotto Technologies Corp. (PinoyLotto)	Gaming	**50.0**	50.0	–

(a) Indirect ownership through TGTI
(b) Sold in 2022

POSC

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 on governmental, municipal or public authority, domestic or foreign.

The Parent Company's primary source of revenue arises from the Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment. The existing ELA is valid until May 30, 2023 (see Notes 18 and 21).

LotoPac
LotoPac was incorporated in March 2007, primarily to acquire, establish, operate and manage amusement, recreational and gaming equipment facilities, as well as places for exhibitions, recreational, 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.

On February 13, 2020, LotoPac sold its investment in shares of stock of Lucky Circle Corporation (LCC) and as a result, LotoPac ceased its operations as an investment holding entity.

TGTI
TGTI was incorporated and registered with the 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 among others, non-profit institutions, and other entities.

TGTI's primary source of revenue arises from the ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. The ELA expired last April 1, 2022, and was no longer renewed (see Notes 18 and 21). The Company is still evaluating its future operating plans. In the meantime, management continues to actively look for viable opportunities within the gaming industry.

FRI
FRI was incorporated on May 25, 1999 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.

Starting July 2020, FRI ceased commercial operations of scratch ticket distribution to diversify to projects that are more aligned with the Parent Company's strategy and to focus on technology driven games and related support services that will be more viable and sustainable in the long term.

TGTISI
TGTISI was incorporated on August 31, 2011 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 aspects.

On June 9, 2022, TGTI's Board of Directors (BOD) approved the sale of all its common shares in TGTISI to a third party (see Note 5).

PinoyLotto
On June 21, 2021, PinoyLotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated and registered with the SEC primarily to provide software support and online lottery equipment service.

PinoyLotto was awarded with the five year-lease of the customized PCSO Lottery System (PLS Project) with a contract price of ₱5,800.0 million. The start of commercial operations will be in October 2023.

The Group's interest in PinoyLotto was accounted for as a joint operation (see Note 6).

The Parent Company, its subsidiaries and interest in joint operation are collectively referred herein as "the Group."

Approval of the Consolidated Financial Statements

The consolidated financial statements as at and for the years ended December 31, 2022 and 2021 (with comparative figures for 2020) were approved and authorized for issuance by the BOD on February 28, 2023.

2. Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council and adopted by the SEC, including the SEC provisions.

Measurement Bases

The consolidated financial statements are presented in Philippine Peso (Peso), the Group's functional currency. All amounts are rounded to the nearest Peso unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for:

- investments held for trading which are measured at fair value;
- financial assets at fair value through other comprehensive income (FVOCI); and
- retirement liability which is measured as the difference between the present value of defined benefit obligation and the fair value of plan assets.

Historical cost is generally based on the fair value of the consideration given in exchange of assets and fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Notes 8, *Investments Held for Trading,* 11, *Financial Assets at FVOCI*, and 23, *Financial Instruments*.

Adoption of Amendments to PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to PFRS.

- Amendment to PFRS 16, *Leases – Corona Virus Disease (COVID)-19-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions resulting from COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021.

  Due to the continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allowed lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022.

- Amendments to PFRS 3, *Business Combinations - Reference to Conceptual Framework* – The amendments replaced the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or IFRIC 21, *Levies,* instead of the Conceptual Framework. The requirement ensures that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarify that an acquirer shall not recognize contingent assets acquired in a business combination.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. There is no transition relief for first-time adopters.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments specify which costs shall be included when assessing whether a contract is onerous or loss-making. The 'costs of fulfilling' a contract comprise the 'costs that relate directly to the contract'. These costs can either be incremental (e.g., the costs of direct labor and materials) or can be an allocation of costs directly related to fulfilling a contract (e.g., depreciation of fixed assets). At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.

  - Amendment to PFRS 16, *Lease Incentives* – The amendment removed from Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

The adoption of the amendments to PFRS did not have any material effect on the consolidated financial statements of the Group.

Amendments to PFRS Issued But Not Yet Effective
Relevant amendments to PFRS which are not yet effective for the year ended December 31, 2022 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback* – The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS 15, *Revenue from Contracts with Customers,* to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use (ROU) asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Group shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

- Amendments to PAS 1, *Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Group shall also apply Amendments to PAS 1 - *Classification of Liabilities as Current or Noncurrent* for that period.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS, is not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the consolidated financial statements, as applicable.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company, its subsidiaries and its corresponding share in the joint operation.

Subsidiaries. Subsidiaries are entities controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company 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. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interest (NCI), even if this results in the NCI interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NCI represent the portion of net results and net assets not held by the Parent Company. These are presented in the consolidated statements of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statements of comprehensive income. NCI represent the equity interest in TGTI not held by the Parent Company.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

If the Parent Company loses control over a subsidiary, it derecognizes the assets including goodwill, liabilities and NCI in the subsidiary. The Parent Company recognizes the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in the consolidated statement of comprehensive income.

Business Combinations and Goodwill. Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. However, business combinations under common control may also be accounted for using the acquisition method of accounting when the transaction has commercial substance from the perspective of the reporting entity.

Under 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 NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed outright.

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. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. 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. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 is measured at fair value with the changes in fair value recognized in profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill acquired in a business combination is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for NCI and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in consolidated statement of comprehensive income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group measures in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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 (CGUs), 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 acquiree 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*.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than the carrying amount, an impairment loss is recognized. Impairment loss with respect to goodwill cannot be reversed in future periods.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the CGUs to which the goodwill is allocated. These budgets and forecasts calculations generally cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

When goodwill has been allocated to a CGU or group of CGUs 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 and the portion of the CGU retained.

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.

Joint Arrangements. Joint arrangements represent activities where the Parent Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

Classification of a joint arrangement as either joint operation or joint venture requires judgment. Management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

The Group accounted for its interest in PinoyLotto as a joint operation (see Note 6).

For a joint operation, the consolidated financial statements include the Parent Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the joint arrangement. The Parent Company reports items of a similar nature to those on the financial statements of the joint arrangement, on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The financial statements of PinoyLotto with a fiscal period ended June 30, are incorporated in the consolidated financial statements as at December 31. Adjustments and disclosures are made for the effects of significant transactions or events that occurred between the date of PinoyLotto's financial statements and the date of the consolidated financial statements.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:
- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classifications.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

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 a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable is done using settlement date accounting.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the 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 and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of 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" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transactions price as the best estimate of fair value and recognizes "Day 1" difference 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" difference.

Classification of Financial Instruments. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and, (c) financial assets at FVOCI. The classification of a financial asset largely depends its contractual cash flow characteristics and on the Group's business model.

Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

Equity securities that have been designated to be measured at FVOCI may not be reclassified to a different category.

As at December 31, 2022 and 2021, the Group does not have financial liabilities at FVPL and debt instruments measured at FVOCI.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

Classified under this category are the Group's investments in listed equity securities included under "Investments held for trading" account.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Classified under this category are the Group's cash, trade and other receivables (excluding advances to suppliers, officers and employees) and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets").

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 dates of placement and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. On initial recognition, equity securities which are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are measured at fair value with unrealized gains or losses recognized in other comprehensive income and are included under “Other Equity Reserves” account in the equity section of the consolidated statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods. On disposal of these equity securities, any cumulative valuation gains or losses will be reclassified to retained earnings.

Classified under this category are the Group’s investments in equity securities issued by the Ultimate Parent Company and Parent Company.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Classified under this category are the Group’s trade payables and other current liabilities (excluding statutory payables), loan payable and lease liabilities.

Impairment of Financial Assets at Amortized Cost

The Group records an allowance for expected credit loss (ECL) on financial assets at amortized cost based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset’s original effective interest rate.

The Group measures loss allowances at an amount equivalent to the 12-month ECL for financial assets on which credit risk has not increased significantly since initial recognition or that are determined to have low credit risk at reporting date. Otherwise, impairment loss will be based on lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at reporting date with the risk of a default occurring on the financial instrument on the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort. In addition, the Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at reversal date.

A financial asset is written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trade Receivables. The Group has applied the simplified approach in measuring the ECL on trade receivables. Simplified approach requires that ECL should always be based on the lifetime ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments Measured at Amortized Cost. For these financial assets, the Group applies the general approach in determining ECL. The Group recognizes an allowance based on either the 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

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 right to receive cash flows from the asset has expired;
- the Group retains the right 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 right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When 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 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. The difference in the respective carrying amounts is recognized in profit or loss.

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

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Creditable Withholding Taxes (CWTs)
CWTs represent the amount withheld by the Group's customers in relation to its income. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs are stated at its net realizable amount.

Other Assets
This account mainly consists of advances to suppliers, spare parts and supplies, prepayments, and excess of input value-added tax (VAT) over output VAT.

Advances to Suppliers. Advances to suppliers represent advance payments on goods and services to be incurred in connection with the Group's projects and operation. These are charged to expense or capitalized to specific asset accounts in the consolidated statements of financial position, upon actual receipt of services or goods. These are considered as nonfinancial instruments as these will be applied against future billings from suppliers.

Spare Parts and Supplies. Spare parts and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method and includes expenditures incurred in acquiring the supplies and bringing them to their existing location and condition. NRV is the current replacement cost.

Prepayments. Prepayments are expenses not yet incurred but paid in advance. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

Under Revenue Regulation No. 16-2005, sale to the government agencies is subject to a 5% final withholding VAT. Allowable input VAT should not exceed 7% of the gross receipts, which effectively accounts for the standard input VAT in lieu of the actual input VAT attributable to such sale. Any excess standard input VAT over actual input VAT is recognized as other income.

Starting 2021, the 5% final withholding VAT should be treated as creditable VAT.

The net amount of tax recoverable from (payable to) the taxation authority is included as part of "Other current assets" account or "Trade payables and other current liabilities" account in the consolidated statements of financial position.

The amount of VAT on revenue not yet collected is presented as part of "Statutory payables" account under "Trade payables and other current liabilities" account in the consolidated statements of financial position.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Each part of the property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the depreciable assets. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

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

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use.

Software Development

Software and development cost 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 software development 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 assets less their estimated residual values, if any, using the straight-line method over their estimated useful lives, of two to three years and amortization of intangible assets is recognized in profit or loss. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of Nonfinancial Assets (excluding Goodwill)

Nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or 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 or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the 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 recoverable amount is estimated. 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. After such a reversal the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Incremental costs directly attributable to the issue of new capital stock are recognized as a deduction, net of tax, from the equity.

Cost of Parent Company Common Shares Held by a Subsidiary. Parent Company's shares which are held by a subsidiary are treated similar to treasury shares and recognized and deducted from equity at cost. No gain or loss is recognized in the consolidated statements of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other reserves.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Group pertains to fair value movement of financial assets at FVOCI, remeasurement of retirement benefits and other reserves.

Retained Earnings. Retained earnings represent the cumulative balance of the Group's results of operations, net of dividends declared.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group has generally concluded that it is the principal in its revenue arrangements except for commission and distribution income. The following specific recognition criteria must also be met before revenue is recognized.

Equipment Rental. Revenue is recognized based on a certain percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement.

Commission and Distribution Income. Revenues from the distribution of lottery tickets such as lotto, keno, sweepstakes and instant scratch tickets to customers, including retailers and sub-distributors, representing the Company's share from the sales, are recognized at a point in time, specifically, upon delivery of the tickets to the customers.

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

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

Service Income. Revenue is recognized at a point in time when the service to the customer is performed. Service income consists of fees earned by TGTISI in providing repairs and maintenance services to Rapid Bingo equipment of AB Leisure Exponent Inc.

Other Income. Revenue is recognized when earned.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Cost of Services. Cost of services is recognized as expense when the related services are rendered.

General and Administrative Expenses. General and administrative expenses constitute cost of administering the business. These expenses are recognized in profit or loss when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, 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 assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

a) the right to obtain substantially all of the economic benefits from the use of the identified asset; and

b) the right to direct the use of the identified asset.

Group as a Lessee. At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value, in which case the lease payments associated with those leases are recognized as an expense in profit or loss on a straight-line basis. For leases with lease terms of 12 months or less but with an option to extend the lease, the management assesses whether there is reasonable certainty that the Group will extend the lease, by considering all relevant facts and circumstances that create an economic incentive for the lessee to extend or terminate the lease, to determine the appropriate lease term.

ROU Assets. At commencement date, the Group measures ROU assets at cost which is consist of:

a) the amount of the initial measurement of lease liabilities;
b) any lease payments made at or before the commencement date less any lease incentives received;
c) any initial direct costs; and

d) an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the ROU assets are depreciated over the shorter of the lease terms or the useful lives of the underlying assets.

Lease Liabilities. At commencement date, the Group measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability consist of the following:

a) fixed payments, including in-substance fixed payments;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees; and
d) 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.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Short-term Leases and Leases of Low-value Assets. The Group has elected not to recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as a Lessor. Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income under operating leases are recognized on a straight-line basis over the lease terms. 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 rent income. Contingent rents are recognized as revenue in the period in which these are earned.

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also 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 employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The retirement liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, difference between interest income and return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in the profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognize related restructuring costs.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

Foreign Currency Denominated Transactions

Transactions denominated in foreign currencies are initially recorded in Philippine Peso using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between the rate at transaction date and settlement date or reporting date are credited to or charged against profit or loss. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of initial transactions.

Income Taxes

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

Current income tax relating to item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

- When it 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 profit or loss nor taxable profit or loss; or

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses (net operating loss carryover or NOLCO), only if it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to offset the current tax assets against the current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Related Parties and Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net loss for the year attributable to common equity holders of the Parent Company, after recognition of the dividend requirement of preferred shares, as applicable, by the weighted average number of issued and outstanding common shares during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted earnings (loss) per share is computed by dividing net income (loss) for the year attributable to common equity holders of the parent by the weighted average number of issued and outstanding common shares during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings (loss) per share does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on earnings (loss) per share.

As the Group has no dilutive potential common shares outstanding, basic and diluted earnings (loss) per share are stated at the same amount.

Operating Segments
For management purposes, the Group is organized into business units based on the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services.

Discontinued Operation
A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statements of income are re-presented as if the operation had been discontinued from the comparative years.

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.

Provisions are made using the best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period these arise.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed 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 financial position at 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 consolidated financial statements when material.

3. **Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires management to exercise judgment, make estimates and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the consolidated financial statements. The judgment, accounting 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. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Assessing Joint Control and Determining Proper Classification of a Joint Arrangement. Management has used judgment in relation to the classification of the Group's interest in PinoyLotto and classified it as a joint operation. PinoyLotto is 50% owned by the Parent Company but controlled jointly with the other owner. PinoyLotto has been classified as a joint operation because the parties have equal number of board representatives and because relevant activities that significantly affect the return on the investment requires approval of representatives from both partners. Management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

Evaluating Revenue Recognition, Contract Term and Existence of Significant Financing Components. 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.

Management determined that the license granted provides the licensee a valuable right because it enables the licensee 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 design/variants.

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 of time. The financing component is recognized as interest income when the licensee pays in arrears.

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

Determining the Classification of Lease. The Parent Company and TGTI leases to PCSO the lottery equipment it uses for its nationwide on-line lottery operations. The Parent Company and TGTI have determined that it has retained substantially all the risks and benefits of ownership of the lottery equipment being leased to PCSO. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life. Accordingly, the lease is accounted for as an operating lease.

Revenue from equipment rental amounted to ₱519.1 million, ₱426.3 million in 2022 and 2021, respectively (₱293.1 million in 2020) (see Notes 18 and 21).

Determining the Fair Value of Financial Instruments. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

The fair value of the Group's financial assets and liabilities are disclosed in Note 23.

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.

Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assessing Impairment Losses on Financial Assets. Impairment losses on financial assets are determined based on expected credit losses. In assessing the expected credit losses, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

The Group maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible accounts. 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 are not limited to, the age and status of receivables, 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 ECL model in estimating the level of allowance, which includes forecasts of future events and conditions. A credit loss is the difference between the cash flow that are due in accordance with the contract and the cash flow 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 ECL and the 12-month ECL are similar.

The Group recognized provision for (reversal of) impairment losses on trade and other receivables amounting to nil, (₱26.0 million) in 2022 and 2021, respectively (₱139.7 million in 2020) (see Notes 9, 16 and 21). Allowance for impairment losses on financial assets at amortized cost amounted to ₱115.8 million as at December 31, 2022 and 2021 (see Note 9).

The carrying amount of financial assets at amortized cost as at December 31, 2022 and 2021 are as follows:

	Note	**2022**	2021
Cash and cash equivalents	7	**₱301,656,383**	₱98,638,883
Trade and other receivables	9	**201,198,131**	229,355,532
Guaranteed deposits	10	**14,500,000**	14,500,000
Refundable deposits	10	**2,769,759**	3,706,928

Assessing Impairment of Nonfinancial Assets (Except Goodwill) Including Deferred Tax Assets. The Group assesses whether there are any indicators of impairment for all nonfinancial assets at each reporting date. Nonfinancial assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of these nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets which will necessitate the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Similarly, the Group reviews its deferred tax assets at each reporting date and reduces the carrying amount 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. The amount of deferred income tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

While it is believed that the assumptions used in the estimation of recoverable values are appropriate and reasonable, future events could cause the Group to conclude that such nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's consolidated financial statements.

Management has considered the external and internal sources of impairment and assessed that there were no impairment indicators affecting the Group's property and equipment as at December 31, 2022 and 2021.

In 2020, certain ROU assets were impaired due to the pre-termination of the lease contracts owing to the cost-cutting measures of the management. Given this case and as stipulated in the lease contracts, the lease deposits shall be forfeited and thus, management also impaired the refundable deposits relating to the ROU assets.

In 2020, the Group recognized provision for impairment loss for the remaining amount of spare parts and supplies of TGTI as these are identified as obsolete. Management has also determined that these spare parts and supplies have no resale value given that TGTI is the sole provider of the keno operation in the country and the said spare parts and supplies can only be used with the existing keno terminals and system equipment. In 2022 and 2021, however, the management reversed a portion of the impairment loss amounting to ₱32.7 million and ₱10.9 million, respectively that were previously recognized for spare parts and supplies that were utilized in the operations.

The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount 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. The amount of deferred income tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

Deferred tax assets relating to NOLCO amounting to ₱40.6 million and ₱81.6 million as at December 31, 2022 and 2021 were not recognized because it is not probable that future taxable profit will be available against which the Group can use the benefit therefrom (see Note 17).

Provision for impairment loss on nonfinancial assets amounted to nil and ₱44.5 million in 2020 (see Notes 10 and 15). Allowances for impairment loss on nonfinancial assets amounted to ₱533,166 and ₱33.1 million as at December 31, 2022 and 2021, respectively (see Note 10).

The carrying amounts of nonfinancial assets as at December 31, 2022 and 2021 are as follows:

	Note	**2022**	2021
CWTs		**₱129,606,983**	₱101,489,046
Property and equipment	12	**2,013,551**	23,398,041
ROU assets	18	**1,815,399**	6,672,570
Prepayments	10	**1,122,393**	11,809,673
Deferred tax assets	17	**–**	21,398,655
Spare parts and supplies	10	**–**	11,809,673

Estimating the Useful Lives of Property and Equipment, ROU Assets and Software Development. The Group estimates the useful lives of the property and equipment, ROU assets and software development based on the period over which these assets are expected to be available for use. The estimated useful lives are reviewed periodically and are 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 these assets. In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of property and equipment and ROU assets in 2022, 2021 and 2020. The carrying amount of property and equipment amounted to ₱2.0 million and ₱23.4 million as at December 31, 2022 and 2021, respectively (see Note 12). The carrying amount of ROU assets amounted to ₱1.8 million and ₱6.7 million as at December 31, 2022 and 2021, respectively (see Note 18).

Evaluating Contingencies. Management believes that any potential claims against the Group arising from the normal course of business will not have any material adverse effect on its consolidated financial position and consolidated financial performance.

4. 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. Thus, 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. On February 13, 2020, the Group sold its Distribution and Retail Activities segment (see Note 5). Thus, in 2022 and 2021, the Group's segment pertains solely to leasing activities.

Revenue generated from the leasing activities account for 100% of the Group's revenue in 2022 and 2021 and 98% in 2020.

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.

In 2020, information regarding the results of each reportable segment is shown below:

	2020			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	₱293,104,496	₱–	₱–	₱293,104,496
Commission and distribution income	–	5,425,907	–	5,425,907
	293,104,496	5,425,907	–	298,530,403
Segment results				
Income (loss) before income tax	(569,779,214)	31,276,822	104,161,108	(474,175,016)
Income tax expense (benefit)	(53,139,818)	186,039	–	(52,953,779)
Net income (loss)	(₱516,639,396	₱31,090,783	₱104,161,108	(₱381,387,505)
Segment assets	₱1,291,413,275	₱103,428,485	(₱291,437,719)	₱1,103,404,041
Deferred tax assets	81,738,151	–	676,408	82,414,559
Segment assets (excluding deferred tax assets)	₱1,209,675,124	₱103,428,485	(₱292,114,127)	₱1,020,989,482
Segment liabilities	₱247,404,339	₱23,051,656	(₱30,192,506)	₱240,263,489
Other Information				
Capital expenditures	₱90,839,188	₱–	₱–	₱90,839,188
Depreciation and amortization	233,337,475	322,320	–	233,659,795
Finance charges	6,335,216	–	–	6,335,216
Interest income	291,049	385,803	–	676,852

5. Disposal of Subsidiary and Discontinued Operation

Disposal of Subsidiary

On June 9, 2022, TGTI's BOD approved the transfer of all the rights, title and interests in TGTISI's shares to a third party for a consideration of ₱1.0 million.

Total gain on deconsolidation amounted to ₱542,645, which is the difference between the consideration received and the Group's share on TGTISI's net asset at the date of disposal (See Note 16).

Effect of Disposal on the Financial Position of the Group

	2022
Cash	(₱4,910,087)
Trade and other receivables	(13,649,430)
Other current assets	(190,709)
Trade payables and other current liabilities	18,292,871
Net assets	(₱457,355)
Cash consideration received	₱1,000,000
Cash disposed of	(4,910,087)
Net cash outflow	(₱3,910,087)

Discontinued Operation

On February 6, 2020, the Parent Company's BOD approved the sale of LCC, the Group's Distribution and Retail Activities segment, to focus its resources on its principal business of providing modern and efficient online gaming facilities and equipment to its customers. LCC operates and/or manages several outlets throughout the Philippines which sell products of the PCSO, including lotto, keno and instant scratch tickets. LCC is included as part of "Distribution and Retail Activities" in the Group's reportable segment in the consolidated financial statements.

On February 13, 2020, POSC has concluded the sale of all of the POSC's equity interest in LCC, equivalent to ₱127.0 million shares for ₱1.082 per share to a third party for a total consideration of ₱137.4 million.

The relevant information on discontinued operation is presented below:

Results of Discontinued Operation

	2020
Revenue	₱29,909,718
Expenses	45,708,617
Result from operating activities	(15,798,899)
Gain on sale of subsidiaries	55,761,139
Other loss - net	(125,255)
Income before income tax from discontinued operation	39,836,985
Provision for current income tax	3,252
Net income from discontinued operation	₱39,833,733
Basic/ diluted earnings per share	₱0.0471

Total gain on deconsolidation amounted to ₱55.8 million, which is the difference between the consideration received and the Group's share on LCC Group's net asset at the date of disposal.

Cash Flow Provided by (Used in) Discontinued Operation

	2020
Net cash used in operating activities	(₱13,665,741)
Net cash provided by investing activities	9,879,025
	(₱3,786,716)

Effect of Disposal on the Financial Position of the Group

	2020
Cash and cash equivalent	(₱127,534,435)
Trade and other receivables	(3,884,240)
Other current assets	(48,047,685)
Property and equipment	(25,369,421)
ROU assets	(26,056,920)
Other noncurrent assets	(29,299,938)
Trade payables and other current liabilities	159,490,201
Lease liabilities	27,074,542
Net assets	(₱73,627,896)
Cash consideration received	₱137,413,460
Cash disposed of	(127,534,435)
Net cash inflow	₱9,879,025

Goodwill
Goodwill in LCC amounting to ₱17.0 million which was fully provided with allowance for impairment loss was included in the net assets derecognized as a result of disposal of LCC.

6. **Interest in Joint Operation**

Interest in joint operation pertains to the Group's 50% ownership in PinoyLotto. As discussed in Note 1, PinoyLotto was awarded a five-year lease of the customized PCSO Lottery System, also known as '2021 PLS Project' with a contract price of ₱5,800.0 million (see Note 1).

The five-year lease will begin from the commencement of commercial operations of PinoyLotto which is expected to be in October 2023.

The Group's interest in PinoyLotto was considered as joint operation.

Relevant financial information of PinoyLotto and the Group's share of the assets, liabilities, and results of operations as at and for the year ended December 31, 2022 and 2021 are as follows:

	2022		2021	
	PinoyLotto	**Share in Joint Operation**	PinoyLotto	Share in Joint Operation
Cash	**₱51,784,995**	**₱25,892,498**	₱5,377,271	₱2,688,635
Advances to supplier	**418,472,225**	**209,236,112**	–	–
Other current assets	**4,578,601**	**2,289,300**	262,591	131,296
Property and equipment	**28,800**	**14,400**	–	–
Trade payables and other current liabilities	**(4,500)**	**(2,250)**	(3,425)	(1,713)
Nontrade payable	**(26,222,339)**	**(13,111,169)**	–	–
Loan payable	**(135,000,000)**	**(67,500,000)**	–	–
Net loss (mainly pre-operating expenses)	**(27,957,380)**	**(13,978,690)**	(97,263,563)	(48,631,781)

Loan Agreement

On October 15, 2022, PinoyLotto entered into a long-term loan agreement with a local bank for a loan facility with a maximum aggregate principal amount of ₱1,000.0 million, the proceeds of which shall be used to partially finance the capital expenditure requirements of the PLS Project.

In November 2022, PinoyLotto made its first drawdown for the principal amount of ₱135.0 million. The loan has a term of five years, payable in equal quarterly installments beginning on the second year from initial drawdown up to the maturity. Annual effective interest rate on the loan is 7.96%.

The loan is secured by a continuing surety of the Parent Company and PGMC and maintenance of a debt service reserve account.

Pursuant to the terms of the loan agreement, PinoyLotto is required to comply with certain financial covenants starting June 30, 2024. PinoyLotto is also restricted from performing certain corporate acts such as declaration or payment of dividends and incurrence of additional long-term loans, among others, if doing so, will result in violation of financial ratios or event of default.

As at December 31, 2022, PinoyLotto is compliant with the loan covenants.

Capital Expenditure Commitments

In connection with the acquisition of property and equipment pursuant to the PLS Project, PinoyLotto entered into purchase, supply, implementation and maintenance support agreements in 2022. The estimated capital expenditure is ₱1.36 billion. Advances made to suppliers as at December 31, 2022 amounted to ₱418.5 million.

7. Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand	**₱491,500**	₱535,132
Cash in banks	**201,164,883**	98,103,751
Cash equivalents	**100,000,000**	–
	₱301,656,383	₱98,638,883

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱437,289 and ₱122,135 in 2022 and 2021, respectively (₱676,852 in 2020).

8. Investments Held for Trading

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

Movements in this account are as follows:

	2022	2021
Balance at beginning of year	**₱61,629,495**	₱84,260,926
Marked-to-market gains (losses)	**9,659,082**	(22,631,431)
Balance at end of year	**₱71,288,577**	₱61,629,495

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 nil in 2022 and 2021 and ₱2.3 million in 2020.

9. Trade and Other Receivables

This account consists of:

	Note	2022	2021
Trade		**₱66,548,397**	₱51,730,465
Nontrade receivables:			
Third party		**127,500,000**	104,000,000
LCC Group		**113,677,614**	113,677,614
Accrued license fee income - current portion	21	**4,000,000**	70,319,085
Advances to:			
Contractors and suppliers		**2,775,402**	3,310,451
Officers and employees		**531,761**	1,867,608
Other receivables		**1,989,961**	275,313
		317,023,135	345,180,536
Less allowance for impairment loss		**115,825,004**	115,825,004
		₱201,198,131	₱229,355,532

Trade receivables are generally on a 30-to-60 day credit terms. The risks associated on this account are disclosed in Note 24. Nontrade receivables from LCC Group pertain to amounts due from LCC Group at the date of disposal of the investment in the Group. The management, because of the delayed payments from LCC Group due to the impact of the COVID-19 pandemic on its operations, had set up an allowance for impairment.

Advances to consultants are noninterest-bearing and are subject to liquidation but are for refund to the Group in the absence of any output.

Due to the suspension of the PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, Powerball Gaming and Entertainment Corporation (PMLC) was not able to supply and distribute instant scratch tickets to its customers. Management assessed that the accrued license fee income equivalent to those months with no operations amounting to ₱26.0 million may not be recoverable. In 2021, allowance for impairment losses amounting to ₱26.0 million was reversed since these were collected in 2022 (see Note 21).

The movements in allowance for impairment losses are as follows:

	Note	**2022**	2021
Balance at beginning of year		**₱115,825,004**	₱141,825,004
Reversal	16	**–**	(26,000,000)
Balance at end of year		**₱115,825,004**	₱115,825,004

10. **CWTs and Other Assets**

CWTs
This account consists of:

	2022	2021
CWTs	**₱130,140,149**	101,960,468
Less allowance for impairment loss	**533,166**	471,422
	₱129,606,983	₱101,489,046

Current Assets
This account consists of:

	Note	**2022**	2021
Guaranteed deposits	21	**14,500,000**	14,500,000
Input VAT		**3,789,001**	1,133,338
Prepayments		**1,122,393**	11,809,673
Spare parts and supplies		**–**	61,013,735
		19,411,394	88,456,746
Less allowance for impairment loss		**–**	32,673,528
		₱19,411,394	₱55,783,218

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

Guaranteed deposits pertain to cash bonds held in escrow account as part of the agreement with PCSO.

Movement of the allowance for impairment loss is as follows:

		2022		
	Note	**Spare parts and supplies**	**CWTs**	**Total**
Balance at beginning of year		**₱32,673,528**	**₱471,422**	**₱33,144,950**
Provision (reversal)	15	**(32,673,528)**	**61,744**	**(32,611,784)**
Balance at end of year		**₱–**	**₱533,166**	**₱533,166**

		2021		
	Note	Spare parts and supplies	CWTs	Total
Balance at beginning of year		₱43,534,148	₱471,422	₱44,005,570
Reversal	15	(10,860,620)	–	(10,860,620)
Balance at end of year		₱32,673,528	₱471,422	₱33,144,950

Noncurrent Assets
This account consists of:

	2022	2021
Advances to suppliers	**₱207,054,331**	₱–
Refundable deposits	**2,769,759**	3,706,928
Others	**–**	917,992
	₱209,824,090	₱4,624,920

Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest. An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 18).

11. **Financial Assets at FVOCI**

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company (see Note 20). The movement in this account is as follows:

	2022	2021
Balance at beginning of year	**₱252,166,540**	₱281,822,365
Disposal	**(89,995,050)**	–
Unrealized valuation gains (losses)	**16,971,435**	(29,655,825)
Balance at end of year	**₱179,142,925**	₱252,166,540

On February 4, 2022, the Group sold its investment in its Ultimate Parent Company for a consideration of ₱88.7 million. There were no acquisitions or disposals in 2021 and 2020. Dividend income amounted to ₱18.9 million and ₱15.4 million in 2022 and 2021, respectively (₱27.0 million in 2020).

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

Movements of fair value reserve are as follows:

	2022	2021
Balance at beginning of year	**(₱492,266,311)**	(₱462,610,486)
Disposal	**182,446,041**	–
Fair value gain (loss)	**16,971,435**	(29,655,825)
Balance at end of year	**(₱292,848,835)**	(₱492,266,311)

12. **Property and Equipment**

The movement in this account is as follows:

	2022				
	Lottery Equipment	**Leasehold Improvements**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost					
Balances at beginning of year	**₱527,639,554**	**₱16,158,667**	**₱38,354,390**	**₱36,373,192**	**₱618,525,803**
Disposal	**(25,775,312)**	**(9,426,435)**	**(22,282,168)**	**(20,012,553)**	**(77,496,468)**
Additions	**–**	**–**	**36,000**	**–**	**36,000**
Balances at end of year	**501,864,242**	**6,732,232**	**16,108,222**	**16,360,639**	**541,065,335**
Accumulated Depreciation and Amortization					
Balances at beginning of year	**515,169,982**	**13,924,345**	**36,944,728**	**29,088,707**	**595,127,762**
Disposal	**(25,775,312)**	**(9,426,435)**	**(22,233,496)**	**(16,587,659)**	**(74,022,902)**
Depreciation and amortization	**12,469,572**	**1,078,637**	**1,396,990**	**3,001,725**	**17,946,924**
Balances at end of year	**501,864,242**	**5,576,547**	**16,108,222**	**15,502,773**	**539,051,784**
Carrying Amount	**₱–**	**₱1,155,685**	**₱–**	**₱857,866**	**₱2,013,551**

	2021				
	Lottery Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost					
Balances at beginning of year	₱814,177,341	₱31,175,485	₱39,448,488	₱53,244,251	₱938,045,565
Disposal	(297,333,428)	(15,347,420)	(1,978,868)	(16,987,309)	(331,647,025)
Additions	10,795,641	330,602	884,770	116,250	12,127,263
Balances at end of year	527,639,554	16,158,667	38,354,390	36,373,192	618,525,803
Accumulated Depreciation and Amortization					
Balances at beginning of year	750,318,988	27,813,804	36,600,360	39,817,025	854,550,177
Disposal	(296,498,683)	(15,347,420)	(1,978,868)	(16,249,308)	(330,074,279)
Depreciation and amortization	61,349,677	1,457,961	2,323,236	5,520,990	70,651,864
Balances at end of year	515,169,982	13,924,345	36,944,728	29,088,707	595,127,762
Carrying Amount	₱12,469,572	₱2,234,322	₱1,409,662	₱7,284,485	₱23,398,041

The Group sold certain equipment with a carrying amount of ₱3.5 million and ₱738,001 million for a total consideration of ₱3.9 million and ₱913,501 in 2022 and 2021, respectively, resulting to a gain on sale amounting to ₱395,719 and ₱175,500 in 2022 and 2021, respectively (see Note 16).

The Group retired certain equipment with a carrying amount of ₱834,745 million resulting to a loss on retirement amounting to and ₱834,745 in 2022 (see Note 16).

Depreciation and amortization recognized in the consolidated financial statements arises from:

	Note	**2022**	2021	2020
Property and equipment		**₱17,946,924**	₱70,651,864	₱88,577,597
Software development	10	**11,136,364**	66,818,181	126,590,909
ROU assets	18	**4,645,028**	10,899,532	18,491,290
		₱33,728,316	₱148,369,577	₱233,659,796

Depreciation and amortization are allocated as follows:

	Note	**2022**	2021	2020
Cost of services	15	**₱29,217,792**	₱137,888,868	₱223,361,791
General and administrative expenses	15	**4,510,524**	10,480,709	10,298,005
		₱33,728,316	₱148,369,577	₱233,659,796

13. Trade Payables and Other Current Liabilities

This account consists of:

	Note	**2022**	2021
Accounts payable		**₱37,466,158**	₱46,955,265
Accrued expenses:			
Professional fees		**11,856,892**	22,822,274
Communication		**3,160,123**	5,792,772
Rental and utilities		**15,264**	373,272
Software and license fees payable	21	**22,551,018**	18,240,075
Nontrade payable		**13,111,169**	–
Statutory payables		**11,365,137**	10,053,206
Other provision		**4,675,556**	3,958,960
Others		**5,286,050**	4,726,535
		₱109,487,367	₱112,922,359

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

Accrued expenses are normally settled in the following month.

Nontrade payable pertains to the Parent Company’s share in other liabilities of the joint operation that was initially shouldered by the co-venturer. This is expected to be settled within a year.

Statutory payables mainly pertain to statutory contributions, withholding taxes, VAT payable, deferred output VAT and other liabilities to the government agencies, which are payable within the next financial year.

Other provisions pertain to the Group’s accruals of usual potential liabilities.

14. **Equity**

Capital Stock and Additional Paid-in Capital

Details of capital stock as at December 31, 2022 and 2021 are as follows:

	Number of Shares	Amount
Authorized - ₱1 par value:		
Common shares	2,288,000,000	₱2,288,000,000
Issued:		
Balance at beginning and end of year	895,330,946	₱895,330,946
Cost of Parent Company Common Shares Held by a Subsidiary:		
Balance at beginning and end of year	(50,466,984)	(285,267,558)
Outstanding	844,863,962	₱610,063,388

Additional paid-in capital amounted to ₱254.6 million as at December 31, 2022 and 2021.

Cost of Parent Company Common Shares Held by Subsidiary

As at December 31, 2022 and 2021, TGTI holds Parent Company common shares totaling 50,466,984 and amounting to ₱285.3 million. These are presented as "Cost of Parent Company common shares held by subsidiary" account in the consolidated statements of financial position. Related other reserves amounted to ₱2.6 million as at December 31, 2022 and 2021.

The Parent Company listed its shares in the PSE on April 12, 2007. As at December 31, 2022 and 2021, all issued shares are listed in the PSE.

Pursuant to the PSE's rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. As at December 31, 2022 and 2021, public ownership over the Parent Company is 35.78%.

There are no movements in the number of outstanding shares for all the periods presented. As at December 31, 2022 and 2021, the Parent Company has 60 and 57 stockholders of record, respectively.

Other Equity Reserves

Details of other equity reserves shown in the consolidated statements of financial position follows:

	Note	**2022**	2021
Cumulative unrealized valuation losses on financial asset at FVOCI	11	**(₱292,848,835)**	(₱492,266,311)
Cumulative remeasurement gains on net retirement liability	19	**16,962,065**	₱12,544,249
Other reserves		**2,610,354**	2,610,354
		(₱273,276,416)	(₱477,111,708)

15. **Costs and Expenses**

Cost of Services
This account consists of:

	Note	**2022**	2021	2020
Software and license fees	21	**₱60,508,456**	₱54,498,348	₱40,565,718
Communication		**52,106,865**	59,064,228	73,102,227
Personnel costs		**45,774,003**	60,181,751	65,017,547
Depreciation and amortization	12	**29,217,792**	137,888,868	223,361,791
Operating supplies		**21,621,140**	4,532,056	8,776,315
Rent and utilities	18	**17,432,832**	23,359,564	15,101,763
Travel and accommodation		**11,348,845**	14,697,869	13,443,639
Repairs and maintenance		**6,236,267**	21,622,692	20,336,565
Professional fees		**3,231,886**	2,640,935	1,962,326
Marketing and promotion		**28,000**	92,929	9,048,000
Provision for impairment loss	10	**–**	–	43,534,148
Others		**41,497**	50,561	112,920
		₱247,547,583	₱378,629,801	₱514,362,959

General and Administrative Expenses
This account consists of:

	Note	**2022**	2021	2020
Personnel costs		**₱36,848,072**	₱58,229,330	₱64,490,880
Pre-operating expenses	6	**13,993,257**	48,630,295	–
Travel and accommodation		**8,575,837**	10,570,979	15,336,963
Rent and utilities	18	**8,266,557**	7,332,968	13,818,507
Director’s fee		**5,049,020**	1,943,072	1,820,915
Taxes and licenses		**4,712,080**	11,702,081	10,249,035
Depreciation and amortization	12	**4,503,324**	10,480,709	10,298,005
Professional fees		**4,451,336**	3,213,406	3,841,656
Repairs and maintenance		**2,695,171**	2,905,206	3,163,115
Communication		**2,598,167**	5,261,859	5,437,871
Operating supplies		**1,266,847**	2,027,307	1,758,707
Entertainment and representation		**342,917**	757,066	4,165,892
Provision for impairment losses	9, 10, 18	**61,744**	–	140,608,031
Marketing and promotion		**–**	373,920	145,468
Others		**2,408,748**	2,090,356	4,128,704
		₱95,773,077	₱165,518,554	₱279,263,749

Pre-operating expenses of PinoyLotto is as follows:

	2022	2021
Professional fees	**₱6,221,510**	₱–
Bank charges	**3,266,241**	–
Taxes and licenses	**2,740,990**	–
Rent and utilities	**920,890**	–
Entertainment and representation	**398,094**	–
Depreciation	**7,200**	–
Pre-operating expenses	**–**	48,630,295
Others	**438,332**	–
	₱13,993,257	₱48,630,295

Pre-operating expenses pertain to cost to obtain contract.

Personnel costs are as follows:

	Note	**2022**	2021	2020
Salaries and wages		**₱57,272,452**	₱82,576,302	₱87,299,273
Other short-term employee benefits		**19,428,823**	26,451,745	29,109,451
Post-employment benefits	19	**5,920,800**	9,383,034	13,099,703
		₱82,622,075	₱118,411,081	₱129,508,427

16. **Other Income (Charges)**

Others - net in this account consists of:

	Note	**2022**	2021	2020
Accreted interest income	21	**₱3,680,915**	₱6,113,042	₱5,590,388
Sale of scrap items		**2,892,120**	–	–
Service income (expense)		**2,035,056**	490,728	(1,132,202)
Foreign exchange gain (loss)		**(1,833,336)**	745,079	(949,729)
Gain on deconsolidation	5	**542,645**	–	–
Gain on sale of property and equipment		**395,719**	175,500	15,000
Reversal of impairment loss	9	**–**	26,000,000	–
Loss on retirement of asset		**–**	(834,745)	–
Excess standard input VAT over actual input VAT		**–**	–	(3,696,247)
Others		**2,866,189**	2,285,790	3,645,864
		₱10,579,308	₱34,975,394	₱3,473,074

Others mainly consist of miscellaneous income, bank charges and seller’s prize from winning tickets exceeding ₱10,000.

17. **Income Tax**

Current income tax expense pertains to regular corporate income tax (RCIT).

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

	2022	2021
Items recognized in profit or loss		
Retirement benefits	**₱5,703,652**	₱8,136,166
Accrued license fee income	**(1,000,000)**	(17,579,771)
Unamortized past service costs	**331,820**	2,271,666
Unrealized foreign exchange loss	**125,761**	(204,491)
Excess payment over lease related expenses	**(99,271)**	(70,700)
NOLCO	–	32,966,294
	5,061,962	25,519,164
Items recognized in other comprehensive income		
Remeasurement of retirement liability	**(5,593,114)**	(4,120,509)
Net deferred tax assets (liabilities)	**(₱531,152)**	₱21,398,655

Unrecognized deferred tax assets pertaining to NOLCO amounted to ₱40.6 million and ₱81.6 million as at December 31, 2022 and 2021.

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020 to implement Section 4 of the Republic Act No. 11494, *Bayanihan to Recover as One Act* allowing the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 to be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

The details of the Group’s unused NOLCO which can be claimed as deduction from future taxable income during the stated validity are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Applied	Ending Balance	Valid Until
2022	₱–	₱15,315,044	₱–	₱–	₱15,315,044	2025
2021	53,134,368	–	–	–	53,134,368	2026
2020	249,198,861	–	–	(143,634,179)	105,564,682	2025
2019	155,831,129	–	(23,965,951)	(131,865,178)	–	2022
	₱458,164,358	₱15,315,044	(₱23,965,951)	(₱275,499,357)	₱174,014,094	

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

	2022	2021	2020
Income tax at statutory income tax rate	**₱53,783,351**	(₱22,652,622)	(₱142,252,508)
Income tax effects of:			
Changes in deferred tax assets on NOLCO	**(26,024,104)**	51,437,805	26,472,832
Nondeductible expenses and others	**3,982,839**	13,448,518	67,075,520
Nontaxable income	**(4,736,916)**	(6,500,000)	(8,790,667)
Marked-to-market losses on securities	**1,874,923**	5,657,858	1,858,697
Income subjected to final tax	**(4,846,202)**	(3,866,142)	(253,820)
Effect of change in tax rates	**–**	12,608,916	–
Others	**–**	–	2,936,167
Provision for (benefit from) income tax at effective tax rate	**₱24,033,891**	₱50,134,333	(₱52,953,779)

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) was approved and signed into law by the country's President. Under the CREATE, RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, MCIT was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates retrospectively became effective beginning July 1, 2020.

The passage of CREATE to law is considered a non-adjusting subsequent event for financial reporting. Accordingly, the income tax rates used in preparing the financial statements as at and for the year ended December 31, 2020 are at 30% and 2% for RCIT and MCIT, respectively.

The effect of the reduction of tax rates were applied in the 2021 deferred tax expense. Details of adjustments are as follows:

Deferred tax expense	₱37,525,417
Effect of change in tax rate	12,608,916
Adjusted deferred tax expense	₱50,134,333

18. **Lease Commitments**

Group as Lessor

POSC leases online lotto equipment and accessories to PCSO for a period of one year until July 31, 2021 as provided in the 2020 Amended ELA. In 2021, the ELA was extended until July 31, 2022. In 2022, the ELA was further extended until December 31, 2022. As at report date, the ELA has been extended until May 2023 (see Note 21).

Rental payments are based on a percentage of gross amount of lotto ticket sales from the operation of POSC's lotto terminals. Rental income amounted to ₱512.7 million and ₱390.8 million in 2022 and 2021, respectively (₱245.9 million in 2020).

TGTI leases "Online KENO" equipment and accessories to PCSO for a period of 10 years from the time the ELA will run in commercial operations. In 2021, the ELA was extended until April 1, 2022. The ELA expired and was not renewed in 2022. Rental payment by PCSO is based on certain percentage of gross amount of "Online KENO" games from the operation of all TGTI's KENO terminals.

Rental income amounted to ₱6.3 million and ₱35.5 million in 2022 and 2021, respectively (₱47.2 million in 2020).

<u>Group as Lessee</u>
POSC and TGTI leases office space and warehouses. The leases typically run for a period of two to five years, with an option to renew the lease after expiration date upon mutual agreement of the parties.

Amounts recognized in the consolidated statements of comprehensive income follow:

	Note	**2022**	2021	2020
Rent expense		**₱12,592,852**	₱14,851,199	₱17,853,572
Amortization on ROU assets	12	**4,645,028**	10,899,532	18,491,290
Interest expense on lease liabilities		**220,505**	642,417	1,997,737
		₱17,458,385	₱26,393,148	₱38,342,599

Interest expense on lease liabilities is recognized under "Finance charges" account in the consolidated statements of comprehensive income. In 2020, finance charges also include interest on fully paid loan amounting to ₱4.3 million.

Rent expense pertains to low-value asset leases on storage and short-term leases on warehouses.

The movements in the ROU assets are presented below:

	2022	2021
Balance at beginning of year	**₱6,672,570**	₱10,119,536
Amortization	**(4,645,028)**	(10,899,532)
Modification	**(212,143)**	–
Additions	**–**	8,926,056
Pre-termination	**–**	(1,473,490)
Balance at end of year	**₱1,815,399**	₱6,672,570

The movements in the lease liabilities are presented below:

	2022	2021
Balance at beginning of year	**₱6,872,952**	₱11,605,367
Payments	**(4,989,872)**	(12,827,398)
Interest expense	**220,505**	642,417
Modification	**(212,143)**	–
Additions	**–**	8,926,056
Pre-termination	**–**	(1,473,490)
	1,891,442	6,872,952
Current portion	**1,891,442**	4,886,938
Noncurrent portion	**₱–**	₱1,986,014

Refundable deposits amounted to ₱2.8 million and ₱3.7 million as at December 31, 2022 and 2021, respectively. An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 10).

The future minimum lease payments under noncancellable leases are as follows:

	2022	2021
Within one year	**₱1,916,339**	₱5,124,015
After one year but not more than five years	**–**	2,012,156
	₱1,916,339	₱7,136,171

19. Retirement Benefits

The Parent Company and TGTI have funded, noncontributory defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. Costs are determined in accordance with the actuarial study, the latest of which is dated December 31, 2022.

Changes in the retirement benefits of the Group are as follows:

	2022		
	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Liability**
Balance at beginning of year	**₱69,354,501**	**₱53,291,874**	**₱16,062,627**
Net retirement income (costs) in profit or loss:			
Current service cost	**5,718,843**	**–**	**5,718,843**
Interest expense	**3,805,047**	**–**	**3,805,047**
Interest income	**–**	**3,603,090**	**(3,603,090)**
	9,523,890	**3,603,090**	**5,920,800**
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	**(1,540,075)**	**–**	**(1,540,075)**
Actuarial changes arising from changes in financial assumptions	**(14,900,199)**	**–**	**(14,900,199)**
Actual return excluding amount included in net interest cost		**(4,899,000)**	**4,899,000**
	(16,440,274)	**(4,899,000)**	**(11,541,274)**
Contributions	**–**	**10,000,000**	**(10,000,000)**
Benefits paid	**(11,384,305)**	**(11,384,305)**	**–**
Balance at end of year	**₱51,053,812**	**₱50,611,659**	**₱442,153**

	2021		
	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Liability
Balance at beginning of year	₱112,703,638	₱64,259,827	₱48,443,811
Net retirement income (costs) in profit or loss:			
Current service cost	11,746,110	–	11,746,110
Past service cost	(4,138,954)	–	(4,138,954)
Interest expense	4,031,008	–	4,031,008
Interest income	–	2,255,130	(2,255,130)
	11,638,164	2,255,130	9,383,034
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	(18,558,461)	–	(18,558,461)
Actuarial changes arising from changes in financial assumptions	(11,976,605)	–	(11,976,605)
Actuarial changes due to changes in demographic assumptions	(5,021,814)	–	(5,021,814)
Actual return excluding amount included in net interest cost	–	1,207,338	(1,207,338)
	(35,556,880)	1,207,338	(36,764,218)
Contributions	–	5,000,000	(5,000,000)
Benefits paid	(19,430,421)	(19,430,421)	–
Balance at end of year	₱69,354,501	₱53,291,874	₱16,062,627

The following table presents the fair values of the plan assets of the Group as at December 31:

	2022	2021
Cash and cash equivalents	**₱46,707**	₱29,361
Debt instruments - government bonds	**21,902,515**	31,280,723
Debt instruments - other bonds	**3,695,652**	2,092,934
Unit investment trust funds	**24,318,213**	19,230,112
Others	**648,572**	658,744
	₱50,611,659	₱53,291,874

The Group's plan assets are administered by a Trustee. The Group and the retirement plan have no specific matching strategies between the retirement plan assets and define benefit asset or obligation under the retirement plan. The Group expects to contribute ₱10.0 million to the fund in 2023.

Movements in retirement benefit reserve consist of the following:

	2022		
	Retirement Benefits Reserve	**Deferred Tax** (see Note 17)	**Total**
Balance at beginning of year	**₱16,945,209**	**(₱4,400,960)**	**₱12,544,249**
Remeasurement gain	**11,541,274**	**(2,885,318)**	**8,655,956**
Reclassification	**(5,650,853)**	**1,412,713**	**(4,238,140)**
Balance at end of year	**₱22,835,630**	**(₱5,873,565)**	**₱16,962,065**

	2021		
	Retirement Benefits Reserve	Deferred Tax (see Note 17)	Total
Balance at beginning of year	(₱19,819,009)	₱5,804,204	(₱14,014,805)
Remeasurement loss	36,764,218	(9,191,055)	27,573,163
Effect of change in tax rate	–	(1,014,109)	(1,014,109)
Balance at end of year	₱16,945,209	(₱4,400,960)	₱12,544,249

The principal assumptions used to determine retirement plan assets as at December 31 are as follows:

	2022	2021
Discount rates	**7.32%**	5.19%
Future salary increases	**8.00%**	8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2022 and 2021 assuming all other assumptions were held constant:

	2022		2021	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	**-100**	**(₱57,254,690)**	-100	(₱11,539,755)
	+100	**45,813,638**	+100	8,628,147
Salary increase rate	**+100**	**57,410,691**	+100	11,521,722
	-100	**(45,585,797)**	-100	(8,614,752)

The average duration of the Group's defined benefit obligation is 15.4 years in 2022.

The maturity analysis of the undiscounted benefit payments follows:

	2022	2021
Less than one year	**₱4,503,945**	₱2,984,279
More than one year to five years	**8,631,666**	67,019
More than five years to ten years	**384,459,915**	80,439,492

20. **Related Party Transaction and Balances**

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company totaling ₱179.1 million and ₱252.2 million as at December 31, 2022 and 2021, respectively (see Note 11).

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

	2022	2021	2020
Salaries and wages	**₱9,319,577**	₱22,746,801	₱20,108,986
Retirement benefits	**1,565,098**	90,291	1,777,484
Professional fees	**–**	1,333,333	888,889
	₱10,884,675	₱24,170,425	₱22,775,359

21. **Significant Contracts and Commitments**

Agreements with PCSO

POSC. The Parent Company has an ELA with the PCSO for the lease of lotto terminals, which includes central computer, communications equipment, and the right to use the application software and manuals for the central computer system and draw equipment of PCSO. This also includes the supply of betting slips and ticket paper rolls.

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

Pursuant to the amended ELA, the Parent Company was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2022 and 2021, the total cash bond, included under "Other current assets" in the consolidated statements of financial position, amounted to ₱12.0 million.

Since July 31, 2019, the ELA has been extended for PCSO to complete the bidding process for the Philippine Lottery System (PLS) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO. In 2022, the ELA was extended until December 31, 2022.

In 2023, the ELA was extended for a month-to-month basis up to May 31, 2023.

The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of gross sales of lotto tickets from PCSO's Luzon and VISMIN operations. The number of installed lotto terminals totaled 3,605 and 3,129 as at December 31, 2022 and 2021, respectively. The Parent Company's rental income amounted to ₱512.7 million and ₱390.8 million in 2022 and 2021 respectively (₱245.9 million in 2020) (see Note 18).

TGTI. TGTI had an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories. The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of the gross sales of the "Online KENO" terminals. The minimum price per keno bet was reduced from ₱12 to ₱10, inclusive of documentary stamp tax. The ELA may be extended and/or renewed upon the mutual consent of the parties.

The ELA required TGTI to post a cash bond and performance security bond with an aggregate amount of ₱2.5 million. The cash bond in included under "Other current assets" in the consolidated statements of financial position (see Note 10).

The ELA expired and was not renewed in 2022.

The number of installed online KENO terminals totaled 57 and 569 as at December 31, 2022 and 2021, respectively. TGTI's revenue from equipment rental amounted to ₱6.3 million and ₱35.6 million in 2022, 2021, respectively (₱47.2 million 2020) (see Note 18).

Brand and Trademark Agreement with PMLC

In January 2018, POSC entered into a Brand and Trademark License Agreement (BTLA) with PMLC granting the latter a non-assignable, non-transferable and exclusive right to use POSC's instant scratch tickets' brand and trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. In consideration of the BTLA, PMLC agreed to pay POSC a guaranteed fixed monthly fee of ₱4.0 million starting January 2018. The agreement with PMLC was accounted for as sale of right to use the brand and trademark. POSC already transferred the control over the brand and trademark to PMLC on January 1, 2018 and there are no other performance obligation to be provided to PMLC.

Due to the suspension of PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, the PMLC was not able to supply and distribute the instant scratch tickets to its customers because the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable. Impairment losses amounting to ₱26.0 million were recognized in 2020. However, this was reversed in 2021 because the amount was collected in 2022 (see Note 9).

Accreted interest income amounted to ₱3.7 million and ₱6.1 million in 2022 and 2021, respectively (₱5.6 million in 2020) (see Note 16). Accrued license fee income amounted to ₱4.0 million and ₱70.3 million as at December 31, 2022 and 2021, respectively (see Note 9).

Contracts with Scientific Games and Intralot and Management Agreement

Scientific Games. As at December 31, 2022 and 2021, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC 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 POSC's ELA with PCSO is in effect.

In 2021, the contract with Scientific Games was extended until July 31, 2022.

In 2022, the contract with Scientific Games was extended until December 31, 2022.

Intralot. As at December 31, 2022 and 2021, POSC and TGTI have contracts with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC and TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The Contract shall continue as long as POSC's and TGTI's ELA with PCSO are in effect.

In 2021, the contract with POSC was extended until July 31, 2022 while the contract with TGTI was extended until March 31, 2022.

In 2022, the contract with POSC was extended until December 31, 2022 while the contract with TGTI was no longer renewed.

Software and license fee recognized amounted to ₱60.5 million and ₱54.5 million in 2022 and 2021 respectively (₱40.6 million in 2020) (see Note 15). Software and license fees payable amounted to 22.6 million and ₱18.2 million as at December 31 2022 and 2021, respectively (see Note 13).

Management Agreement. POSC and TGTI entered into Management Agreements with AB Gaming and Leisure Exponent Specialist, Inc. ("Manager") for the latter to provide investment and management counsel and to act as manager and overseer of its operations. In consideration of the Manager's services, POSC shall pay a monthly fee and an amount equivalent to a certain percentage of the annual earnings before interest, taxes, depreciation, and amortization (EBITDA). The agreements were terminated in 2021.

22. Basic Earnings (Loss) per Share

As at December 31, 2022, 2021 and 2020, the basic/diluted earnings (loss) per share was computed as follows:

	2022	2021	2020
Income(loss) attributable to Equity holders of the Parent (a)	**₱191,117,272**	(₱140,274,063)	(₱378,508,762)
Number of issued common shares at beginning of year	**895,330,946**	895,330,946	895,330,946
Number of parent company common shares held by a subsidiary at beginning of year	**(50,466,984)**	(50,466,984)	(50,466,984)
Weighted average number of issued common shares - basic, at end of year (b)	**844,863,962**	844,863,962	844,863,962
Basic/diluted earnings (loss) per share (a/b)	**₱0.2262**	(₱0.1660)	(₱0.4480)

There are no common stock equivalents that would have a dilutive effect on the basic earnings (loss) per share.

23. **Financial Instruments**

Financial Risk Management Objectives and Policies

The financial instruments mainly comprise cash, trade and other receivables (excluding advances to suppliers, officers and employees) and guarantee and refundable deposits (presented as part of “Other current assets” or “Other noncurrent assets”), investments held for trading and financial assets at FVOCI, trade payables and other current liabilities (excluding statutory payables) and lease liabilities. The main purpose of these financial instruments is to finance the Group’s projects and operations.

It is the policy that no trading of financial instruments should be undertaken by the Group. The main risks arising from the financial instruments are credit risk, equity price risk, liquidity risk and foreign currency risk. The BOD reviews and approves policies for managing these risks.

Credit Risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is not significant. The Group does not offer credit terms without the specific approval of the management. There is no significant concentration of credit risk.

With respect to credit risk arising from the financial assets of the Group, which comprise of cash (excluding cash on hand) trade and other receivables (excluding advances to suppliers) and guarantee and refundable deposits (presented as part of “Other current assets” or “Other noncurrent assets”), the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these financial assets.

The table below shows the Group’s aging analysis of financial assets.

	2022						
	Neither	**Past Due but not Impaired**					
	Past Due nor Impaired	**Less than 30 Days**	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Impaired**	**Total**
Cash and cash equivalents*	**₱301,164,883**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱301,164,883**
Trade and other receivables**	**200,038,359**	**–**	**–**	**–**	**–**	**113,677,614**	**313,715,973**
Refundable deposit***	**2,769,759**	**–**	**–**	**–**	**–**	**–**	**2,769,759**
Guarantee deposits***	**14,500,000**	**–**	**–**	**–**	**–**	**–**	**14,500,000**
	₱518,473,001	**₱–**	**₱–**	**₱–**	**₱–**	**₱113,677,614**	**₱632,150,615**

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under “Other current assets” and/or “Other noncurrent assets” account in the consolidated statements of financial position.*

	2021						
	Neither	Past Due but not Impaired					
	Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash*	₱98,103,751	₱–	₱–	₱–	₱–	₱–	₱98,103,751
Trade and other receivables**	226,324,865	–	–	–	–	113,677,614	340,002,479
Refundable deposit***	3,706,928	–	–	–	–	–	3,706,928
Guarantee deposits***	14,500,000	–	–	–	–	–	14,500,000
	₱342,635,544	₱–	₱–	₱–	₱–	₱113,677,614	₱456,313,158

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under “Other current assets” and/or “Other noncurrent assets” account in the consolidated statements of financial position.*

Financial assets are considered past due when collections are not received on due date.

Credit Quality of Financial Assets
The financial assets are grouped according to stage whose description is explained as follows:

Stage 1 – those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 – those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date

Stage 3 – those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The credit quality of the Group's financial assets are as follows:

	2022			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Financial Assets at Amortized Cost				
Cash and cash equivalents*	**₱301,164,883**	**₱–**	**₱–**	**₱301,164,883**
Trade and other receivables-net**	**200,038,359**	**–**	**113,677,614**	**313,715,973**
Refundable deposit***	**2,769,759**	**–**	**–**	**2,769,759**
Guarantee deposit***	**14,500,000**	**–**	**–**	**14,500,000**
Gross Carrying Amount	**₱518,473,001**	**₱–**	**₱113,677,614**	**₱632,150,615**

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statement of financial position.*

	2021			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash*	₱98,103,751	₱–	₱–	₱98,103,751
Trade and other receivables-net**	226,324,865	–	113,677,614	340,002,479
Refundable deposit ***	3,706,928	–	–	3,706,928
Guarantee deposit***	14,500,000	–	–	14,500,000
Gross Carrying Amount	₱342,635,544	₱–	₱113,677,614	₱456,313,158

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account.*

High grade financial assets pertain to receivables from clients or customers who have no history of delayed payment while medium grade includes receivables from clients or customers who have history of delayed payment but is currently updated.

Cash in banks are deposited with the top ten banks in the Philippines; hence, considered high grade.

Quoted marketable securities and financial assets at FVOCI are assessed as high grade based on financial status of the counterparty and its current stock price performance in the market.

Equity Price Risk. Equity price risk is the risk that the fair value of quoted marketable securities and financial assets at FVOCI in listed equities decreases as a result of changes in the value of individual stock. The Group's exposure to equity price risk relates primarily to the Group's marketable securities. The Group monitors the equity investments based on market expectations. Significant movements 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 2022 and 2021 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	**2022**	2021
Impact in profit or loss		
5%	**₱3,564,429**	₱3,081,475
(5%)	**(3,564,429)**	(3,081,475)
Impact in comprehensive income		
5%	**14,331,434**	20,173,323
(5%)	**(14,331,434)**	(20,173,323)

Liquidity Risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Group's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Group considers obtaining borrowings as the need arises.

The table also analyzes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	2022				
	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Trade payables and other current liabilities*	**₱39,290,044**	**₱–**	**₱–**	**₱58,832,186**	**₱98,122,230**
Loan payable	**–**	**–**	**–**	**67,500,000**	**67,500,000**
Lease liabilities	**1,149,804**	**766,536**	**–**	**–**	**1,916,340**
	₱40,439,848	**₱766,536**	**₱–**	**₱126,332,186**	**₱167,538,570**

**Excluding statutory payables*

	2021				
	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Trade payables and other current liabilities*	₱18,353,479	₱48,156,775	₱6,765,172	₱29,593,727	₱102,869,153
Lease liabilities	1,540,461	1,168,967	2,414,587	2,012,156	7,136,171
	₱19,893,940	₱49,325,742	₱9,179,759	₱31,605,883	₱110,005,324

**Excluding statutory payables*

Foreign Currency Risk. Foreign currency risk is the risk that the fair value or future cash flows of financial asset or financial liability will fluctuate due to changes in foreign exchange rates.

As at December 31, 2022 and 2021, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2022		2021	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Cash and cash equivalents	**\$1,962,285**	**₱109,097,145**	\$208,528	₱10,653,717
Software license fee payable*	**(838,192)**	**(46,600,971)**	(1,057,011)	(37,455,466)
Net foreign currency-denominated assets (liabilities)	**\$1,124,093**	**₱62,496,174**	(\$848,483)	(₱26,801,749)

**Presented under "Trade payables and other current liabilities" account.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱55.60 to US$1.0 and ₱51.09 to US$1.0, as at December 31, 2022 and 2021, respectively.

It is the Group's policy to ensure that capabilities exist for active but conservative management of its foreign currency risk. The Group seeks to mitigate its transactional currency exposure by maintaining its costs at consistently low levels, regardless of any upward or downward movement in the foreign currency exchange rate.

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rates, with all other variables held constant, of the Group's consolidated income before tax as at December 31, 2022 and 2021. There is no other impact on the Group's equity other than those already affecting the profit or loss in the consolidated statement of comprehensive income.

	2022		2021	
	Increase in US$ Rate	**Decrease in US$ Rate**	Increase in US$ Rate	Decrease in US$ Rate
Change in US$ rate*	**5%**	**(5%)**	5%	(5%)
Effect on income before income tax	**₱10,756,670**	**(₱10,756,670)**	₱2,167,448	(₱2,167,448)

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

Capital Management

The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern, so that it can continue to 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 or issue new shares. There were no changes made in the objectives, policies or processes in 2022 and 2021.

The Group considers the following as its capital:

	2022	2021
Common stock	**₱895,330,946**	₱895,330,946
Additional paid-in capital	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	**(285,267,558)**	(285,267,558)
	₱864,703,711	₱864,703,711

Fair Value of Assets and Financial Liabilities

Set out below is a comparison by category and by class of carrying values and fair values of the Group's assets and financial liabilities:

	2022		2021	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**₱301,656,383**	**₱301,656,383**	₱98,638,883	₱98,638,883
Trade and other receivables*	**200,038,359**	**200,038,359**	226,324,865	226,324,865
Refundable security deposits**	**2,769,759**	**2,769,759**	3,706,928	3,706,928
Guaranteed deposits**	**14,500,000**	**14,500,000**	14,500,000	14,500,000
At FVPL				
Investments held for trading	**71,288,577**	**71,288,577**	61,629,495	61,629,495
At FVOCI				
Financial assets at FVOCI	**179,142,925**	**179,142,925**	252,166,540	252,166,540
	₱769,396,003	**₱769,396,003**	₱656,966,711	₱656,966,711
Financial Liabilities				
At amortized cost:				
Trade payables and other current liabilities***	**₱98,122,230**	**₱98,122,230**	₱102,869,153	₱102,869,153
Loan payable	**67,500,000**	**66,538,186**	–	–
Lease liabilities	**1,891,442**	**1,899,514**	6,872,952	7,026,713
	₱167,513,672	**₱166,559,930**	₱109,742,105	₱109,895,866

**Excluding advances to suppliers, officers and employees.*
***Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statements of financial position.*
****Excluding statutory payables*

The Group has no financial liabilities measured at fair value as at December 31, 2022 and 2021. There were no transfers between fair value measurements in 2022 and 2021.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and financial liabilities:

Cash, Trade and Other Receivables, Trade Payables and Other Current Liabilities (excluding Statutory Payables). The carrying values of these financial instruments approximate their fair values due to the relatively short-term maturities of these financial assets and financial liabilities.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of Financial Assets at FVPL and financial assets at FVOCI in quoted equity shares are based on quoted prices in the PSE or those shares whose prices are readily available from brokers or other regulatory agency as at reporting date. There are no quoted market prices for the unlisted shares and there are no other reliable sources of their fair values, therefore, these are carried at cost, net of any impairment loss.

Loan Payable and Lease Liabilities. The fair values are based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rate used for loan payable is 5.78% and 5.25% to 6.50% for lease liabilities in 2022 and 2021.

24. **Supplemental Disclosures of Cash Flow Information**

Changes in Liabilities Arising from Financing Activities

	1/1/2022	**Additions (Reversals)**	**Finance Costs**	**Cash Flows**	**12/31/2022**
Lease liabilities	**₱6,872,952**	**(₱212,143)**	**₱220,505**	**(₱4,989,872)**	**₱1,891,442**
Loans payable	**–**	**67,500,000**	**–**	**–**	**67,500,000**
Total liabilities from financing activities	**₱6,872,952**	**₱67,287,857**	**₱220,505**	**(₱4,989,872)**	**₱69,391,442**

	1/1/2021	Additions (Reversals)	Finance Costs	Cash Flows	12/31/2021
Lease liabilities	₱11,605,367	₱7,452,566	₱642,417	(₱12,827,398)	₱6,872,952
Total liabilities from a financing activity	₱11,605,367	₱7,452,566	₱642,417	(₱12,827,398)	₱6,872,952

	1/1/2020	Additions (Reversals)	Finance Costs	Cash Flows	12/31/2020
Lease liabilities	₱67,602,005	(₱36,842,993)	₱1,997,737	(₱21,151,382)	₱11,605,367
Loans payables	150,000,000	–	–	(150,000,000)	–
Interest payables	–	–	4,337,479	(4,337,479)	–
Total liabilities from financing activities	₱217,602,005	(₱36,842,993)	₱6,335,216	(175,488,861)	₱11,605,367

BDO Towers Valero
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone +632 8 982 9100
Fax +632 8 982 9111
Website www.reyestacandong.com

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pacific Online Systems Corporation and Subsidiaries (the Group) as at and for the years ended December 31, 2022 and 2021 and have issued our report thereon dated February 28, 2023. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole.

The following supplementary schedules are the responsibility of the Group's management. These are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 Part II, and are not part of the basic consolidated financial statements:

- Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration as at December 31, 2022
- Schedules required by Annex 68-J as at December 31, 2022
- Conglomerate Map as at December 31, 2022
- Schedule of Financial Soundness Indicators as at and for the years ended December 31, 2022 and 2021

The supplementary schedules have been subjected to the audit procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

The Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. The financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021.

REYES TACANDONG & CO.

Belinda B. Fernando

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 3, 2023, Makati City

February 28, 2023
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2022 and 2021

Ratio	Formula	2022	2021
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		
	Total current assets	**₱723,161,468**	₱546,896,174
	Divide by: Total current liabilities	**111,378,809**	117,809,297
	Current Ratio	**6.49**	4.64
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities**		
	Total current assets	**₱723,161,468**	₱546,896,174
	Less: Other current assets	**19,411,394**	157,272,264
	Quick assets	**703,750,074**	389,623,910
	Divide by: Total current liabilities	**111,378,809**	117,809,297
	Acid Test Ratio	**6.32**	3.31
Debt-to-Equity Ratio	**Total Interest-Bearing debt divided by Total Equity**		
	Total interest-bearing debt	**₱67,500,000**	₱–
	Total equity	**936,105,319**	719,298,962
	Debt to Equity Ratio	**0.07**	–
Asset-to-Equity Ratio	**Total Assets divided by Total Equity**		
	Total assets	**₱1,115,957,433**	₱855,156,900
	Total equity	**936,105,319**	719,298,962
	Asset to Equity Ratio	**1.19**	1.19
Interest Rate Coverage Ratio	**Loss Before Interest and Taxes divided by Total Interest Expense**		
	Net income (loss) before income tax	**₱215,133,404**	(₱90,610,486)
	Less: Interest income	**437,289**	122,135
	Add: Interest expense	**220,505**	642,417
	Loss before interest and taxes	**214,916,620**	(90,090,204)
	Divide by: Interest expense	**220,505**	642,417
	Interest Rate Coverage Ratio	**974.66**	(140.24)

Return on Equity	**Net Loss divided by Average Total Equity**		
	Net income (loss)	**₱191,099,513**	(₱140,744,819)
	Average Total Equity	**827,702,141**	791,219,757
	Return on Equity	**23.09**	(0.18)
Return on Assets	**Net Loss divided by Average Total Assets**		
	Net income (loss)	**₱191,099,513**	(₱140,744,819)
	Average total assets	**985,557,167**	979,280,471
	Return on Assets	**0.19**	(0.14)
Solvency Ratio	**Net Income (Loss) Before Non-Cash Expenses divided by Total Liabilities**		
	Net income (loss)	**₱191,099,513**	(₱140,744,819)
	Add: Non-cash expenses	**33,948,821**	(149,011,994)
	Net loss before non-cash expenses	**225,048,334**	(289,756,813)
	Total liabilities	**179,852,114**	135,857,938
	Solvency Ratio	**1.25**	(2.13)
Net Profit Margin	**Net Income (Loss) divided by Total Revenue**		
	Net income (loss)	**₱191,099,513**	(₱140,744,819)
	Total revenue	**519,051,226**	426,345,611
	Net profit margin	**0.37**	(0.33)

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

PARENT COMPANY'S RECONCILIATON OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2022

		Amount
Unappropriated retained earnings available for dividend distribution as at beginning of year		₱96,738,414
Net income during the period closed to retained earnings	205,052,083	
Add: Movement in deferred tax assets	21,182,034	
Share in net loss of Pinoylotto	13,978,690	
Unrealized foreign exchange loss - net	503,043	
Less: Realized portion of the fair value reserve	183,779,301	
Marked-to-market gains on investments held for trading	9,659,082	47,277,467
Unappropriated retained earnings as adjusted to available for dividend declaration, at end of year		₱144,015,881

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6 PART II OF REVISED SRC RULE 68

DECEMBER 31, 2022

Table of Contents

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotations at balance sheet date	Interest received and accrued
	(In Thousands)			
Financial assets at fair value through profit or loss				
APC Goup, Inc.	45,821,000	₱9,439,126	₱9,439,126	₱–
Leisure and Resorts World Corp.	10,724,792	25,846,749	25,846,749	–
Vantage Equities, Inc.	43,376,750	36,002,702	36,002,702	–
		₱71,288,577	**₱71,288,577**	–
Financial assets at fair value through other comprehensive income				
Premium Leisure Corporation	377,143,000	₱179,142,925	₱179,142,925	–

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts Collected	Allowance for Doubtful Accounts	Current	Not Current	Balance at end of period
Total Gaming Technologies Inc.	₱36,017,251	₱7,168,780	₱5,487,770	₱–	₱–	₱–	₱37,698,261
TGTI Services, Inc.	12,500,000	–	12,500,000	–	–	–	–
	₱48,517,251	**₱7,168,780**	**₱17,987,770**	**₱–**	**₱–**	**₱–**	**₱37,698,261**

Schedule D. Long-term debt

(In Thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"
Loan Payable			
Unionbank of the Philippines	₱135,000	₱–	₱67,500
	₱135,000	₱–	₱67,500

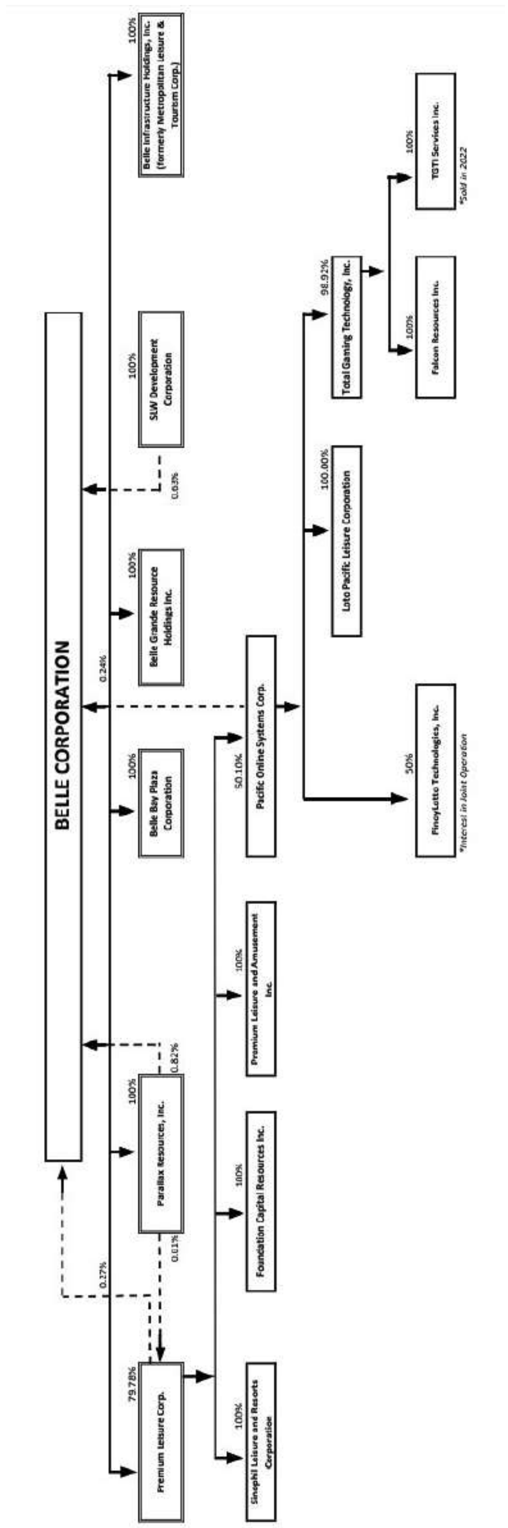
Schedule G. Capital Stock

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under statement of financial position	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stock	2,288,000,000	895,330,946	–	–	73,712,150	821,618,796
	2,288,000,000	**895,330,946**	–	–	**73,712,150**	**821,618,796**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAP

DECEMBER 31, 2022



ANNEX 1

Sustainability Report

PACIFIC ONLINE SYSTEMS CORPORATION

Sustainability Report 2022

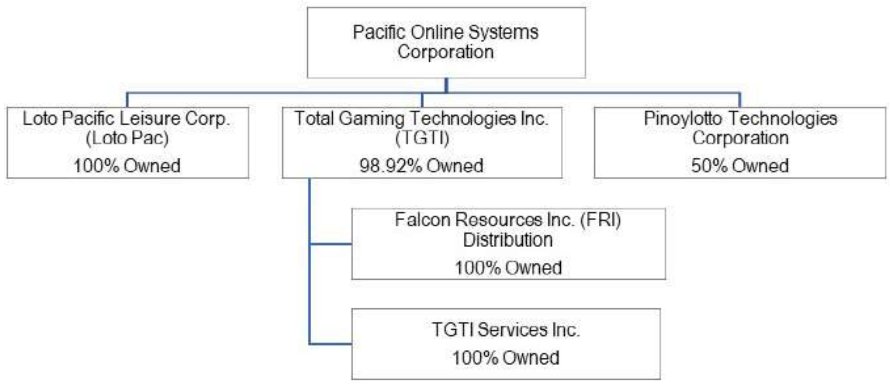
1. THE ORGANIZATION AND ITS REPORTING PRACTICES

Disclosure 2-1

ORGANIZATIONAL DETAILS

NAME OF THE ORGANIZATION
Pacific Online Systems Corporation

OWNERSHIP AND LEGAL FORM



LOCATION OF HEADQUARTERS

Manila Business Center
U2803 A & B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City, 1605, Philippines

Cebu Business Center
16/F Metrobank Plaza, F. Osmena Blvd, 6000, Cebu City

Service and Logistics Center
J. King Warehouse No. 8, Holy Name St., Mabolo, 6000, Cebu City

LOCATION OF OPERATIONS
POSC's scope of operations for its lottery operations is nationwide in the Philippines.

Disclosure 2-2

ENTITIES INCLUDED IN THE ORGANIZATION'S SUSTAINABILITY REPORTING

Pacific Online Systems Corporation
Total Gaming Technologies Inc.

Disclosure 2-3

REPORTING PERIOD, FREQUENCY AND CONTACT POINT

REPORTING PERIOD
This is Pacific Online Systems Corporation's (POSC or Pacific Online) Sustainability Report outlining the Company's economic, environmental, social and governance performance from January to December 2022. This report has been prepared in accordance with the GRI 1: Foundation 2021
The companies highlighted in this report include POSC and its subsidiaries.

DATE OF MOST RECENT REPORT
Annex 1 of 17-A Report of Pacific Online Systems Corporation for the period Jan-Dec 31, 2021, submitted to SEC/PSE March 28, 2022.

	A portion of the Sustainability Report information was also included in the latest 2021 Annual Report seen on the corporate website. (See https://www.loto.com.ph/sustainability) **REPORTING CYCLE** Annual **CONTACT POINT FOR QUESTIONS REGARDING THE REPORT** For inquiries on Sustainability: Mischel O. Mendoza Business Development Department Head Email: momendoza@pacificonline.com.ph
Disclosure 2-4	**RESTATEMENTS OF INFORMATION** We re-stated the information aligning with the latest 2021 GRI standards
Disclosure 2-5	**EXTERNAL ASSURANCE** Not applicable
2. ACTIVITIES AND WORKERS	
Disclosure 2-6	**ACTIVITIES, VALUE CHAIN AND OTHER BUSINESS RELATIONSHIPS** **PARTNERSHIP** POSC has a policy of forming partnerships with other organizations, which complement its own offerings and bring increased benefits to its customers. POSC'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. POSC entered into a joint venture agreement with Philippine Gaming Management Corporation (PGMC) and International Lottery Totalizator Systems (ILTS) for the 5-year contract to provide a nationwide online lottery system for PCSO. The joint venture known as Pinoylotto Technologies Corporation is expected to commence operations in the latter part of 2023. **SUPPLY CHAINS** In order to provide our products and services to our customers, a number of important supply chain assets are in place. The major ones are: • Lottery Terminals and Draw Equipment • Equipment Spare Parts • Third Party Warehousing/Logistics • Co-location Facilities for Data Center • Subscriber Identity Module (SIM) Cards • Modems and Routers • Leased Lines • System Server and other peripherals • Security system **RELATIONSHIP WITH OTHER INTERESTED PARTIES** • Equipment Maintenance – provision of equipment maintenance and repair services. • Telecommunications – provision of network connectivity between terminals and data center. • Contractors – provision of office improvement services, web site development and other services.

SIGNIFICANT CHANGES TO THE ORGANIZATION AND ITS SUPPLY CHAIN

The organization saw changes in both board and executive levels.

Due to the cessation of operations of Keno in April 2022, TGTI underwent a retrenchment program to reduce the number of employees. The remaining manpower complement were eventually absorbed by POSC in June 2022.

PRECAUTIONARY PRINCIPLE OR APPROACH

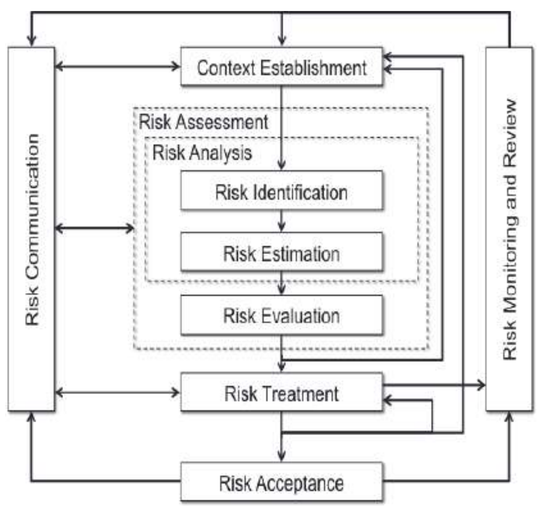
Pacific Online Systems Corporation (POSC) shall consider the external and internal context of the organization and the requirements of interested parties to determine the risks and opportunities that need to be addressed to:

- Ensure the integrated management system can achieve its intended outcomes;
- Prevent, or reduce, undesired effects; and
- Achieve continual improvement.

POSC shall plan actions to address the risks and opportunities and how to:

- Integrate and implement the actions into its integrated management system processes; and
- Evaluate the effectiveness of these actions.

POSC shall apply an information security risk assessment process, which also applies to any opportunities identified on the information assets:



Disclosure 2-7

EMPLOYEES

INFORMATION ON EMPLOYEES AND OTHER WORKERS

Total Group Headcount	Quantity	% Dec.
2021	170	-30%
2022	**138**	**-19%**

2022 BREAKDOWN (POSC & TGTI)

By Company	2022		2021	
	Quantity	% to Total	Quantity	% to Total
POSC	138	100%	135	79%
TGTI	0	0%	35	21%
TOTAL	**138**	**100%**	**170**	**100%**

By Gender

By Gender	2022		2021	
	Quantity	% to Total	Quantity	% to Total
Male	108	78%	132	78%
Female	30	22%	38	22%
TOTAL	**138**	**100%**	**170**	**100%**

By Age

By Age	2022		2021	
	Quantity	% to Total	Quantity	% to Total
Below 30 Years Old	16	12%	32	19%
30-50	111	80%	126	74%
OVER 50	11	8%	12	7%
TOTAL	**138**	**100**	**170**	**100%**

By Region

By Region	2022		2021	
	Quantity	% to Total	Quantity	% to Total
NCR	31	22%	73	43%
Luzon	21	15%	3	2%
Visayas	78	57%	84	49%
Mindanao	8	6%	10	6%
TOTAL	**138**	**100%**	**170**	**100%**

By Rank

By Rank	2022		2021	
	Quantity	% to Total	Quantity	% to Total
Rank-and File	95	69%	116	68%
Junior Management	24	17%	29	17%
Middle Management	9	7%	12	7%
Senior Management	10	7%	13	8%
TOTAL	**138**	**100%**	**170**	**100%**

Disclosure 2-8

WORKERS WHO ARE NOT EMPLOYEES

Headcount	Quantity	% Dec.
2021	4	0%
2022	4	9%

	Consultant	Contractual Staff	Janitorial Personnel	Security Personnel	Total
2021	1	0	2	1	4
2022	0	1	2	1	4

3. GOVERNANCE	
	GOVERNANCE STRUCTURE AND COMPOSITION

GOVERNANCE STRUCTURE
At Pacific Online, we believe in balancing the interests of the many stakeholders and upholding shareholders' value. Our aim is to have equilibrium between economic and social and between individual and communal goals. With this in mind, our Board of Directors has established corporate governance principles to ensure accountability, fairness and transparency in the organization.

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.

Disclosure 2-9

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

DIRECTOR'S NAME	DESIGNATION	DIRECTORSHIP
Willy N. Ocier	Chairman	Non-Executive Director
Jackson T. Ongsip	Member	Executive Director
Armin Antonio B. Raquel Santos	Member	Non-Executive Director
Tarcisio M. Medalla	Member	Non-Executive Director
Henry N. Ocier	Member	Non-Executive Director
Regina O. Reyes+	Member	Non-Executive Director
Raul B. De Mesa	Member	Non-Executive Director
Laurito E. Serrano	Independent	Lead Independent Director
Ma. Gracia M. Pulido Tan	Independent	Independent Director
*Roberto C.O Lim	Independent	Independent Director
Roberto V. Antonio	Independent	Independent Director

**Note: Raul B. De Mesa is a new director elected June 8, 2022 replacing Regina O. Reyes+ (deceased) and Roberto V. Antonio elected September 13, 2022 replacing *Roberto C.O Lim who resigned*

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.

Willy N. Ocier	Chairman
Jackson T. Ongsip	Director
Armin Antonio B. Raquel Santos	Director

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.

Laurito E. Serrano	Chairman/Independent Director
Ma. Gracia M. Pulido Tan	Independent Director
Tarcisio M. Medalla	Director
*Roberto C.O Lim	Independent Director
Roberto V. Antonio	Independent Director

**Note: Roberto V. Antonio elected as new director September 13, 2022 replacing Roberto C.O Lim who resigned*

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.

Ma. Gracia M. Pulido Tan	Chairman/Independent Director
Laurito E. Serrano	Independent Director
Tarcisio M. Medalla	Director
*Roberto C.O Lim	Independent Director
Roberto V. Antonio	Independent Director

**Note: Roberto V. Antonio elected as new director September 13, 2022 replacing Roberto C.O Lim who resigned*

Corporate Governance Committee

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

Roberto V. Antonio	Chairman/Independent Director
*Roberto C.O Lim	Independent Director
Laurito E. Serrano	Independent Director
Ma. Gracia M. Pulido Tan	Independent Director

**Note: Roberto V. Antonio elected as new director September 13, 2022 replacing Roberto C.O Lim who resigned*

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.

Roberto V. Antonio	Chairman/Independent Director
Laurito E. Serrano	Independent Director
Ma. Gracia M. Pulido Tan	Independent Director
*Roberto C.O Lim	Independent Director
Regina O. Reyes+	Director
Raul B. De Mesa	Director
Henry N. Ocier	Director

**Note: Raul B. De Mesa is a new director elected June 9, 2022 replacing Regina O. Reyes+ (deceased) & Roberto V. Antonio elected September 13, 2022 replacing *Roberto C.O Lim who resigned*

Disclosure 2-10

NOMINATION AND SELECTION OF THE HIGHEST GOVERNANCE BODY

Refer to our **Manual on Corporate Governance - section 2.8 Nomination and Election of Directors** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 12-13)

Disclosure 2-11	**CHAIR OF THE HIGHEST GOVERNANCE BODY** Refer to our **Manual on Corporate Governance - section 2.5 The Chairman of the Board of Directors** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 10-11)
Disclosure 2-12	**ROLE OF THE HIGHEST GOVERNANCE BODY IN OVERSEEING THE MANAGEMENT IMPACTS** Refer to our **Manual on Corporate Governance - section 2.18.1 The Executive Committee** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 18-19)
Disclosure 2-13	**DELEGATION OF THE RESPONSIBILITY FOR MANAGING IMPACTS** Refer to our **Manual on Corporate Governance - section 2.18.4 Board Risk Oversight Committee** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 27-29)
Disclosure 2-14	**ROLE OF THE HIGHEST GOVERNANCE BODY IN SUSTAINABILITY REPORTING** Refer to our **Manual on Corporate Governance - section 2.4 Roles and Responsibilities of the Board** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 8-10)
Disclosure 2-15	**CONFLICTS OF INTEREST** Refer to our **Conflict-of-Interest Policy** https://www.loto.com.ph/sites/default/files/POLICY%20ON%20CONFLICT%20OF%20INTEREST_1.pdf
Disclosure 2-16	**COMMUNICATION OF CRITICAL CONCERNS** **Hazard identification, risk assessment, and incident investigation** A Risk Assessment is conducted by the Company to ensure business continuity in times of certain negative events. Threats and Vulnerabilities are measured and offset with controls in place to arrive at an acceptable level of risk. Incidents are screened for information security breaches and documented in an Incident Report. Non-conformities are followed up by the auditor until a correction and corrective action is deemed acceptable. Regular audits are conducted to ensure that such incidents are not repeated. Refer to our **Manual on Corporate Governance** - section 2.18.3 Audit Committee https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 25-26) Refer to our **Whistle-Blowing Policy** https://www.loto.com.ph/sites/default/files/WHISTLE%20BLOWING%20POLICY%204.11.23.pdf Refer to disclosure 2-6 **PRECAUTIONARY PRINCIPLE OR APPROACH**

Disclosure 2-17

COLLETIVE KNOWLEDGE OF THE HIGHEST GOVERNANCE BODY

CONTINUING EDUCATION FOR DIRECTORS AND OFFICERS

POSC's continuing education program enables its Directors and Officers to stay current with the latest development on corporate governance topics. The corporate training programs are important components in fostering board effectiveness.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Willy N. Ocier	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Jackson T. Ongsip	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Armin Antonio B. Raquel Santos	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Tarcisio M. Medalla	5-Aug-22	Corporate Governance	Risks, Opportunity, Assessment & Management, Inc
Henry N. Ocier	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Laurito E. Serrano	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Ma. Gracia M. Pulido Tan	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Raul B. De Mesa	21-Oct-22	Corporate Governance	Risks, Opportunity, Assessment & Management, Inc
Roberto V. Antonio	21-Oct-22	Corporate Governance	Risks, Opportunity, Assessment & Management, Inc
Mischel O. Mendoza	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Grace L. Gatdula	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Maria Neriza C. Banaria	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Anna Josefina G. Esteban	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.
Michelle Angeli T. Hernandez	20-Jul-22	Annual Corporate Governance Seminar	BDO Unibank Inc.

Disclosure 2-18

EVALUATION OF THE PERFORMANCE OF THE HIGHEST GOVERNANCE BODY

Refer to our **Manual on Corporate Governance- section 2.17 Board Evaluation/Assessment & 2.18.2.1 Corporate Governance Committee**
https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 18-20)

Disclosure 2-19

REMUNERATION POLICIES

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 15 and 20 of the audited consolidated financial statements.

Audit Committee members receive a per diem of Fifty Thousand Pesos (₱50,000.00) each per Audit Committee meeting attended while other directors receive a per diem of Ten Thousand Pesos (₱10,000.00) each for Board and other Board Committee meetings. Each director is given a per diem in the amount mentioned regardless of the number of meetings during the same day.

There is no compensatory plan or arrangement, including payments to be received from the Company, with respect

	to any of its executive officer, which will result from the resignation, retirement or any other termination of any of its executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or in any of its executive officer's responsibilities, following a change- in-control and the amount involved, including all periodic payments or installments, which exceeds P2.5 million. Refer to our **Manual on Corporate Governance - section 2.18.2.2 Compensation of Directors/Officers/Employees** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 23-25)
Disclosure 2-20	**PROCESS TO DETERMINE REMUNERATION** Refer to our **Manual on Corporate Governance - section 2.18.2.2 Compensation of Directors/Officers/Employees** https://www.loto.com.ph/sites/default/files/2022%20Revised%20Manual%20CG.pdf (page 23-25)
Disclosure 2-21	**ANNUAL COMPENSATION RATIO** Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is 2.65:1 Ratio of the percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) is 3.76:1

	2022	2021	Inc/(Dec)
Employee wages and benefits	82.62	118.41	-30.23%
Total for President and 4 most highly compensated Executive Officers	7.79	15.66	-50.26%
Total No. of employees	138	170	-18.82%
Employee wages and benefits excluding 5 highest paid officers	81.06	115.28	
Ave. wage and benefits per employee	0.59	0.68	-13%
Ave. compensation of 5 highest paid officers	1.56	3.13	-50%
Ratio	2.65	4.62	3.76

4. STRATEGY, POLICIES AND PRACTICES

Disclosure 2-22	**STATEMENT ON SUSTAINABLE DEVELOPMENT STRATEGY** **STATEMENT FROM SENIOR DECISION MAKER** Despite the setback of the closure of Keno operations and reduced manpower, POSC has been able to bounce back from the negative effects of the pandemic through improved lotto revenues and tighter cost measures in 2022. The company continued to focus on streamlining operations and maximizing strengths in order to thrive as a lean business. With the publication of its fourth annual Sustainability Report, prepared in accordance with Global Reporting Initiative (GRI) standards, POSC reaffirms its commitment to promote transparency, efficiency, and accountability to its various stakeholders.
Disclosure 2-23	**POLICY COMMITMENTS** **VALUES, PRINCIPLES, STANDARDS, AND NORMS OF BEHAVIOR** **Mission** Create Hope. Live Life. **Vision** To Be the Gaming Partner of Choice.

	Core Values Pacific Online is a LEARNING organization composed of diverse individuals with unity of purpose and a shared vision. We strive for EXCELLENCE in all we do. We fully accept ACCOUNTABILITY for all our actions, decisions, and responsibilities. We create our future driven by a DYNAMIC team of professionals. We always aim for EFFICIENCY in all aspects of our work. We accord everyone due RESPECT and carry ourselves in a professional manner. We nurture relationships by providing quality SERVICE to all stakeholders. **Quality Policy and Objectives** Pacific Online Systems Corporation is committed to continuously improve the quality management system and meet all requirements of the stakeholders in providing reliable, efficient and effective online lottery systems. • To be fully responsive to the requirements of stakeholders. • To maintain and continuously develop a competent workforce. • To maintain and continuously improve financial, operational and administrative control systems to achieve the company's goals and objectives. • To comply with statutory and regulatory requirements. **Information Security Policy and Objectives** Pacific Online Systems Corporation is committed to safeguard the confidentiality, integrity and availability of all physical and electronic information assets of the company to ensure that regulatory, operational and contractual requirements are fulfilled. • To comply with statutory and regulatory requirements. • To comply with requirements for confidentiality, integrity and availability for employees and other users. • To establish controls for protecting company information and information systems against theft, abuse and other forms of harm and loss. • To ensure that employees maintain the responsibility for, ownership of and knowledge about information security, to minimize the risk of security incidents. • To sustain continuity of operations at all times. • To ensure that external service providers comply with the company's information security needs and requirements. Refer to our **Code of Conduct Policy** https://www.loto.com.ph/sites/default/files/CODE%20OF%20CONDUCT_1.pdf
Disclosure 2-24	**EMBEDDING POLICY COMMITMENTS** Refer to disclosure 2-29 **APPROACH TO STAKEHOLDER ENGAGEMENT** **ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS** Pacific Online Systems Corporation and subsidiaries (Refer to Disclosure 2-2)
Disclosure 2-25	**PROCESSES TO REMEDIATE NEGATIVE IMPACTS** Refer to disclosure 2-16 **Hazard identification, risk assessment, and incident investigation** and refer to our **Whistle Blowing Policy** https://www.loto.com.ph/sites/default/files/WHISTLE%20BLOWING%20POLICY%204.11.23.pdf
Disclosure 2-26	**MECHANISM FOR SEEKING ADVICE AND RAISING CONCERNS** Refer to disclosure 2-6 **PRECAUTIONARY PRINCIPLE OR APPROACH**

Disclosure 2-27	**COMPLIANCE WITH LAWS AND REGULATIONS**

INSTANCES OF NON-COMPLIANCE	INCIDENTS
Instances of non-compliance for which fines were incurred	0
Instances of non-compliance for which non-monetary sanctions were incurred	0
Fines for instances of non-compliance with laws and regulations that occurred in the current reporting period	0
Fines for instances of non-compliance with laws and regulations that occurred in previous reporting periods	0

Disclosure 2-28	**MEMBERSHIP ASSOCIATIONS** None

5. STAKEHOLDER ENGAGEMENT

Disclosure 2-29

APPROACH TO STAKEHOLDER ENGAGEMENT

Stakeholder Group	Description	Channels of Engagement
Investors/ Shareholders	Financial backers and sources of vital funding who allow POSC to achieve intended results, substantial returns, and shared value	Annual stockholders' meetings, one-on-one dialogues, website, investors / media briefings
Board of Directors & Management	Final decision makers of POSC who direct the company's path to sustainability	Regular meetings, one-on-one dialogues, management reports
Employees	Dynamic team of professionals who are the lifeblood of POSC and share a unity of purpose according to the corporate vision, mission and objectives	Internal communications, human resource dialogues, performance reviews, training workshops
External Providers	Suppliers and providers of software, hardware and outside services who partner with POSC	Business meetings, contracts, policies, external provider accreditation and evaluations
Customer – PCSO	Lessee of POSC's lottery system and maintenance	Letters, business meetings, satisfaction surveys, contracts
Indirect Customer – Lottery Agents & Lottery Players	End-users of POSC's services	Satisfaction surveys, hotline calls, field service visits
Government Bodies/ Regulators	Collaborators in the pursuit of social progress and sustainability	Compliance, formal meetings, timely and accurate disclosures

LIST OF STAKEHOLDER GROUPS

- Investors / Shareholders
- Board of Directors & Management
- Employees
- External Providers
- Customer – PCSO

• Indirect Customers – Lottery Agents & Lottery Players
• Government Bodies / Regulators

IDENTIFYING AND SELECTING STAKEHOLDERS

An interested party or stakeholder is defined as “a person or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity”.

Disclosure 2-30	**COLLECTIVE BARGAINING AGREEMENTS** Not applicable

GRI 3: MATERIAL TOPICS 2021

Disclosure 3-1

PROCESS TO DETERMINE MATERIAL TOPICS

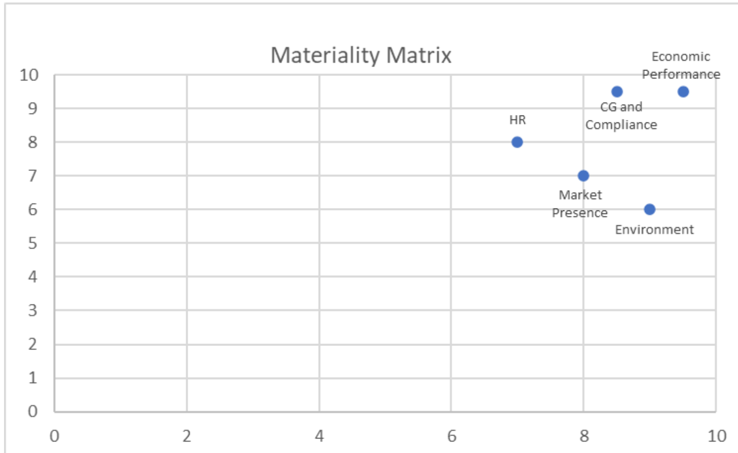
EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY

Critical Factors	Material Topics	Boundaries	Definition and Relevance
To embed sustainability in employment practices and financial & administrative operations	Economic Performance	Within POSC, business partners, regulators, local communities	How the Company cements its standing as a market leader in gaming and delivers positive economic returns to its stockholders and ensures the future and continued growth of its operations.
	Market Presence		How the Company contributes to the economic well-being and growth of local communities, and practices fair and just labor standards, according employees their due respect.
	Environmentally responsible business operations - Energy - Effluence and Waste		How the Company practices efficient utilization of its resources such as energy, minimizes waste and practices environmentally-friendly disposal with accredited external providers.
To be a learning organization composed of diverse individuals with unity of purpose and a shared vision	Human resource development & welfare - Employment - Occupational Health and Safety - Training & Education	Within POSC	How the Company develops and retains its employees, provides training and skills development, defines career path and succession planning for its employees and provides a secure and conducive working environment.
To adhere to compliance requirements in order to be the gaming partner of choice	Corporate governance and compliance	Within POSC, business partners, regulators	How the Company practices accountability for all its actions, decisions and responsibilities through forward-looking corporate governance and checks and balances, and through faithful compliance with regulators.

OUR MATERIALITY PROCESS

Our team reviewed the critical factors affecting our business and its impact on our stakeholders. From there, we were able to generate a list of material topics relevant to the Company.

EVALUATION OF THE MANAGEMENT APPROACH



Disclosure 3-2

LIST OF MATERIAL TOPICS

- Economic Performance
- Market Presence
- Environmentally responsible business operations
    o Energy
    o Effluence and Waste
- Human resource development & welfare
    o Employment
    o Occupational Health and Safety
    o Training & Education
    o Diversity and Equal Opportunity
- Corporate governance and compliance

Disclosure 3-3

MANAGEMENT OF MATERIAL TOPICS

THE MANAGEMENT APPROACH AND ITS COMPONENTS

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, POSC continues to establish, maintain, and improve the sustainable practices of the Company through target setting, progress monitoring, and analysis of our outputs.

POSC'S SUSTAINABILITY FRAMEWORK

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

• Partnership Enhancement
    o Improving our services for the benefit of the PCSO and its agents
    o Partnering with accredited external providers for responsible disposal
    o Compliance with standards of our regulators
• Resource Optimization
    o Prudent fiscal management
    o Sustainable operating models
    o Business continuity planning and disaster recovery protocols
    o Re-use of equipment and parts to maximize machines and minimize waste

o Implementation of electronic systems to reduce paper consumption
• Value Creation
o Economic value generation and distribution
o Good governance and risk management
o Human capital development
o Creation of systems to improve data analysis for efficient operations

GRI 201: ECONOMIC PERFORMANCE 2016

Disclosure 201-1

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

in PHP millions	2022	2021
Economic Value Generated	519.05	426.35
Economic Value Distributed	343.32	544.15
Operating Costs	256	413.94
Employee wages and benefits	82.62	118.41
Payments to the government	4.7	11.80
Economic value retained (lost)	191.1	(140.74)

Disclosure 201-3

DEFINED BENEFIT PLAN OBLIGATIONS AND OTHER RETIREMENT PLANS

	2022	2021
Net retirement liability	442,153	16,062,627

The retirement plan is fully funded by the Company with no mandatory contribution from the employee.
The retirement liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, difference between interest income and return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in the profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognize related restructuring costs. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

GRI 202: MARKET PRESENCE 2016

Disclosure 202-1

RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMAPARED TO LOCAL MINIMUM WAGE

	Min Wage Male	Min Wage Female	Total Min Wage Employees	Total Employees	% Min Wage Employees
2022	0	0	0	138	0%
2021	0	0	0	135	0%

POSC has no minimum wage earners. Entry rates are higher than the local minimum wage.

POSC	Minimum Wage	POSC Entry Rate	% Higher	Ratio of POSC Entry Rate to Min. Wage
Manila	12,379.50	13,000.00	5%	1.05:1
Cebu	9,461.25	10,500.00	11%	1.11:1

Disclosure 202-2

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY

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

	Total Senior Management	Senior Management from local community				
		Luzon	Visayas	Mindanao	Total	%
2022	10	7	3	0	10	100%
2021	12	8	4	0	12	100%

GRI 302: ENERGY 2016

Disclosure 302-1

ENERGY CONSUMPTION WITHIN THE ORGANIZATION

Over-all, the company has decreased its consumption of diesel mainly due to the cessation of Keno operations and reduction of vehicles.

Fuel Consumption

	Diesel, in L	Gasoline, in L
YE 2022	26,722	21,044
YE 2021	35,239	22,270

	Over-all, the company has decreased its consumption of electricity and water mainly due to the cessation of Keno operations.

Electricity Consumption By Region

in kWh	Luzon	Visayas	Mindanao	Total
YE 2022	78,489	354,172	1,493	**434,163**
YE 2021	148,466	345,279	4,639	**498,384**

Total Water Consumption

	Total, in cu. m.
YE 2022	2,212
YE 2021	2,791

ENERGY INTENSITY

Disclosure 302-3

	Fuel (in L)	Electricity (in kWh)	Water (in cu. m)
YE 2022	47,766	434,163	2,212
Ave. consumption per employee 2022	346.13	3146.11	16.03
Ave. consumption per employee (monthly)	28.84	262.18	1.34

GRI 306: EFFLUENTS AND WASTE

WASTE BY TYPE AND DISPOSAL METHOD

Disclosure 306-2

We recognize that as a business that is centered on systems maintenance, there must be measures to mitigate the waste products. Our company practices recycling of the parts of terminals, to ensure that not everything goes to waste and to prolong the life of the equipment. We also partner with DENR accredited suppliers for waste management to ensure that the parts and waste that are indeed unusable for us go into the right hands for proper disposal or reuse.

The publication of our sustainability report aligned to the GRI standards is part of a country-wide practice 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.

Total volume of hazardous wastes (old terminals, e-wastes) hauled by DENR-accredited hauler/charitable institutions

	Total, in kgs
YE 2022	93,130
YE 2021	9,498

Pacific Online regularly disposes its waste through DENR accredited facilities. Majority of its waste is from lottery terminals and peripherals.

The cessation of Keno operations led to the pull-out of multiple terminals and peripherals nationwide. Prior to the retrenchment of TGTI personnel, the company conducted a massive clean-up of its warehouses and disposed waste.

GRI 401: EMPLOYMENT 2016

Disclosure 401-1

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

NEW HIRES
TOTAL NEW HIRES – 10

BY GENDER	Count	%
MALE	5	50%
FEMALE	5	50%

BY AGE GROUP	Count	%
BELOW 30 YRS OLD	6	60%
30 - 50	4	40%
OVER 50	0	0%

BY REGION	Count	%
NCR	0	57%
LUZON	2	20%
VISAYAS	7	70%
MINDANAO	1	10%

HIRING RATE
ENTIRE GROUP – 7%

EMPLOYEE SEPARATIONS
TOTAL EMPLOYEE SEPARATIONS – 42

BY GENDER	Count	%
MALE	30	71%
FEMALE	12	29%

BY AGE GROUP	Count	%
BELOW 30 YRS OLD	14	33%
30 - 50	23	55%
OVER 50	5	12%

BY REGION	Count	%
NCR	22	52%
LUZON	5	12%
VISAYAS	13	31%
MINDANAO	2	5%

TURNOVER RATE
ENTIRE GROUP – 30%

The high turnover rate in 2022 was due to the closure of TGTI operations and retrenchment of personnel.

Disclosure 401-2	**BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART-TIME EMPLOYEES** 1. Full HMO coverage (room & board and maximum benefit limit based on rank) of all employees upon hiring. Benefit package includes preventive healthcare, out-patient care and hospitalization, emergency care, dental care, and financial assistance. 2. 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. 3. 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. 4. Wellness Benefit Allowance for Managers-Up while all staff below manager rank personnel were provided PPE (face masks) 5. Clothing Allowance for all employees
Disclosure 401-3	**PARENTAL LEAVE** 1. Breakdown of Availment of Maternity and Paternity Leaves

	Male	Female	**Total**
Employee Headcount	2	0	**2**

2. Total Number of Employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender

	Male	Female	**Total**
Employee Headcount	2	0	**2**

GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2018

Disclosure 403-1

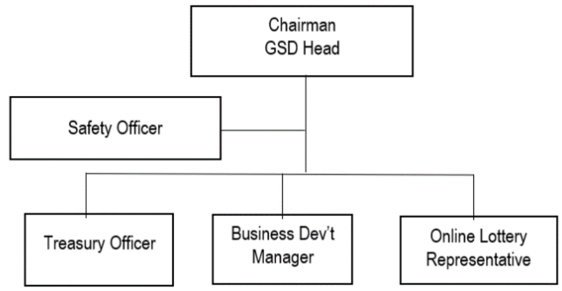
OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

OCCUPATIONAL HEALTH AND SAFETY POLICY

Pacific Online Systems Corporation 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.
Pacific Online Systems Corporation will at all times comply with all regulatory requirements of the Philippines, its customers and other external parties.

At POSC, we intend:
• To maintain safe and healthy working conditions;
• To provide and maintain safe office equipment;
• To prevent accidents and cases of work-related illnesses;
• To provide information, instruction and supervision for employees;
• To ensure all employees are competent to do their tasks and to give them adequate training;
• To consult our employees on matters affecting their health and safety;
• To provide adequate control of the health and safety risk arising from our work activities;
• To review and revise the policy as necessary regular intervals.

Structure and Functions of OSH Committee
Overall and final responsibility for health and safety is that of the General Services Department Head.
Ensuring that this policy is put into practice and this task is delegated to the Safety Officer.



To ensure health and safety standards are maintained / improved, the Department Heads shall ensure compliance in their respective departments/areas.

All employees have to:

- Cooperate with their Immediate Superior and Department Head on health and safety matters;
- Not interfere with anything provided to safeguard their health and safety;
- Take reasonable care of their own health and safety; Report all health and safety concerns to Immediate Superior or Safety Officer.

	HAZARD IDENTIFICATION, RISK ASSESSMENT AND INCIDENT INVESTIGATION
Disclosure 403-2	**Hazard identification, risk assessment, and incident investigation** A Risk Assessment is conducted by the Company to ensure business continuity in times of certain negative events. Threats and Vulnerabilities are measured and offset with controls in place to arrive at an acceptable level of risk. Incidents are screened for information security breaches and documented in an Incident Report. Non-conformities are followed up by the auditor until a correction and corrective action is deemed acceptable. Regular audits are conducted to ensure that such incidents are not repeated.
	OCCUPATIONAL HEALTH SERVICES
Disclosure 403-3	Refer to Disclosure 403-1 and 403-2 **OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM** and **HAZARD IDENTIFICATION, RISK ASSESSMENT AND INCIDENT INVESTIGATION**
	WORKER PARTICIPATION, CONSULTATION, AND COMMUNICATION ON OCCUPATIONAL HEALTH AND SAFETY
Disclosure 403-4	Refer to Disclosure 403-1 **OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM**
	WORKER TRAINING ON OCCUPATIONAL HEALTH AND SAFETY
Disclosure 403-5	**POSC SEMINARS/TRAININGS:** **1. Occupational First Aid Training with basic life support** This is a 2-day session on Occupational First Aid with basic life support as part of the requirement Department of Labor and Employment. The seminar tackled on first aid techniques and how to assist employees during emergency cases
	PROMOTION OF WORKER HEALTH
Disclosure 403-6	1. Full HMO coverage (room & board and maximum benefit limit based on rank) of all employees upon hiring. Benefit package includes preventive healthcare, out-patient care and hospitalization, emergency care, dental care, and financial assistance. 2. Annual Physical Exam / Executive Check-Up – this is being scheduled annually to check the employees' health condition and suitability to perform their job. 3. Health and wellness activities are being conducted to help employees improve further their health and well-being.

	POSC SEMINARS/TRAININGS: **1. Mindset & Motivation** This is a 1-hour session as part of the Health & Wellness Activity for the employees. The seminar tackled the meaning of mindset and motivation, enumerated the different types of mindsets that can be beneficial to a person and discussed how mindset and motivation can be the true barometers of happiness.
Disclosure 403-7	**PREVENTION AND MITIGATION OF OCCUPATIONAL HEALTH AND SAFETY IMPACTS DIRECTLY LINKED BY BUSINESS RELATIONSHIPS** Refer to Disclosure 403-2 **HAZARD IDENTIFICATION, RISK ASSESSMENT AND INCIDENT INVESTIGATION**
Disclosure 403-8	**WORKERS COVERED BY AN OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM** 100% of the Company's employees are covered by the Occupational Health and Safety (OSH) Management System. All OSH incidents are investigated internally. The Company does not utilize a third-party auditor for OSH issues.
Disclosure 403-9	**WORK-RELATED INJURIES**

OCCUPATIONAL HEALTH AND SAFETY	2022	Rate of injuries
Safe man-hours recorded, in man-hours	**2,088**	
No. of work-related injuries reported	0	0%
No. of work-related fatalities reported	0	0%
No. of work-related ill-health	0	0%
No. of safety drills conducted	0	

Disclosure 403-10

WORK-RELATED ILL HEALTH

OCCUPATIONAL HEALTH AND SAFETY	2022	Rate of injuries
No. of fatalities as a result of work-related ill health	0	0%
No. of cases of recordable work-related ill health	0	0%

The Company does not conduct any business activity that has high risk of work-related ill health.

GRI 404: TRAINING AND EDUCATION 2016

Disclosure 404-1

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

By Gender

	Male	Female	Total
Total No. of Training Hours Recorded	181	142	**323**
No. of Employees Trained	5	5	**10**
Average Training Hours	**36.2**	**28.4**	**32.3**

By Employee Category/Rank

	Rank & File	Junior Mngt.	Middle Mngt.	Senior Mngt.	Total
Total No. of Training Hours Recorded	32	80	64	147	**323**
No. of Employees Trained	2	1	1	6	**10**
Average Training Hours	**16**	**80**	**64**	**24.5**	**32.3**

Disclosure 404-2

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	1. Orientation on Pag-Ibig Benefits (1) 2. Various Internal Audit Related Topic (6) 3. Orientation on New Employees (11) 4. Occupational First Aid with Basic Life Support & AED (2) 5. BDO Corporate Governance Seminar (1) 6. ICD Corporate Governance Seminar (1)	22
Job-based/Professional Skills	1. IIA-P Meeting (1) 2. Rootcon (1)	2
Leadership	N/A	
Others, please specify	SEC Sustainability Seminars	1

Amount spent on Training and Development	
Unit: In Philippine pesos	**FY JAN-DEC 2022**
Total amount spent on training and development of employees	₱ 10,290.00

Disclosure 404-3

PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS

The Company practices yearly performance review for all regular employees.

GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016

Disclosure 405-1

DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES

We believe in a just and equitable vision for the country, without discrimination against all women and girls and ensuring them equal opportunities for leadership. In Pacific Online Systems Corporation, while the proportion of women in the workforce is only 22%, 67% of women hold top positions in the organization. The company's Board of Directors also has 1 female member, who is an Independent Director.

Refer to Disclosure 2-7 **Employees**

Disclosure 405-2

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

Refer to Disclosure 202-1 **RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE**

APPENDIX 1. GRI CONTENT INDEX IN ACCORDANCE

Statement of use	PACIFIC ONLINE SYSTEMS CORPORATION has reported in accordance with the GRI Standards for the period January 1 – December 31, 2022
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	Not applicable

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	LOC	OMMISION			GRI SECTOR STANDARD REF. NO.
			REQUIREMENT(S) OMMITED	REASON	EXPLANATION	
GENERAL DISCLOSURE						
GRI 2: General Disclosures 2021	2-1 Organizational details	1				
	2-2 Entities included in the organization's Sustainability reporting	1				
	2-3 Reporting period, frequency and contact point	1-2				
	2-4 Restatements of information	2				
	2-5 External assurance	2				
	2-6 Activities, value chain and other business relationships	2-3				
	2-7 Employees	3-4				
	2-8 Workers who are not employees	4				
	2-9 Governance structure and composition	5-6				
	2-10 Nomination and selection of the highest governance body	6				
	2-11 Chair of the highest governance body	7				
	2-12 Role of the highest governance body in overseeing the management of impacts	7				
	2-13 Delegation of responsibility for managing impacts	7				
	2-14 Role of the highest governance body in sustainability reporting	7				
	2-15 Conflicts of interest	7				
	2-16 Communication of critical concerns	7				
	2-17 Collective knowledge of the highest governance body	8				
	2-18 Evaluation of the performance of the highest governance body	8				
	2-19 Remuneration policies	8-9				
	2-20 Process to determine remuneration	9				
	2-21 Annual total compensation ratio	9				
	2-22 Statement on sustainable development strategy	9				
	2-23 Policy commitments	9-10				
	2-24 Embedding policy commitments	10				
	2-25 Processes to remediate negative impacts	10				
	2-26 Mechanisms for seeking advice and raising concerns	10				
	2-27 Compliance with laws and regulations	11				
	2-28 Membership associations	11				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	LOC	OMMISION			GRI SECTOR STANDARD REF. NO.
			REQUIREMENT(S) OMMITED	REASON	EXPLANATION	
	2-29 Approach to stakeholder engagement	11				
	2-30 Collective bargaining agreements	12				
MATERIAL TOPICS						
GRI 3: Material Topics 2021	3-1 Process to determine material topics	12-13				
	3-2 List of material topics	13				
	3-3 Management of material topics	13-14				
ECONOMIC PERFORMANCE						
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	14				
	201-2 Financial implications and other risks and opportunities due to climate change		201-2-a-i 201-2-a-ii 201-2-a-iii 201-2-a-iv 201-2-a-v	Not applicable	The Company does not have risk and opportunities due to climate change	
	201-3 Defined benefit plan obligations and other retirement plans	14-15				
	201-4 Financial assistance received from government		201-4-a-i 201-4-a-ii 201-4-a-iii 201-4-a-iv 201-4-a-v 201-4-a-vi 201-4-a-vii 201-4-a-viii 201-4-b 201-4-c	Not applicable	The Company does not receive financial assistance from government	
MARKET PRESENCE						
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	15				
	202-2 Proportion of senior management hired from the local community	15				
ENERGY						
GRI 302: Energy 2016	302-1 Energy consumption within the organization	15-16				
	302-2 Energy consumption outside of the organization		302-2-a 302-2-b 302-2-c	Not applicable	The Company does not have energy consumption outside of the organization	
	302-3 Energy intensity	16				
	302-4 Reduction of energy consumption		302-4-a 302-4-b 302-4-c 302-4-d	Not applicable	The Company does not have energy reduction initiatives at present	
	302-5 Reductions in energy requirements of products and services		302-5-a 302-5-b	Not applicable	The Company does not have	

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	LOC	OMMISION			GRI SECTOR STANDARD REF. NO.
			REQUIREMENT(S) OMMITED	REASON	EXPLANATION	
			302-5-c		any energy reduction initiatives at present for sold services	
EFFLUENTS AND WASTE						
GRI 306: Effluents And Waste	306-1 Water discharge by quality and destination		306-1-a-i 306-1-a-ii 306-1-a-iii 306-1-b	Not applicable	The Company has no activity involving water bodies and related habitats	
	306-2 Waste by type and disposal method	16				
	306-3 Significant spills		306-3-a-i 306-3-a-ii 306-3-a-iii 306-3-a-iv 306-3-b 306-3-c	Not applicable	The Company has no activity involving potential oil spills	
GRI 306: Effluents And Waste	306-4 Transport of hazardous waste		306-4-a-i 306-4-a-ii 306-4-a-iii 306-4-a-iv 306-4-b 306-4-c	Not applicable	The Company does not transport hazardous waste	
	306-5 Water bodies affected by water discharges and/or runoff		306-5-a-i 306-5-a-ii 306-5-a-iii	Not applicable	The Company has no activity involving water discharges and/or runoff	
EMPLOYMENT						
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	17				
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	18				
	401-3 Parental leave	18				
OCCUPATIONAL HEALTH AND SAFETY						
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	18-19				
	403-2 Hazard identification, risk assessment, and incident investigation	19				
	403-3 Occupational health services	19				
	403-4 Worker participation, consultation, and communication on occupational health and safety	19				
	403-5 Worker training on occupational health and safety	19				
	403-6 Promotion of worker health	19-20				
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	20				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	LOC	OMMISION			GRI SECTOR STANDARD REF. NO.
			REQUIREMENT(S) OMMITED	REASON	EXPLANATION	
	403-8 Workers covered by an occupational health and safety management system	20				
	403-9 Work-related injuries	20				
	403-10 Work-related ill health	20				
TRAINING AND EDUCATION						
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	20				
	404-2 Programs for upgrading employee skills and transition assistance programs	21				
	404-3 Percentage of employees receiving regular performance and career development reviews	21				
DIVERSITY AND EQUAL OPPORTUNITY						
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	21				
	405-2 Ratio of basic salary and remuneration of women to men	21				

TOPICS IN THE APPLICABLE GRI SECTOR STANDARDS DETERMINED AS NOT MATERIAL	
TOPIC	**EXPLANATION**
GRI 11: Oil and Gas Sector 2021	The Company does not engage in activities related to the Oil and Gas Sector
GRI 12: Coal Sector 2022	The Company does not engage in activities related to the Coal Sector
GRI 13: Agriculture Aquaculture and Fishing Sectors 2022	The Company does not engage in activities related to the Agriculture Aquaculture and Fishing Sectors

GRI CONTENT INDEX WITH REFERENCE

Statement of use	PACIFIC ONLINE SYSTEMS CORPORATION has reported in accordance with the GRI Standards for the period January 1 – December 31, 2022
GRI 1 used	GRI 1: Foundation 2021

GRI STANDARDS	DISCLOSURE	LOCATION
GRI 2: General Disclosures 2021	2-1 Organizational details	1
	2-2 Entities included in the organization's sustainability reporting	1
	2-3 Reporting period, frequency and contact point	1-2
	2-4 Restatements of information	2
	2-5 External assurance	2
	2-6 Activities, value chain and other business relationships	2-3
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	2-17 Collective knowledge of the highest governance body	8
	2-18 Evaluation of the performance of the highest governance body	8
	2-19 Remuneration policies	8-9
	2-20 Process to determine remuneration	9
	2-21 Annual total compensation ratio	9
	2-22 Statement on sustainable development strategy	9
	2-23 Policy commitments	9-10
	2-24 Embedding policy commitments	10
	2-25 Processes to remediate negative impacts	10
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	2-29 Approach to stakeholder engagement	11
	2-30 Collective bargaining agreements	12
GRI 3: Material Topics 2021	3-1 Process to determine material topics	12-13
	3-2 List of material topics	13
	3-3 Management of material topics	13-14
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	14
	201-3 Defined benefit plan obligations and other retirement plans	14-15
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	15
	202-2 Proportion of senior management hired from the local community	15
GRI 302: Energy 2016	302-1 Energy consumption within the organization	15-16
	302-3 Energy intensity	16
GRI 306: Effluents and Waste	306-2 Waste by type and disposal method	16
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	17
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	18
	401-3 Parental leave	18

GRI STANDARDS	DISCLOSURE	LOCATION
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	18-19
	403-2 Hazard identification, risk assessment, and incident investigation	19
	403-3 Occupational health services	19
	403-4 Worker participation, consultation, and communication on occupational health and safety	19
	403-5 Worker training on occupational health and safety	19
	403-6 Promotion of worker health	19-20
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	20
	403-8 Workers covered by an occupational health and safety management system	20
	403-9 Work-related injuries	20
	403-10 Work-related ill health	20
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	20
	404-2 Programs for upgrading employee skills and transition assistance programs	21
	404-3 Percentage of employees receiving regular performance and career development reviews	21
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	21
	405-2 Ratio of basic salary and remuneration of women to men	21

"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN"

The Management of **Pacific Online Systems Corporation** (the Company) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards (i.e. Philippine Financial Reporting Standards, or those applicable to Non-Publicly Accountable Entities) and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature: **WILLY N. OCIER**
Chairman of the Board

Signature: **JACKSON T. ONGSIP**
President

Signature: **MARIA NERIZA C. BANARIA**
Chief Financial Officer

Signed this 28th day of February 2023

U2803 A&B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City, 1605 PH
16/F Metrobank Plaza, Osmeña Boulevard, Cebu City, 6000 PH
t (+63)(2) 8584.1700/ (+63)(2) 8584.1816/ (+63)(2) 8584.1843
t (+63)(32) 255.0721/ t (+63)(32) 255.0716
www.loto.com.ph

SUBSCRIBED AND SWORN to before me this 28th day of February 2023 at Pasig City, Metro Manila, affiants exhibiting to me their competent evidences of identity, as follows:

Name	Competent Evidence of Identity
Willy N. Ocier	Philippine Passport No. [redacted] issued on [redacted] at DFA Manila, valid until [redacted]
Jackson T. Ongsip	Philippine Passport No. [redacted] issued on [redacted] at DFA Manila, valid until [redacted]
Maria Neriza C. Banaria	Philippine Passport No. [redacted] issued on [redacted] at DFA NCR Central, valid until [redacted]

Doc. No. 410;
Page No. 82;
Book No. 16;
Series of 2023.

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2024
PTR No. 011260 [illegible]1/03/2023 Pasig City
IBP No. 248416 / 10/06/2022 For Year 2023/ RSM
Roll No. 41969
MCLE Comp. VI-0021812 / March 28, 2019
No. 11, Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 61 (2023-2024)

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Transaction Code:
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Transaction Code: **AFS-0-2WVSR2ZZ06DJ9L0FMNY211QR034ZNZ1XV**
Submission Date/Time: **Apr 11, 2023 11:10 AM**
Company TIN: **003-865-392**

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- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system generated e-mail. Please do not reply.

PACIFIC ONLINE
SYSTEMS CORPORATION LOTO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Pacific Online Systems Corporation (the Company)** is responsible for the preparation and fair presentation of the separate financial statements including the schedules attached therein, for the years ended **December 31, 2022 and 2021**, 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 financial statements including the schedules attached therein and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditor appointed by the stockholders for the periods December 31, 2022 and 2021, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Signature: **WILLY N. OCIER**
Chairman of the Board

Signature: **JACKSON T. ONGSIP**
President

Signature: **MARIA NERIZA C. BANARIA**
Chief Financial Officer

Signed this 28th day of February 2023

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Jackson T. Ongsip	Philippine Passport No. [redacted] issued on [redacted] at DFA Manila, valid until [redacted]
Maria Neriza C. Banaria	Philippine Passport No. [redacted] issued on [redacted] at DFA NCR Central, valid until [redacted]

Doc. No. 411;
Page No. 83;
Book No. IV;
Series of 2023.

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2024
PTR No. 011260 / 01/03/2023 Pasig City
IBP No. 248416 / 10/06/2022 For Year 2023/ RSM
Roll No. 41969
MCLE Comp. VI-0021812 / March 28, 2019
No. 11, Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 61 (2023-2024)

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 4782 SEC Group A
Issued August 11, 2022
Valid for Financial Periods 2021 to 2025

BDO Towers Valero
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of Pacific Online Systems Corporation (the Company), which comprise the separate statements of financial position as at December 31, 2022 and 2021, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2022 and 2021, and its separate financial performance and its separate cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company 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 the audit of the separate 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.

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

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

In preparing the separate 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.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 Company'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 Company'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 separate 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 the auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

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 audits.

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.

Report on the Supplementary Information Required under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information for the year ended December 31, 2022 required by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010 as disclosed in Note 23 to the separate financial statements is presented for purposes of additional analysis and is not a required part of the basic separate financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic separate financial statements taken as a whole.

REYES TACANDONG & CO.

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. [redacted]
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 3, 2023, Makati City

February 28, 2023
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION

SEPARATE STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents	5	₱277,825,737	₱72,635,218
Investments held for trading	6	71,288,577	61,629,495
Trade and other receivables	7	121,292,553	143,467,944
Creditable withholding taxes (CWTs)		100,030,691	70,887,020
Other current assets	8	15,371,694	52,281,174
Total Current Assets		585,809,252	400,900,851
Noncurrent Assets			
Financial assets at fair value through other comprehensive income (FVOCI)	9	179,142,925	252,166,540
Advances to suppliers	4	207,054,331	–
Property and equipment	10	1,765,684	19,839,485
Right-of-use (ROU) assets	18	1,815,399	6,581,490
Investments in and advances to subsidiaries	11	96,556,660	100,302,646
Net deferred tax assets	17	432,108	20,650,882
Other noncurrent assets	8	2,568,343	3,276,513
Total Noncurrent Assets		489,335,450	402,817,556
		₱1,075,144,702	₱803,718,407
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities	12	₱62,030,114	₱62,402,543
Current portion of lease liabilities	18	1,891,442	4,785,803
Total Current Liabilities		63,921,556	67,188,346
Noncurrent Liabilities			
Loan payable	4	67,500,000	–
Net retirement liability	19	442,153	20,111,464
Lease liabilities - net of current portion	18	–	1,986,014
Total Noncurrent Liabilities		67,942,153	22,097,478
Total Liabilities		131,863,709	89,285,824
Equity	13		
Capital stock		895,330,946	895,330,946
Additional paid-in capital		254,640,323	254,640,323
Other equity reserves		(276,069,494)	(483,645,122)
Retained earnings		69,379,218	48,106,436
Total Equity		943,280,993	714,432,583
		₱1,075,144,702	₱803,718,407

See accompanying Notes to Separate Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2022	2021
REVENUE FROM EQUIPMENT RENTAL	18	**₱512,729,189**	₱390,758,088
COST OF SERVICES	14	**(230,871,686)**	(342,299,489)
GROSS INCOME		**281,857,503**	48,458,599
GENERAL AND ADMINISTRATIVE EXPENSES	14	**(89,743,950)**	(127,209,452)
OPERATING INCOME (LOSS)		**192,113,553**	(78,750,853)
OTHER INCOME (CHARGES)			
Dividend income	9	**18,947,664**	15,368,577
Marked-to-market gain (loss) on investments held for trading	6	**9,659,082**	(22,631,431)
Other income - net	15	**5,407,863**	7,178,039
		34,014,609	(84,815)
INCOME (LOSS) BEFORE INCOME TAX		**226,128,162**	(78,835,668)
PROVISION FOR INCOME TAX	17		
Current		**3,576,689**	1,019,277
Deferred		**17,499,390**	49,570,420
		21,076,079	50,589,697
NET INCOME (LOSS)		**205,052,083**	(129,425,365)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit of loss			
Unrealized valuation gain (loss) on financial assets at FVOCI	9	**16,971,435**	(29,655,825)
Remeasurement gain on retirement benefits, net of deferred tax	19	**8,158,152**	21,976,485
		25,129,587	(7,679,340)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱230,181,670**	(₱137,104,705)
Basic/Diluted Earnings (Loss) per Common Share	21	**₱0.2290**	(₱0.1446)

See accompanying Notes to Separate Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION

SEPARATE STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31	
	Note	2022	2021
CAPITAL STOCK	13		
Balance at beginning and end of year		**₱895,330,946**	₱895,330,946
ADDITIONAL PAID-IN CAPITAL	13		
Balance at beginning and end of year		**254,640,323**	254,640,323
OTHER EQUITY RESERVES	13		
Cumulative Unrealized Valuation Losses on Financial Asset at FVOCI	9		
Balance at beginning of year		**(492,266,311)**	(462,610,486)
Realized portion of the fair value reserve		**182,446,041**	–
Unrealized valuation gain (loss)		**16,971,435**	(29,655,825)
Balance at end of year		**(292,848,835)**	(492,266,311)
Cumulative Remeasurement Gains (Losses) on Net Retirement Liability	19		
Balance at beginning of year		**8,621,189**	(13,355,296)
Net remeasurement gain		**8,158,152**	21,976,485
Balance at end of year		**16,779,341**	8,621,189
		(276,069,494)	(483,645,122)
RETAINED EARNINGS			
Balance at beginning of year		**48,106,436**	177,531,801
Net income (loss)		**205,052,083**	(129,425,365)
Realized portion of the fair value reserve		**(183,779,301)**	–
Balance at end of year		**69,379,218**	48,106,436
		₱943,280,993	₱714,432,583

See accompanying Notes to Separate Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION

SEPARATE STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		**₱226,128,162**	(₱78,835,668)
Adjustments for:			
Depreciation and amortization	10	**20,627,427**	77,082,994
Dividend income	9	**(18,947,664)**	(15,368,577)
Marked-to-market loss (gain) on investments held for trading	6	**(9,659,082)**	22,631,431
Retirement benefits cost	19	**6,901,399**	8,372,766
Interest income	15	**(4,101,068)**	(6,173,074)
Loss (gain) on sale of property and equipment	10	**1,327,661**	(175,500)
Unrealized foreign exchange loss (gain)	15	**503,043**	(817,965)
Provision for (reversal of) impairment loss on:			
Investments in subsidiaries	11	**(266,178)**	42,355,414
Trade and other receivables	7	**–**	(26,000,000)
Interest expense on lease liabilities	18	**220,000**	450,714
Loss on retirement of property and equipment	10	**–**	834,746
Gain on pre-termination of lease	18	**–**	(156,877)
Operating income before working capital changes		**222,733,700**	24,200,404
Decrease (increase) in:			
Trade and other receivables		**26,172,973**	(50,872,337)
Other current assets		**36,909,480**	34,175,368
Other noncurrent assets		**708,170**	93,875,791
Advances to subsidiaries		**(1,681,010)**	(29,701,764)
Decrease in accounts payable and other current liabilities		**(372,429)**	(40,012,069)
Net cash generated from operations		**284,470,884**	31,665,393
Retirement contributions paid	19	**(10,000,000)**	(5,000,000)
Income taxes paid		**(32,720,360)**	(23,313,222)
Interest received		**103,486**	60,032
Net cash flows provided by operating activities		**241,854,010**	3,412,203
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to suppliers for acquisition of property and equipment	4	**(207,054,331)**	–
Proceeds from sale of:			
Financial assets at FVOCI	9	**88,661,790**	–
Property and equipment	10	**708,661**	834,500
Dividends received	9	**18,947,664**	15,368,577
Acquisitions of property and equipment	10	**(36,000)**	(11,774,994)
Net cash flows provided by (used in) investing activities		**(98,772,216)**	4,428,083

(Forward)

	Note	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan availment	4	**₱67,500,000**	₱–
Payment of lease liabilities	18	**(4,888,232)**	(9,899,953)
Net cash provided by (used in) financing activities		**62,611,768**	(9,899,953)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**205,693,562**	(2,059,667)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**72,635,218**	73,876,920
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	15	**(503,043)**	817,965
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱277,825,737**	₱72,635,218
COMPONENTS OF CASH AND CASH EQUIVALENTS	5		
Cash on hand		**₱491,500**	₱345,000
Cash in banks		**177,334,237**	72,290,218
Cash equivalents		**100,000,000**	–
		₱277,825,737	₱72,635,218
NONCASH FINANCIAL INFORMATION			
Transfer of retirement benefits from a subsidiary	19	**₱5,693,174**	₱–
Recognition of ROU assets and lease liabilities	18	**–**	8,926,056
		₱5,693,174	₱8,926,056

See accompanying Notes to Separate Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION

NOTES TO SEPARATE FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

1. General Information

Corporate Information

Pacific Online Systems Corporation ("POSC" or the "Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Company is a public company under Section 17.2 of the Revised Securities Regulation Code and its shares are listed on the Philippine Stock Exchange, Inc. (PSE).

The Company is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. The 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 on governmental, municipal or public authority, domestic or foreign.

The Company's primary source of revenue arises from the Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment. The existing ELA is valid until May 31, 2023 (see Notes 18 and 20).

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

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

Approval of the Separate Financial Statements

The separate financial statements as at and for the years ended December 31, 2022 and 2021 were approved and authorized for issuance by the Board of Directors (BOD) on February 28, 2023.

2. Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance

The separate financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial and Sustainability Reporting Standards Council (formerly Financial and Reporting Standards Council) and adopted by the SEC, including the SEC provisions.

Measurement Bases

The separate financial statements are presented in Philippine Peso (Peso), the Company's functional currency. All amounts are rounded to the nearest Peso unless otherwise stated.

The separate financial statements of the Company have been prepared on a historical cost basis, except for investments held for trading measured at fair value and financial assets at fair value through other comprehensive income (FVOCI).

Historical cost is generally based on the fair value of the consideration given in exchange of assets and fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:
- Note 6 - *Investments Held for Trading*
- Note 9 - *Financial Assets at FVOCI*
- Note 22 - *Financial Instruments*.

Adoption of Amendments to PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following relevant amendments to PFRS.

- Amendment to PFRS 16, *Leases – Corona Virus Disease (COVID-19)-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions resulting from COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021.

Due to the continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allowed lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022.

- Amendments to PFRS 3, *Business Combinations - Reference to Conceptual Framework* – The amendments replaced the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or IFRIC 21, *Levies,* instead of the Conceptual Framework. The requirement ensures that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarify that an acquirer shall not recognize contingent assets acquired in a business combination.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. There is no transition relief for first-time adopters.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments specify which costs shall be included when assessing whether a contract is onerous or loss-making. The 'costs of fulfilling' a contract comprise the 'costs that relate directly to the contract'. These costs can either be incremental (e.g., the costs of direct labor and materials) or can be an allocation of costs directly related to fulfilling a contract (e.g., depreciation of fixed assets). At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability
    (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.

  - Amendment to PFRS 16 - *Lease Incentives* – The amendment removed from Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

The adoption of the foregoing amendments to PFRS did not have any material effect on the separate financial statements of the Company. Additional disclosures were included in the notes to separate financial statements, as applicable.

Amendments to PFRS Issued But Not Yet Effective
Relevant amendments to PFRS which are not yet effective for the year ended December 31, 2022 and have not been applied in preparing the separate financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16 - *Lease Liability in a Sale and Leaseback* – The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS 15, *Revenue from Contracts with Customers,* to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use (ROU) asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Company shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

- Amendments to PAS 1, *Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Company shall also apply Amendments to PAS 1 - *Classification of Liabilities as Current or Noncurrent* for that period.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the separate financial statements of the Company. Additional disclosures will be included in the separate financial statements, as applicable.

<u>Joint Arrangements</u>
Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

Classification of a joint arrangement as either joint operation or joint venture requires judgment. Management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

The Company accounted for its interest in PinoyLotto Technologies Corp. (PinoyLotto) as a joint operation (see Note 4).

For a joint operation, the separate financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the joint arrangement. The Company reports items of a similar nature to those on the financial statements of the joint arrangement, on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The financial statements of PinoyLotto with a fiscal period ended June 30, are incorporated in the separate financial statements as at December 31. Adjustments and disclosures are made for the effects of significant transactions or events that occurred between the date of PinoyLotto's financial statements and the date of the separate financial statements.

Current versus Noncurrent Classification
The Company presents assets and liabilities in the separate statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:
- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classifications.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of Recognition. The Company recognizes a financial asset or a financial liability in the separate statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable is done using settlement date accounting.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the 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 and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transactions price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

Classification of Financial Instruments. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and, (c) financial assets at FVOCI. The classification of a financial asset largely depends on its contractual cash flow characteristics and the Company's business model for managing them.

The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

Equity securities that have been designated to be measured at FVOCI may not be reclassified to a different category.

There were no reclassifications of financial assets in 2022 and 2021.

Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2022 and 2021, the Company does not have financial liabilities at FVPL and debt instruments measured at FVOCI.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

Classified under this category are the Company's investments in listed equity securities included under "Investments Held for Trading" account.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Classified under this category are the Company's cash and cash equivalents, trade and other receivables (excluding advances to suppliers, officers and employees) advances to subsidiaries and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets" account).

Financial Assets at FVOCI. On initial recognition, equity securities which are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are measured at fair value with unrealized valuation gains or losses recognized in other comprehensive income and are accumulated under "Other equity reserves" account in the equity section of the separate statement of financial position. These fair value changes are not reclassified to profit or loss in subsequent periods. On disposal of these equity securities, any cumulative unrealized valuation gains or losses will be reclassified to retained earnings.

Classified under this category are the Company's investments in equity securities issued by the Ultimate Parent Company and Parent Company.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Classified under this category are the Company's accounts payable and other current liabilities (excluding statutory payables), loan payable and lease liabilities.

Impairment of Financial Assets at Amortized Cost

The Company records an allowance for expected credit loss (ECL) on financial assets at amortized cost based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company measures loss allowances at an amount equivalent to the 12-month ECL for financial assets on which credit risk has not increased significantly since initial recognition or that are determined to have low credit risk at reporting date. Otherwise, impairment loss will be based on lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at reporting date with the risk of a default occurring on the financial instrument on the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort. In addition, the Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at reversal date.

A financial asset is written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trade Receivables. The Company has applied the simplified approach in measuring the ECL on trade receivables. Simplified approach requires that ECL should always be based on the lifetime ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date.

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments Measured at Amortized Cost. For these financial assets, the Company applies the general approach in determining ECL. The Company recognizes an allowance based on either the 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

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 right to receive cash flows from the asset has expired;
- the Company retains the right 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 Company has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or 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. The difference in the respective carrying amounts is recognized in profit or loss.

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

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Creditable Withholding Taxes (CWTs)
CWTs represent the amount withheld by the Company's customers in relation to its income. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs are stated at its net realizable amount.

Other Assets
This account mainly consists of prepayments and spare parts and supplies.

Prepayments. Prepayments are expenses not yet incurred but paid in advance. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

Spare Parts and Supplies. Spare parts and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method and includes expenditures incurred in acquiring the supplies and bringing them to their existing location and condition. NRV is the current replacement cost.

Valued-Added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of VAT payable to the taxation authority and the amount of VAT on revenue not yet collected is included as part of "Statutory payables" under "Accounts payable and other current liabilities" account in the separate statement of financial position.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Each part of the property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the depreciable assets.

The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

Asset Type	Number of Years
Lottery equipment	4-10 or term of lease, whichever is shorter
Office furniture, fixtures and equipment	4
Transportation equipment	4-5

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use.

<u>Investments in Subsidiaries</u>
Investments in subsidiaries are accounted for using the cost method. A subsidiary is an entity controlled by the Company. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Under the cost method, the Company recognizes income from the investment only to the extent that the Company received distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a reduction of the cost of the investment.

An assessment of the carrying amount of the investment is performed when there is an indication that the investment has been impaired.

<u>Advances to Suppliers</u>
Advances to suppliers represent advance payments for acquisition of property and equipment in connection with the joint operation's project.

<u>Impairment of Nonfinancial Assets</u>
Nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in

use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the 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 recoverable amount is estimated. 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. After such a reversal the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Incremental costs directly attributable to the issue of new capital stock are recognized as a deduction, net of tax, from the equity.

Other Equity Reserves. Other equity reserves comprise of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other reserves of the Company pertains to cumulative unrealized valuation losses on financial assets at FVOCI and cumulative remeasurement gains on net retirement liability.

Retained Earnings. Retained earnings represent the cumulative balance of the Company's results of operations, net of dividends declared to date.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Equipment Rental. Revenue is recognized based on a certain percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement.

Dividend Income. Revenue is recognized when the Company's right to receive the payment is established.

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

Other Income. Revenue is recognized when earned.

<u>Cost and Expense Recognition</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Cost of Services. Cost of services is recognized as expense when the related services are rendered.

General and Administrative Expenses. General and administrative expenses constitute cost of administering the business. These expenses are recognized in profit or loss when incurred.

<u>Leases</u>
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, 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 assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

a) the right to obtain substantially all of the economic benefits from the use of the identified asset; and

b) the right to direct the use of the identified asset.

Company as a Lessee. At the commencement date, the Company recognizes right-of-use (ROU) assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value, in which case the lease payments associated with those leases are recognized as an expense in profit or loss on a straight-line basis. For leases with lease terms of 12 months or less but with an option to extend the lease, the management assesses whether there is reasonable certainty that the Company will extend the lease, by considering all relevant facts and circumstances that create an economic incentive for the lessee to extend or terminate the lease, to determine the appropriate lease term.

ROU Assets. At commencement date, the Company measures ROU assets at cost which is comprised of the following:

a) the amount of the initial measurement of lease liabilities;
b) any lease payments made at or before the commencement date less any lease incentives received;
c) any initial direct costs; and
d) an estimation of costs to be incurred by the Company in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the ROU assets are depreciated over the shorter of the lease terms or the useful lives of the underlying assets.

Lease Liabilities. At commencement date, the Company measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability consist of the following:

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

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Short-term Leases and Leases of Low-value Assets. The Company has elected not to recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Company as a Lessor. Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income under operating leases are recognized on a straight-line basis over the lease terms. 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 rent income. Contingent rents are recognized as revenue in the period in which these are earned.

<u>Employee Benefits</u>

Short-term Benefits. The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The retirement liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, difference between interest income and return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in the profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognize related restructuring costs.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

Foreign Currency Denominated Transactions
Transactions denominated in foreign currencies are initially recorded in Peso using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between the rate at transaction date and settlement date or reporting date are credited to or charged against profit or loss. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of initial transactions.

Income Taxes

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

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

- When it 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 profit or loss nor taxable profit or loss; or

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), only if it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity as other comprehensive income.

Offsetting. Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Company plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Related Parties and Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Related party transactions are considered material and/or significant if i) these transactions amount to 10% or higher of the total assets, or ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the total assets. Details of transactions entered into by the Company with related parties are reviewed in accordance with its related party transactions policy.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) for the year attributable to common equity holders of the Company, after recognition of the dividend requirement of preferred shares, as applicable, by the weighted average number of issued and outstanding common shares during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted earnings (loss) per share is computed by dividing net loss for the year attributable to common equity holders of the Company by the weighted average number of issued and outstanding common shares during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings (loss) per share does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on earnings (loss) per share.

As the Company has no dilutive potential common shares outstanding, basic and diluted earnings (loss) per share are stated at the same amount.

Provisions

Provisions are recognized when the Company 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.

Provisions are made using the best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period these arise.

Contingencies
Contingent liabilities are not recognized in the separate financial statements. These are disclosed in the notes to separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the separate financial statements but are disclosed when an inflow of economic benefits is probable.

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

Comparatives
When necessary, comparative figures have been reclassified to conform to the changes in the presentation of the current year.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the separate financial statements in accordance with PFRS requires management to exercise judgment, make estimates and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the separate financial statements. The judgment, estimates and assumptions used in the separate financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the separate financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

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

Assessing Joint Control and Determining Proper Classification of a Joint Arrangement. Management has used judgment in classifying the Company's interest in PinoyLotto as a joint operation. PinoyLotto is 50% owned by the Company and is assessed to be controlled jointly with the parties to the agreement because the parties have equal number of board representatives and the relevant activities that significantly affect the return on the investment requires approval of the representatives from both parties. In classifying the interest as a joint operation, management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

The nature, extent, financial impact and risks associated with interest in joint operation is disclosed in Note 4.

Evaluating Revenue Recognition, Contract Term and Existence of Significant Financing Components. Management determined that the Company'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.

Management determined that the license granted provides the licensee a valuable right because it enables the licensee to tap into the existing instant scratch ticket customers that patronize the Company'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 design/variants.

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 of time. The financing component is recognized as interest income when the licensee pays in arrears.

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

Determining the Classification of Lease – Company as a Lessor. The Company leases to PCSO the lottery equipment it uses for its nationwide on-line lottery operations. The Company has determined that it has retained substantially all the risks and benefits of ownership of the lottery equipment being leased to PCSO. The ownership of the asset is not transferred to the lessee by the end of the lease term and the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable. Accordingly, the lease is accounted for as an operating lease.

Relevant details of the lease agreement and the amount of revenue from equipment rental are disclosed in Notes 18 and 20.

Determining the Fair Value of Financial Instruments. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Company utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

The fair value of the Company's financial assets and liabilities are disclosed in Note 22.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assessing Impairment Losses on Financial Assets at Amortized Cost. Impairment losses on financial assets are determined based on ECL. The Company uses judgment in making the assumptions about risk of default and ECL rates and selected inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Company's cash in banks and cash equivalents are considered to have minimal risk of default because these are maintained at reputable financial institutions with good industry rating and score.

The Company maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible accounts. 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 receivables, the length of relationship with the customers, the customer's payment behavior and known market factors. The Company reviews the allowance on a continuous basis.

For other financial assets at amortized cost, the Company has applied the general approach and calculated the ECL by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECL.

The Company recognized reversal of allowance impairment losses on trade and other receivables amounting to ₱26.0 million in 2021. As at December 31, 2022 and 2021, allowance for impairment losses on trade and other receivables amounted to ₱113.7 million (see Note 7).

The carrying amounts and credit quality of financial assets at amortized cost that were subjected to impairment assessment are disclosed in Note 22.

Determining Impairment of Significant Nonfinancial Assets. The Company assesses whether there are any indicators of impairment for significant nonfinancial assets at each reporting date. Significant nonfinancial assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of these nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets which will necessitate the Company to make estimates and assumptions that can materially affect the separate financial statements.

While it is believed that the assumptions used in the estimation of recoverable values are appropriate and reasonable, future events could cause the Company to conclude that such nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's separate financial statements.

Management has considered the external and internal sources of impairment including the review of useful lives of the Company's property and equipment.

In 2022 and 2021, the Company recognized a provision for (reversal of allowance) for impairment losses on investment in subsidiaries amounting to (₱266,178) and ₱42.4 million, respectively (see Note 11).

The carrying amounts of nonfinancial assets as at December 31, 2022 and 2021 are as follows:

	Note	2022	2021
CWT		**₱100,030,691**	₱70,887,020
Advances to suppliers	4	**207,054,331**	–
Other current assets*	8	**3,371,694**	40,281,174
Investments in subsidiaries	11	**64,551,573**	64,285,395
Property and equipment	10	**1,765,684**	19,839,485
ROU assets	18	**1,815,399**	6,581,490

**Excluding guarantee deposits.*

Assessing the Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount 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. The amount of deferred tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

Deferred tax assets pertaining to NOLCO and excess MCIT were not recognized because it is not probable that future taxable profit will be available against which the Company can use the benefit therefrom.

Details of recognized and unrecognized deferred tax assets are disclosed in Note 17.

Estimating the Useful Lives of Property and Equipment and ROU Assets. The Company estimates the useful lives of the property and equipment and ROU assets based on the period over which these assets are expected to be available for use. The estimated useful lives are reviewed periodically and are 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 these assets. In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of property and equipment and ROU assets in 2022 and 2021. The carrying amounts of property and equipment and ROU assets are disclosed in Notes 10 and 18, respectively.

Evaluating Contingencies. The Company recognizes provision for possible claims when it is determined that an unfavorable outcome is probable and the amount of the claim can be reasonably estimated. The determination of reserves required, if any, is based on analysis of such individual issue, often with the assistance of outside legal counsel.

4. Interest in Joint Operation

On June 21, 2021, PinoyLotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc., was incorporated and registered with the SEC primarily to provide software support and online lottery equipment service.

Interest in joint operation pertains to the Company's 50% ownership in PinoyLotto, the entity which was awarded a five-year lease of the customized PCSO Lottery System, also known as '2021 PLS Project' with a contract price of ₱5,800.0 million.

The five-year lease will begin from the commencement of commercial operations of PinoyLotto which is expected to be in October 2023.

Relevant financial information of PinoyLotto and the POSC's share of the assets, liabilities, and results of operations as at and for the years ended December 31, 2022 and 2021 are as follows:

	2022		2021	
	PinoyLotto	**Share in Joint Operation**	PinoyLotto	Share in Joint Operation
Cash	**₱51,784,995**	**₱25,892,498**	₱5,377,271	₱2,688,635
Other current assets	**4,578,601**	**2,289,300**	262,591	131,296
Advances to suppliers	**414,108,662**	**207,054,331**	–	–
Property and equipment	**28,800**	**14,400**	–	–
Accounts payable and other current liabilities	**(4,500)**	**(2,250)**	(3,425)	(1,713)
Nontrade payable	**(26,222,339)**	**(13,111,169)**	–	–
Loan payable	**(135,000,000)**	**(67,500,000)**	–	–
Net loss (mainly pre-operating expenses)	**(27,957,380)**	**(13,978,690)**	(97,263,563)	(48,631,781)

Loan Agreement

On October 15, 2022, PinoyLotto entered into a long-term loan agreement with a local bank for a loan facility with a maximum aggregate principal amount of ₱1,000.0 million, the proceeds of which shall be used to partially finance the capital expenditure requirements of the PLS Project.

In November 2022, PinoyLotto made its first drawdown for the principal amount of ₱135.0 million. The loan has a term of five years, payable in equal quarterly installments beginning on the second year from initial drawdown up to the maturity. Annual effective interest rate on the loan is 7.96%.

The loan is secured by a continuing surety of POSC and PGMC and maintenance of a debt service reserve account.

Pursuant to the terms of the loan agreement, PinoyLotto is required to comply with certain financial covenants starting June 30, 2024. PinoyLotto is also restricted from performing certain corporate acts such as declaration or payment of dividends and incurrence of additional long-term loans, among others, if doing so, will result in an event of default or violation of financial ratios.

As at December 31, 2022, PinoyLotto is compliant with the loan covenants.

Capital Expenditure Commitments

In connection with the acquisition of property and equipment pursuant to the PLS Project, PinoyLotto entered into purchase, supply, implementation and maintenance support agreements in 2022. Advances made to suppliers as at December 31, 2022 amounted to ₱418.5 million.

5. Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand	₱491,500	₱345,000
Cash in banks	177,334,237	72,290,218
Cash equivalents	100,000,000	–
	₱277,825,737	₱72,635,218

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱420,153 and ₱60,032 in 2022 and 2021, respectively (see Note 15).

6. Investments Held for Trading

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

Movements in investments held for trading are as follows:

	2022	2021
Balance at beginning of year	₱61,629,495	₱84,260,926
Marked-to-market gain (loss)	9,659,082	(22,631,431)
Balance at end of year	₱71,288,577	₱61,629,495

The fair values of these securities are based on closing quoted market prices on the last market day of the year (see Note 22).

7. Trade and Other Receivables

This account consists of:

	Note	2022	2021
Trade		₱46,642,818	₱25,875,640
Nontrade receivables:			
Lucky Circle Corporation (LCC) Group		113,677,614	113,677,614
Third party		67,500,000	44,000,000
Accrued license fee income	20	4,000,000	70,319,085
Advances to:			
Suppliers - current portion		628,011	1,163,060
Officers and employees		531,761	1,841,846
Other receivables		1,989,963	268,313
		234,970,167	257,145,558
Less allowance for impairment losses		113,677,614	113,677,614
		₱121,292,553	₱143,467,944

Trade receivables are generally on a 30-to-60 day credit term. The risks associated to this account are disclosed in Note 22.

Nontrade receivables from LCC Group pertain to amounts due from LCC Group at the date of disposal of the investment. The management, because of the delayed payments from LCC Group due to the impact of the COVID-19 pandemic on its operations, had set up an allowance for impairment.

Nontrade receivables from third parties are noninterest-bearing and are subject to liquidation but shall be refunded to the Company in the absence of the required output.

Due to the suspension of the PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, Powerball Gaming and Entertainment Corporation (PMLC) was not able to supply and distribute instant scratch tickets to its customers. Management assessed that the accrued license fee income equivalent to those months with no operations amounting to ₱26.0 million may not be recoverable. In 2021, due to improvement in economic conditions, the amount is assessed to be collectible and the allowance for impairment losses amounting to ₱26.0 million was reversed. The related accrued license fee was collected in 2022 (see Note 20).

The movements in allowance for impairment losses are as follows:

	Note	2022	2021
Balance at beginning of year		**₱113,677,614**	₱139,677,614
Reversal	20	**–**	(26,000,000)
Balance at end of year		**₱113,677,614**	₱113,677,614

8. Other Assets

<u>Current Assets</u>
This account consists of:

	Note	2022	2021
Guarantee deposits	20	**₱12,000,000**	₱12,000,000
Prepayments		**1,122,394**	11,809,672
Spare parts and supplies - at cost		**–**	28,340,206
Others		**2,249,300**	131,296
		₱15,371,694	₱52,281,174

Guarantee deposits pertain to cash bonds held in escrow account as part of the agreement with PCSO.

Prepayments represent mainly unexpired portion of insurance and rent. It also includes prepaid technical training, advisory and maintenance services.

<u>Noncurrent Assets</u>
This account consists of refundable deposits amounting to ₱2.6 million and ₱3.3 million as at December 31, 2022 and 2021, respectively. Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest.

9. Financial Assets at FVOCI

The financial assets at FVOCI pertains to the Company's investment in shares of the Ultimate Parent Company and Parent Company (see Note 16).

Movements in this account are as follows:

	2022	2021
Balance at beginning of year	₱252,166,540	₱281,822,365
Disposal	(89,995,050)	–
Unrealized valuation gain (loss)	16,971,435	(29,655,825)
Balance at end of year	₱179,142,925	₱252,166,540

On February 4, 2022, the Group sold its investment in its Ultimate Parent Company for a consideration of ₱88.7 million.

Dividend income amounted to ₱18.9 million and ₱15.4 million in 2022 and 2021, respectively.

Movements in cumulative unrealized valuation losses on financial asset at FVOCI are as follows:

	2022	2021
Balance at beginning of year	(₱492,266,311)	(₱462,610,486)
Realized portion of the fair value reserve	182,446,041	–
Unrealized valuation gain (loss)	16,971,435	(29,655,825)
Balance at end of year	(₱292,848,835)	(₱492,266,311)

The fair values of these securities are based on the quoted prices on the last market day of the year (see Note 22).

10. Property and Equipment

The movement in this account is as follows:

	2022			
	Lottery Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱504,007,200	₱46,490,715	₱19,106,527	₱569,604,442
Disposals	–	(378,362)	(10,277,736)	(10,656,098)
Additions	–	36,000	–	36,000
Balance at end of year	504,007,200	46,148,353	8,828,791	558,984,344
Accumulated Depreciation				
Balance at beginning of year	490,984,771	43,802,277	14,977,909	549,764,957
Depreciation	13,022,429	1,520,083	1,530,967	16,073,479
Disposals	–	(329,689)	(8,290,087)	(8,619,776)
Balance at end of year	504,007,200	44,992,671	8,218,789	557,218,660
Carrying Amount	₱–	₱1,155,682	₱610,002	₱1,765,684

	2021			
	Lottery Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱762,814,886	₱50,957,337	₱34,985,695	₱848,757,918
Disposals and retirement	(269,603,327)	(5,329,725)	(15,995,418)	(290,928,470)
Additions	10,795,641	863,103	116,250	11,774,994
Balance at end of year	504,007,200	46,490,715	19,106,527	569,604,442
Accumulated Depreciation				
Balance at beginning of year	698,403,676	46,018,297	26,861,155	771,283,128
Disposals and retirement	(268,768,581)	(5,329,725)	(15,336,418)	(289,434,724)
Depreciation	61,349,676	3,113,705	3,453,172	67,916,553
Balance at end of year	490,984,771	43,802,277	14,977,909	549,764,957
Carrying Amount	₱13,022,429	₱2,688,438	₱4,128,618	₱19,839,485

In 2022, the Company sold certain equipment with a carrying amount of ₱2.0 million for a total consideration of ₱708,661, resulting to a loss of ₱1.3 million. In 2021, the Company sold certain equipment with a carrying amount of ₱659,000 for a total consideration of ₱834,500, resulting to gain of ₱175,500 (see Note 15).

In 2021, the Company retired certain equipment with a carrying amount of ₱834,746 million resulting to a loss on retirement amounting to ₱834,746 in 2021 (see Note 15).

Depreciation and amortization recognized in the separate statements of comprehensive income arises from:

	Note	2022	2021
Property and equipment		₱16,073,479	₱67,916,553
ROU assets	18	4,553,948	9,166,441
		₱20,627,427	₱77,082,994

Depreciation and amortization are allocated as follows (see Note 14):

	2022	2021
Cost of services	₱17,083,906	₱69,087,309
General and administrative expenses	3,543,521	7,995,685
	₱20,627,427	₱77,082,994

11. Investments in and Advances to Subsidiaries

As at December 31, 2022 and 2021, the Company has investments in the following subsidiaries:

Subsidiaries	Principal Activity	Principal Place of Business	Percentage of Ownership
Total Gaming Technologies, Inc. (TGTI)	Gaming Business	Pasay City	98.9%
Loto Pacific Leisure Corporation (LotoPac)	Gaming Business	Pasay City	100%

The movement in this account is as follows:

Subsidiaries	Note	2022	2021
Acquisition cost:			
TGTI		**₱164,640,809**	₱164,640,809
LotoPac		**625,000**	625,000
		165,265,809	165,265,809
Less allowance for impairment loss:			
TGTI		**100,089,236**	100,355,414
LotoPac		**625,000**	625,000
		100,714,236	100,980,414
		64,551,573	64,285,395
Advances to subsidiaries:	16		
TGTI		**32,005,087**	36,017,251
LotoPac		**22,282,287**	22,282,287
		54,287,374	58,299,538
Less allowance for impairment loss		**22,282,287**	22,282,287
		32,005,087	36,017,251
		₱96,556,660	₱100,302,646

The movements in allowance for impairment loss on investments in subsidiaries are as follows:

	Note	2022	2021
Balance at beginning of year		**₱100,980,414**	₱58,625,000
Provision (reversal)	15	**(266,178)**	42,355,414
Balance at end of year		**₱100,714,236**	₱100,980,414

TGTI
TGTI has an ELA with PCSO for the latter's Online Keno Lottery operations. The ELA expired last April 1, 2022, and was no longer renewed. The Company is still evaluating its future operating plans. In the meantime, management continues to actively look for viable opportunities within the gaming industry.

In 2022 and 2021, the Company performed impairment testing of its investment in TGTI and assessed that an allowance for impairment loss should be recognized for the excess of the carrying amount of TGTI's net assets over the Company's cost of investment.

LotoPac
LotoPac was incorporated 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 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.

On February 13, 2020, LotoPac sold its investment in shares of stock of Lucky Circle Corporation (LCC) and as a result, LotoPac ceased its operations as an investment holding entity.

The investment was fully provided with allowance for impairment losses as at December 31, 2022 and 2021.

12. Accounts Payable and Other Current Liabilities

This account consists of:

	Note	2022	2021
Accounts payable		**₱3,465,800**	₱926,223
Accrued expenses		**20,203,498**	43,421,893
Software and license fees payable	20	**13,685,157**	8,920,639
Nontrade payable		**13,111,169**	–
Statutory payables		**11,351,099**	8,918,684
Others		**213,391**	215,104
		₱62,030,114	₱62,402,543

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

Accrued expenses which mainly pertain to professional fees, communication, provisions, rental and utilities are normally settled in the following month.

Nontrade payable pertains to the Parent Company's share in other liabilities of the joint operation that was initially shouldered by the co-venturer. This is expected to be settled within the next financial year.

Statutory payables mainly pertain to statutory contributions, withholding taxes, VAT payable, deferred output VAT and other liabilities to the government agencies, which are payable within the next financial year.

13. Equity

Capital Stock and Additional Paid-in Capital

Details of capital stock are as follows:

	Number of Shares	Amount
Authorized - ₱1 a share:		
Common shares	2,288,000,000	₱2,288,000,000
Issued and outstanding:		
Balance at beginning and end of year	895,330,946	₱895,330,946

Additional paid-in capital amounted to ₱254.6 million as at December 31, 2022 and 2021.

Other Equity Reserves

Details of other equity reserves shown in the separate statements of financial position follow:

	Note	2022	2021
Cumulative unrealized valuation losses on financial asset at FVOCI	11	**(₱292,848,835)**	(₱492,266,311)
Cumulative remeasurement gains on net retirement liability	19	**16,779,341**	8,621,189
		(₱276,069,494)	(₱483,645,122)

Retained Earnings
On February 28, 2023, the Company's BOD approved the declaration of cash dividends of ₱0.10 per share amounting to approximately ₱89.5 million to shareholders of record as at March 15, 2023.

14. Cost and Expenses

Cost of Services
This account consists of:

	Note	2022	2021
Software and license fees	20	₱60,127,189	₱45,263,935
Personnel costs		40,357,749	61,538,708
Communication		39,445,294	42,883,195
Repairs and maintenance		30,726,867	19,649,899
Depreciation and amortization	10	17,083,906	69,087,309
Rent and utilities		13,862,632	21,683,321
Software development fee		11,136,364	66,818,182
Travel and accommodation		10,577,116	10,977,317
Operating supplies		4,281,185	1,172,793
Professional fees		3,231,886	3,174,269
Taxes and licenses		26,282	50,561
Others		15,216	–
		₱230,871,686	₱342,299,489

General and Administrative Expenses
This account consists of:

	Note	2022	2021
Personnel costs		₱36,820,020	₱25,461,160
Pre-operating expenses	4	13,993,257	48,631,856
Travel and accommodation		7,804,658	7,673,006
Rent and utilities		7,254,798	–
Director's fee		5,049,020	1,870,407
Taxes and licenses		3,964,025	10,306,869
Depreciation and amortization	10	3,536,321	7,995,685
Professional fees		3,302,977	1,680,787
Repairs and maintenance		3,190,499	3,316,523
Communication		2,583,932	2,261,370
Operating supplies		1,245,050	1,656,375
Provision for (reversal of) impairment losses on:			
Advances to subsidiaries	11	(266,178)	42,355,414
Trade and other receivables	7	–	(26,000,000)
Others		1,265,571	–
		₱89,743,950	₱127,209,452

Pre-operating expenses of PinoyLotto pertain to:

	Note	2022	2021
Professional fees		₱6,221,510	₱–
Bank charges		3,266,241	–
Taxes and licenses		2,740,990	–
Rent and utilities		920,890	–
Entertainment and representation		398,094	–
Depreciation	10	7,200	–
Pre-operating expenses		–	48,631,856
Others		438,332	–
		₱13,993,257	₱48,631,856

Personnel costs are as follows:

	Note	2022	2021
Salaries and wages		₱47,373,251	₱52,750,508
Other short-term employee benefits		22,903,119	25,876,594
Post-employment benefits	19	6,901,399	8,372,766
		₱77,177,769	₱86,999,868

15. Other Income (Charges)

This account consists of:

	Note	2022	2021
Interest income from:			
Accretion of accrued license fee	20	₱3,680,915	₱6,113,042
Interest income on cash in banks and cash equivalents	5	420,153	60,032
Foreign exchange gains (losses):			
Realized		(1,662,421)	(511,268)
Unrealized		(503,043)	817,965
Gain (loss) on sale of property and equipment	10	(1,327,661)	175,500
Sale of scrap items		2,213,542	–
Interest expense on lease liabilities	18	(220,000)	(450,714)
Loss on retirement of property and equipment	10	–	(834,746)
Gain on pre-termination of lease	18	–	156,877
Others		2,806,378	1,651,351
		₱5,407,863	₱7,178,039

Others mainly consist of miscellaneous income.

16. Related Party Transactions and Balances

In the normal course of business, the Company has transactions and balances with subsidiaries pertaining to noninterest-bearing reimbursable charges as follows:

	Note	Nature of Transactions	Related Party	Year	Transactions for the Year	Outstanding Balance	Terms and Conditions
Financial assets at FVOCI	9	Investment in equity securities	Parent Company	2022	₱–	₱179,142,925	
			Ultimate Parent	2021	–	89,995,050	
			Parent Company		–	162,171,490	
				2022	–	₱179,142,925	
				2021		252,166,540	
Dividend income	9	Dividend from financial assets at FVOCI	Parent Company	2022	₱–	₱18,947,664	
				2021	–	15,368,577	
Advances to subsidiaries	11	Reimbursable charges	Subsidiaries	2022	₱4,012,164	₱59,980,548	Unsecured and noninterest-bearing, on demand
				2021	50,007,019	58,299,538	
	19	Transfer of retirement benefits	Subsidiary	2022	5,693,174	(5,693,174)	
				2021	–	–	
				2022		54,287,374	
				2021		58,299,538	
	11	Less allowance for impairment losses	Subsidiaries	2022	–	(22,282,287)	
				2021	–	(22,282,287)	
				2022		₱32,005,087	
				2021		36,017,251	

TGTI reimburses the Company in cash for communication expenses incurred on some online Keno agents/operators and shared data center.

TGTI transferred its employees to the Company in 2022 due to the expiration of its ELA in April 2022. Accordingly, the retirement obligation and the related plan assets was also transferred to the Company (see Note 19).

Compensation of key management personnel are as follows:

	2022	2021
Salaries and wages	₱9,319,577	₱14,793,995
Post-employment benefits	1,565,098	90,291
Professional fees	–	1,333,333
	₱10,884,675	₱16,217,619

17. Income Taxes

Provision for current income tax in 2022 and 2021 pertains to MCIT.

The Company's net deferred tax assets consist of:

	2022	2021
Items recognized in profit or loss		
Net retirement liability	**₱5,703,652**	₱7,901,595
Accrued license fee income	**(1,000,000)**	(17,579,771)
Unamortized past service costs	**1,295,080**	511,684
Unrealized foreign exchange loss (gain)	**125,761**	(204,491)
Excess of rental payments over lease-related expenses	**(99,272)**	(70,700)
NOLCO	**–**	32,966,294
	6,025,221	23,524,611
Items recognized in other comprehensive income		
Cumulative remeasurement gains on net retirement liability	**(5,593,113)**	(2,873,729)
Net deferred tax assets	**₱432,108**	₱20,650,882

Deferred tax assets pertaining to NOLCO and excess MCIT aggregating to ₱5.8 million and ₱39.1 million, respectively, as at December 31, 2022 and 2021, were not recognized.

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020 to implement Section 4 of the Republic Act No. 11494 (Bayanihan to Recover as One Act) allowing the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 to be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

The details of the Company's unused NOLCO and excess MCIT which can be claimed as deduction from future taxable income and future income tax due, respectively, during the stated validity are as follows:

<u>NOLCO</u>

Year Incurred	Beginning Balance	Incurred	Applied	Ending Balance	Valid Until
2020	₱152,224,914	₱–	(₱147,487,221)	₱4,737,693	2025
2019	131,865,178	–	(131,865,178)	–	2022
	₱284,090,092	₱–	(₱279,352,399)	₱4,737,693	

<u>MCIT</u>

Year Incurred	Beginning Balance	Incurred	Applied	Ending Balance	Valid Until
2022	₱–	₱3,576,689	₱–	₱3,576,689	2025
2021	1,019,277	–	–	1,019,277	2024
	₱1,019,277	₱3,576,689	₱–	₱4,595,966	

The reconciliation between the provision for (benefit from) income computed at statutory tax rate and the provision for income tax shown in the separate statements of comprehensive income is as follows:

	2022	2021
Provision for (benefit from) income tax at statutory income tax rate	**₱56,532,041**	(₱19,708,917)
Income tax effects of:		
Change in unrecognized deferred tax assets	**(31,871,821)**	39,075,505
Nontaxable dividend income	**(4,736,916)**	(3,842,144)
Nondeductible expenses	**3,672,584**	17,239,898
Marked-to-market loss on investments held for trading	**(2,414,771)**	5,657,858
Interest income subjected to final tax	**(105,038)**	(15,008)
Impact of change in tax rate	**–**	12,182,505
	₱21,076,079	₱50,589,697

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act or Republic Act No. 11534 was signed into law on March 26, 2021 and took effect on April 11, 2021 which reduced the RCIT from 30% to 25% or 20% depending on the amount of total assets and taxable income and MCIT rate from 2% to 1% starting July 1, 2020. The changes in income tax rates took effect retrospectively beginning July 1, 2020.

In 2020, the enactment of the CREATE Act was treated as a non-adjusting event and the current income tax rate used in preparing the 2020 separate financial statements is 30% RCIT and 2% MCIT, respectively. Hence, the impact of the change in income tax rate on deferred taxes were applied in 2021 as follows:

Deferred tax expense	₱61,752,925
Effect of change in tax rate	(12,182,505)
Adjusted deferred tax expense	₱49,570,420

18. Lease Commitments

Company as Lessor

POSC leases online lotto equipment and accessories to PCSO for a period of one year until July 31, 2021 as provided in the 2020 Amended ELA. In 2021, the ELA was extended until July 31, 2022. In 2022, the ELA was further extended until December 31, 2022. As at report date, the ELA has been extended until May 31, 2023 (see Note 20).

Rental payments are based on a percentage of gross amount of lotto ticket sales from the operation of POSC's lotto terminals. Rental income amounted to ₱512.7 million and ₱390.8 million in 2022 and 2021, respectively.

Company as Lessee

The Company leases its office space and warehouses. The leases typically run for a period of two to five years, with an option to renew the lease after date upon mutual agreement of both parties. In 2021, lease agreements on certain warehouses were terminated resulting to gain on pre-termination amounting to ₱156,877 (see Note 15).

Lease-related items recognized in the separate statements of comprehensive income are as follows:

	2022	2021
Amortization on ROU assets	**(₱4,553,948)**	(₱9,166,441)
Rent expense	**(11,124,565)**	(7,506,183)
Interest expense on lease liabilities	**(220,000)**	(450,714)
Gain on pre-termination of lease	**–**	156,877
	(₱15,898,513)	(₱16,966,461)

Rent expense pertains to low-value asset leases on storage and short-term leases on warehouses.

The movements in the ROU assets are presented below:

	Note	2022	2021
Balance at beginning of year		**₱6,581,490**	₱8,295,365
Amortization	10	**(4,553,948)**	(9,166,441)
Modification		**(212,143)**	–
Addition		**–**	8,926,056
Pre-termination		**–**	(1,473,490)
Balance at end of year		**₱1,815,399**	₱6,581,490

The movements in the lease liabilities are presented below:

	2022	2021
Balance at beginning of year	**₱6,771,817**	₱8,925,367
Payments	**(4,888,232)**	(9,899,953)
Interest expense	**220,000**	450,714
Modification	**(212,143)**	–
Addition	**–**	8,926,056
Termination	**–**	(1,630,367)
	1,891,442	6,771,817
Current portion	**1,891,442**	4,785,803
Noncurrent portion	**₱–**	₱1,986,014

The future minimum lease payments under noncancellable leases are as follows:

	2022	2021
Within one year	**₱1,916,339**	₱5,022,375
After one year but not more than five years	**–**	2,012,156
	₱1,916,339	₱7,034,531

19. Retirement Benefits

The Company has funded, noncontributory defined benefit pension plan covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. Costs are determined in accordance with the actuarial study, the latest of which is for the year ended December 31, 2022.

Changes in the retirement benefits of the Company are as follows:

		2022		
	Note	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Liability (Asset)
Balance at beginning of year		₱59,433,561	₱39,322,097	₱20,111,464
Net retirement benefits cost recognized in profit or loss:				
Current service cost		5,718,843	–	5,718,843
Interest expense		3,078,834	–	3,078,834
Interest income		–	1,896,278	(1,896,278)
		8,797,677	1,896,278	6,901,399
Benefits paid		(6,966,988)	(6,966,988)	–
Contributions		–	10,000,000	(10,000,000)
Net remeasurements recognized in other comprehensive income:				
Actuarial changes arising from changes in financial assumptions		(14,900,199)	–	(14,900,199)
Actuarial changes due to experience adjustment		999,057	–	999,057
Actual return excluding amount included in net interest cost		–	(3,023,606)	3,023,606
		(13,901,142)	(3,023,606)	(10,877,536)
Transfer of retirement benefits	16	3,690,705	9,383,879	(5,693,174)
Balance at end of year		₱51,053,813	₱50,611,660	₱442,153

	2021		
	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Liability (Asset)
Balance at beginning of year	₱88,255,331	₱40,942,721	₱47,312,610
Net retirement benefits cost recognized in profit or loss:			
Current service cost	8,831,861	–	8,831,861
Interest expense	3,285,412	–	3,285,412
Past service credit	(2,229,193)	–	(2,229,193)
Interest income	–	1,515,314	(1,515,314)
	9,888,080	1,515,314	8,372,766
Benefits paid	(10,160,667)	(10,160,667)	–
Contributions	–	5,000,000	(5,000,000)
Net remeasurements recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	(14,486,101)	–	(14,486,101)
Actuarial changes arising from changes in financial assumptions	(9,893,159)	–	(9,893,159)
Actuarial changes due to changes in demographic assumptions	(4,169,923)	–	(4,169,923)
Actual return excluding amount included in net interest cost	–	2,024,729	(2,024,729)
	(28,549,183)	2,024,729	(30,573,912)
Balance at end of year	₱59,433,561	₱39,322,097	₱20,111,464

Movements in cumulative remeasurement gains (losses) on net retirement liability consist of the following:

	2022		
	Cumulative Remeasurement Gains on Net Retirement Liability	**Deferred Tax (see Note 17)**	**Total**
Balance at beginning of year	**₱11,494,918**	**(₱2,873,729)**	**₱8,621,189**
Net remeasurement gains	**10,877,536**	**(2,719,384)**	**8,158,152**
Balance at end of year	**₱22,372,454**	**(₱5,593,113)**	**₱16,779,341**

	2021		
	Cumulative Remeasurement Gains on (Losses) Net Retirement Liability	Deferred Tax (see Note 17)	Total
Balance at beginning of year	(₱19,078,994)	₱5,723,698	(₱13,355,296)
Net remeasurement gains	30,573,912	(7,643,478)	22,930,434
Effect of change in tax rate	–	(953,949)	(953,949)
	30,573,912	(8,597,427)	21,976,485
Balance at end of year	₱11,494,918	(₱2,873,729)	₱8,621,189

The following table presents the fair values of the plan assets of the Company as at December 31:

	2022	2021
Cash	₱46,707	₱7,864
Unit investment trust funds	24,793,212	16,456,298
Debt instruments - government bonds	21,902,515	24,198,818
Debt instruments - other bonds	3,695,652	2,662,106
Others	173,574	(4,002,989)
	₱50,611,660	₱39,322,097

The Company's plan assets are administered by a Trustee. The Company and the retirement plan have no specific matching strategies between the retirement plan assets and define benefit asset or obligation under the retirement plan. The Group expects to contribute ₱10.0 million to the fund in 2023.

The principal assumptions used to determine retirement plan assets as at December 31 are as follows:

	2022	2021
Discount rates	7.32%	5.16%
Future salary increases	8.00%	8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2022 and 2021 assuming if all other assumptions were held constant:

	2022		2021	
	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	-100	₱57,254,690	-100	(₱67,471,769)
	+100	45,585,797	+100	52,743,236
Salary increase rate	+100	57,410,691	+100	67,439,878
	-100	45,813,638	-100	(52,625,976)

The average duration of the Company's defined benefit obligation is 15.4 years as at December 31, 2022.

The maturity analysis of the undiscounted benefit payments follows:

	2022	2021
Less than one year	**₱4,503,945**	₱4,955,658
More than one to five years	**8,631,666**	8,049,613
More than five to ten years	**384,459,915**	365,525,768

20. Significant Contracts and Commitments

Agreements with PCSO

The Company has an ELA with the PCSO for the lease of lotto terminals, which includes central computer, communications equipment, and the right to use the application software and manuals for the central computer system and draw equipment of PCSO. This also includes the supply of betting slips and ticket paper rolls.

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

Pursuant to the amended ELA, the Company was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2022 and 2021, the total cash bond, included under "Other current assets", in the separate statements of financial position, amounted to ₱12.0 million (see Note 8).

Since July 31, 2019, the ELA has been extended for PCSO to complete the bidding process for the Philippine Lottery System (PLS Project) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO. In 2022, the ELA was extended until December 31, 2022.

In 2023, the ELA was extended for a month-to-month basis up to May 31, 2023.

The rental fee, presented as "Equipment rental" in the separate statement of comprehensive income, is based on a percentage of gross sales of lotto tickets from PCSO's Luzon and VISMIN operations.

The number of installed lotto terminals totaled 3,605 and 3,129 as at December 31, 2022 and 2021, respectively. Rental income amounted to ₱512.7 million and ₱390.8 million in 2022 and 2021, respectively (see Note 18).

Brand and Trademark Agreement with PMLC

In January 2018, POSC entered into a Brand and Trademark License Agreement (BTLA) with PMLC granting the latter a non-assignable, non-transferable and exclusive right to use POSC's instant scratch tickets' brand and trademarks. The agreement has an initial term of five years effective on January 1, 2018, subject to adjustment to conform to and coincide with term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. In consideration of the BTLA, PMLC agreed to pay POSC a guaranteed fixed monthly fee of ₱4.0 million starting January 2018. The agreement with PMLC was accounted for as sale of right to use the brand and trademark. POSC already transferred the control over the brand and trademark to PMLC on January 1, 2018 and there are no other performance obligation to be provided to PMLC.

Due to the suspension of PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, the PMLC was not able to supply and distribute the instant scratch tickets to its customers because the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable. Impairment losses amounting to ₱26.0 million were recognized in 2020. However, this was reversed in 2021 and the amount was collected in 2022 (see Note 7).

Accreted interest income amounted to ₱3.6 million and ₱6.1 million in 2022 and 2021, respectively (see Note 15). Accrued license fee income amounted to ₱4.0 million and ₱70.3 million as at December 31, 2022 and 2021, respectively (see Note 7).

Contracts with Scientific Games and Intralot

Scientific Games. As at December 31, 2021 and 2020, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC 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 POSC's ELA with PCSO is in effect.

Intralot. As at December 31, 2022 and 2021, POSC has contract with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The contract shall continue as long as POSC's ELA with PCSO are in effect.

In 2021, the contracts with Scientific Games and Intralot were extended until July 31, 2022. In 2022, the contracts were extended until December 31, 2022.

Software and license fee recognized arising from the foregoing contracts amounted to ₱60.1 million and ₱45.3 million in 2022 and 2021, respectively (see Note 14). Software and license fees payable amounted to ₱13.7 million and ₱8.9 million as at December 31 2022 and 2021, respectively (see Note 12).

21. Basic/Diluted Earnings (Loss) Per Share

As at December 31, 2022 and 2021, basic and diluted earnings (loss) per share was computed as follows:

	2022	2021
Net income (loss) (a)	₱205,052,083	(₱129,425,365)
Weighted average outstanding common shares at beginning and end of year (b)	895,330,946	895,330,946
Earnings (loss) per common share (a/b)	₱0.2290	(₱0.1446)

22. Financial Instruments

Financial Risk Management Objectives and Policies

The financial instruments mainly comprise cash and cash equivalents, trade and other receivables (excluding advances to suppliers, officers and employees), advances to subsidiaries, guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets" account), investments held for trading, financial assets at FVOCI, accounts payable and other current liabilities (excluding statutory payables), loan payable and lease liabilities. The main purpose of these financial instruments is to finance the Company's projects and operations.

The main risks arising from the financial instruments are credit risk, equity price risk, liquidity risk and foreign currency risk. The BOD reviews and approves policies for managing these risks.

Credit Risk. Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company does not offer credit terms without the specific approval of the management. There is no significant concentration of credit risk.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

The table below shows the aging analysis of the Company's financial assets.

	2022						
	Neither Past Due nor Impaired	Past Due but not Impaired					
		Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash and cash equivalents*	₱277,334,237	₱–	₱–	₱–	₱–	₱–	₱277,334,237
Trade and other receivables**	120,132,781	–	–	–	–	113,677,614	233,810,395
Advances to subsidiaries***	32,005,087	–	–	–	–	22,282,287	54,287,374
Guarantee deposits****	12,000,000	–	–	–	–	–	12,000,000
Refundable deposits****	2,568,343	–	–	–	–	–	2,568,343
	₱444,040,448	₱–	₱–	₱–	₱–	₱135,959,901	₱580,000,349

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Investments in and advances to subsidiaries" account.*
*****Presented under "Other current assets" and "Other noncurrent assets" account.*

	2021						
	Neither	Past Due but not Impaired					
	Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash and cash equivalents*	₱72,290,218	₱–	₱–	₱–	₱–	₱–	₱72,290,218
Trade and other receivables**	140,463,038	–	–	–	–	113,677,614	254,140,652
Advances to subsidiaries*	36,017,251	–	–	–	–	22,282,287	58,299,538
Guarantee deposits****	12,000,000	–	–	–	–	–	12,000,000
Refundable deposits***(	3,276,513	–	–	–	–	–	3,276,513
	₱264,047,020	₱–	₱–	₱–	₱–	₱135,959,901	₱400,006,921

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Investments in and advances to subsidiaries" account.*
*****Presented under "Other current assets" and "Other noncurrent assets" account.*

<u>Credit Quality of Financial Assets</u>

The financial assets are grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The credit quality of the Company's financial assets are as follows:

	2022			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents*	₱277,334,237	₱–	₱–	₱277,334,237
Trade and other receivables**	120,132,781	–	113,677,614	6,455,167
Advances to subsidiaries***	32,005,087	–	22,282,287	54,287,374
Guarantee deposits****	12,000,000	–	–	12,000,000
Refundable deposits****	2,568,343	–	–	2,568,343
Gross Carrying Amount	₱444,040,448	₱–	₱135,959,901	₱352,645,121

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Investments in and advances to subsidiaries" account.*
*****Presented under "Other current assets" and "Other noncurrent assets" account.*

	2021			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash*	₱72,290,218	₱–	₱–	₱72,290,218
Trade and other receivables**	140,463,038	–	113,677,614	254,140,652
Advances to subsidiaries***	36,017,251	–	22,282,287	58,299,538
Guarantee deposits****	12,000,000	–	–	12,000,000
Refundable deposits****	3,276,513	–	–	3,276,513
Gross Carrying Amount	₱264,047,020	₱–	₱135,959,901	₱400,006,921

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Investments in and advances to subsidiaries" account.*
*****Presented under "Other current assets" and "Other noncurrent assets" account.*

Cash and cash equivalents are deposited and invested with the top ten banks in the Philippines and are considered to have low risk credit.

Trade receivables, nontrade receivable from a third party, guarantee and refundable deposits have low credit risk since the counterparties with whom the Company has transacted with is not expected to default in settling its obligation.

Receivables and advances to subsidiaries with high probability of delinquency and default were provided with allowance for impairment losses.

Equity Price Risk. Equity price risk is the risk that the fair value of quoted investments held for trading and financial assets at FVOCI decreases as a result of changes in the value of individual stock. he Company monitors the equity investments based on market expectations. Significant movements 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 Company's 2022 and 2021 total comprehensive income before income tax:

Increase (Decrease) in Equity Price	2022	2021
Impact in profit or loss:		
5%	₱3,564,429	₱3,081,475
(5%)	(3,564,429)	(3,081,475)
Impact in comprehensive income:		
8%	₱14,331,434	₱22,545,789
(8%)	(14,331,434)	(22,545,789)

Liquidity Risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Company considers obtaining borrowings as the need arises.

The following table summarizes the maturity profile of the Company's financial liabilities as at December 31, 2022 and 2021 based on contractual undiscounted cash flows.

	2022				
	Less than 3 months	3-6 months	>6-12 months	More than 12 months	Total
Accounts payable and other current liabilities*	₱50,679,015	₱–	₱–	₱–	₱50,679,015
Loan payable	–	–	–	67,500,000	67,500,000
Lease liabilities	1,916,339	–	–	–	1,916,339
	₱52,595,354	₱–	₱–	₱67,500,000	₱120,095,354

**Excluding statutory payables.*

	2021				
	Less than 3 months	3-6 months	>6-12 months	More than 12 months	Total
Accounts payable and other current liabilities*	₱18,221,041	₱12,580,544	₱–	₱22,682,274	₱53,483,859
Lease liabilities	1,356,489	1,102,617	2,326,697	1,986,014	6,771,817
	₱19,577,530	₱13,683,161	₱2,326,697	₱24,668,288	₱60,255,676

**Excluding statutory payables.*

Foreign Currency Risk. Foreign currency risk is the risk that the fair value or future cash flows of financial asset or financial liability will fluctuate due to changes in foreign exchange rates.

As at December 31, 2022 and 2021, foreign currency-denominated financial asset and financial liability in United States Dollars (USD), translated into Peso at the closing rate are as follows:

	2022		2021	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Cash	**$117,336**	**₱6,523,516**	$106,248	₱5,537,368
Software license fee payable*	**(246,149)**	**(13,685,157)**	(724,249)	(20,633,294)
Net foreign currency-denominated liabilities	**($128,813)**	**(₱7,161,641)**	($618,001)	(₱15,095,926)

**Presented under "Accounts payable and other current liabilities" account.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱55.60 to US$1.0 and ₱51.09 to US$1.0, as at December 31, 2022 and 2021, respectively.

It is the Company's policy to ensure that capabilities exist for active but conservative management of its foreign currency risk. The Company seeks to mitigate its transactional currency exposure by maintaining its costs at consistently low levels, regardless of any upward or downward movement in the foreign currency exchange rate.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rates, with all other variables held constant, of the Company's income before tax as at December 31, 2022 and 2021. There is no other impact on the Company's equity other than those already affecting the profit or loss in the statement of comprehensive income.

	2022		2021	
	Increase in US$ Rate	**Decrease in US$ Rate**	Increase in US$ Rate	Decrease in US$ Rate
Change in US$ rate	**5%**	**(5%)**	5%	(5%)
Effect on income before income tax	**(₱4,641,918)**	**₱4,641,918**	(₱754,796)	(₱754,796)

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

Capital Management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes made in the objectives, policies or processes in 2022 and 2021.

The Company considers the following as its capital:

	2022	2021
Common stock	₱895,330,946	₱895,330,946
Additional paid-in capital	254,640,323	254,640,323
Retained earnings	69,379,218	48,106,436
	₱1,219,350,487	₱1,198,077,705

Fair Value of Assets and Financial Liabilities

Set out below is a comparison by category and by class of carrying values and fair values of the Company's assets and financial liabilities:

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	₱277,825,737	277,825,737	₱72,635,218	₱72,635,218
Trade and other receivable*	120,132,781	120,132,781	140,463,038	140,463,038
Advances to subsidiaries	32,005,087	32,005,087	36,017,251	36,017,251
Refundable security deposits	2,568,344	2,568,344	3,276,513	3,276,513
Guarantee bonds	12,000,000	12,000,000	12,000,000	12,000,000
At FVPL				
Investments held for trading	71,288,577	71,288,577	61,629,495	61,629,495
At FVOCI				
Financial assets at FVOCI	179,142,925	179,142,925	252,166,540	252,166,540
	₱694,963,451	₱694,963,451	₱578,188,055	₱578,188,055
Financial Liabilities				
At amortized cost:				
Accounts payable and other current liabilities**	₱50,679,015	₱50,679,015	₱53,483,859	₱53,483,859
Loan payable	67,500,000	66,538,186	–	–
Lease liabilities	1,815,398	1,899,514	6,771,817	6,935,633
	₱119,994,413	₱119,116,715	₱60,255,676	₱60,419,492

**Excluding advances to suppliers and to officers and employees amounting to ₱1.2 million and ₱3.0 million as at December 31, 2022 and 2021, respectively and including noncurrent portion of accrued license fee income amounting to ₱4.0 million and ₱70.3 million as at December 31, 2021, respectively.*

***Excluding statutory payables amounting to ₱11.3 million and ₱8.9 million as at December 31, 2022 and 2021, respectively.*

There were no transfers between fair value measurements in 2022 and 2021.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and financial liabilities:

Cash, Trade and Other Receivables, Accounts Payable and Other Current Liabilities (excluding Statutory Payables). The carrying values of these financial instruments approximate their fair values due to the relatively short-term maturities of these financial assets and financial liabilities.

Advances to Subsidiaries. The carrying value of advances to subsidiaries approximates fair value as at December 31, 2022 and 2021 due to unavailability of information as to the repayment date.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of Financial Assets at FVPL and financial assets at FVOCI in quoted equity shares are based on quoted prices in the PSE (Level 1 of fair value hierarchy).

Loan Payable and Lease Liabilities. The fair values are based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rate used for loan payable is 5.78% in 2022 and 5.25% to 6.50% for lease liabilities in 2022 and 2021.

23. Supplementary Information Required by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010

Output VAT

Output VAT declared by the Company for the year ended December 31, 2022 and the revenues upon which the same was based consist of:

	Gross Amount of Revenue	Output VAT
Sales to government	₱494,526,927	₱59,343,231
Revenue subject to 12% VAT	73,907,277	8,868,873
	₱568,434,204	68,212,104
Payments made during the year		(48,672,923)
Applied against input VAT		(17,508,675)
Balance at end of year		₱2,030,506

The gross revenue shown above are based on gross receipts of the Company for VAT purposes while gross revenue presented in the separate statement of comprehensive income are measured in accordance with PFRS.

Input VAT

The movements in input VAT claimed by the Company for the year ended December 31, 2022 are shown below:

Current year's domestic purchases/payments for:	
Services	₱16,344,853
Domestic purchases of goods	361,363
Importation of goods	802,459
	17,508,675
Applied against output VAT	(17,508,675)
Balance at end of year	₱–

Taxes and Licenses

License and permit fees	₱3,291,949
Registration fees	90,207
Others	608,151
	₱3,990,307

The foregoing were included as part of "Taxes and licenses" account under "Cost of services" and "General and administrative expenses" accounts in the separate statement of comprehensive income.

Withholding Taxes

Details of withholding taxes for the year ended December 31, 2022 are as follows:

	Paid	Accrued
Withholding taxes on compensation	₱2,974,089	₱834,736
Expanded withholding taxes	2,351,418	452,539
Final withholding taxes	11,604,130	1,763,413
	₱16,929,637	₱3,050,688

Accrued withholding taxes are included under the account "Statutory payables" as part of the trade and other payables account in the separate statement of financial position.

Tax Assessments and Tax Cases

The Company has no outstanding tax assessments and tax cases as at December 31, 2022. In 2022, the Company settled and paid tax assessment amounting to ₱ 5.5 million covering taxable years 2020 and 2019.

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BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 4782 SEC Group A
Issued August 11, 2022
Valid for Financial Periods 2021 to 2025

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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SEPARATE FINANCIAL STATEMENTS FOR FILING WITH THE
BUREAU OF INTERNAL REVENUE

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

We have audited the accompanying separate financial statements of Pacific Online Systems Corporation (the Company), as at and for the years ended December 31, 2022 and 2021, on which we have rendered our report dated February 28, 2023.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

REYES TACANDONG & CO.

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 3, 2023, Makati City

February 28, 2023
Makati City, Metro Manila