SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

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

1. For the fiscal year ended
   Dec 31, 2020
2. SEC Identification Number
   AS093-008809
3. BIR Tax Identification No.
   003-865-392-000
4. Exact name of issuer as specified in its charter
   PACIFIC ONLINE SYSTEMS CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
   Metro Manila, Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   28/F East Tower, Philippine Stock Exchange, Exchange Road, Ortigas Center, Pasig City, Metro Manila
   Postal Code
   1605
8. Issuer's telephone number, including area code
   632/8584-1700
9. Former name or former address, and former fiscal year, if changed since last report
   Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC or 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, P1.00 par value	895,330,946

11. Are any or all of registrant's securities listed on a Stock Exchange?
    (●) Yes ( ) No
    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippine Stock Exchange; Common Shares
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (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 ninety (90) days

- (●) Yes
- ( ) No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

P650.7 Million as of February 24, 2021

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

- (●) Yes
- ( ) No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

Not Applicable

(b) Any information statement filed pursuant to SRC Rule 20

Not Applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1

Not Applicable

LOTO

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

For the fiscal year ended	Dec 31, 2020
Currency	Philippine Peso

Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2020	Dec 31, 2019
Current Assets	543,642,893	864,695,033
Total Assets	1,103,404,041	1,712,829,429
Current Liabilities	187,891,135	360,318,424
Total Liabilities	240,263,489	399,410,076
Retained Earnings/(Deficit)	469,987,087	855,178,425
Stockholders' Equity	863,140,552	1,313,419,353
Stockholders' Equity - Parent	860,675,861	1,308,075,910
Book Value Per Share	1.02	1.55

Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2020	Dec 31, 2019
Gross Revenue	298,530,403	706,949,508
Gross Expense	793,626,708	954,685,503
Non-Operating Income	79,064,071	50,128,884
Non-Operating Expense	18,309,059	187,536,709
Income/(Loss) Before Tax	-474,175,026	-264,405,249
Income Tax Expense	-52,953,779	-64,171,447
Net Income/(Loss) After Tax	-381,387,514	-320,972,374
Net Income/(Loss) Attributable to Parent Equity Holder	-378,508,762	-319,411,018
Earnings/(Loss) Per Share (Basic)	-0.45	-0.38
Earnings/(Loss) Per Share (Diluted)	-0.45	-0.38

Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2020	Dec 31, 2019
Liquidity Analysis Ratios:			
Current Ratio or Working Capital Ratio	**Current Assets / Current Liabilities**	2.89	2.4
Quick Ratio	**(Current Assets - Inventory - Prepayments) / Current Liabilities**	2.02	1.81
Solvency Ratio	**Total Assets / Total Liabilities**	4.59	4.29
Financial Leverage Ratios			
Debt Ratio	**Total Debt/Total Assets**	0.22	0.23

Debt-to-Equity Ratio	Total Debt/Total Stockholders' Equity	0.28	0.31
Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	-67.56	-58.97
Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	1.28	1.31
Profitability Ratios			
Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	-0.38	0.17
Net Profit Margin	Net Profit / Sales	-1.28	-0.45
Return on Assets	Net Income / Total Assets	-0.35	-0.19
Return on Equity	Net Income / Total Stockholders' Equity	-0.44	-0.24
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	-4.71	-6.61

Other Relevant Information
None

Filed on behalf by:

Name	Mischel Gabrielle Mendoza
Designation	Corpoorate Planning Department Head & Risk Officer

COVER SHEET

AS093-008809

SEC Registration Number

PACIFIC ONLINE SYSTEMS CORPORATION

(Company's Full Name)

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

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

Ma. Virginia V. Abo-Hamda	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

56		
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 COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2020**

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**
Province, Country or other jurisdiction of Incorporation or organization

6. ________________ (SEC Use Only)
Industry Classification Code

7. **28/F, East Tower, Philippine Stock Exchange, Exchange Road, Ortigas Center, Pasig City, Metro Manila**
Address of principal office
1605
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 and 141 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 : ₱ 650.7 million
This was computed by multiplying the number of voting stocks held by non-affiliates by the stock's closing price on February 24, 2021.

TABLE OF CONTENTS

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Pacific Online Systems Corporation ("Company") was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission ("SEC") on November 11, 1993. The Company is primarily engaged in the development, design and management of online computer systems, terminals and software for the Philippine gaming industry. It sources technology from leading global suppliers of integrated gaming systems and leases equipment to the Philippine Charity Sweepstakes Office (PCSO) for its online lotto operations in the Visayas and Mindanao (VISMIN) regions under the terms of an Equipment Lease Agreement (ELA), which was initially entered into on November 25, 1995. It also provides the necessary technical support through a Maintenance Repair Agreement (MRA) that is co-terminus with the ELA. The Company's ELA with the PCSO was amended in 2004, 2012, 2013, 2015, 2018, and 2019, principally to extend the term thereof, in response to PCSO's requirements to ensure integrity, sustainability and efficiency in its online lotto operations. In 2019, the ELA was extended for another year and allowed the use of the Company's terminals for PCSO's lotto operations in Luzon. The latest amendment to the ELA was made wherein the ELA's term was extended up to July 31, 2021. The equipment rental revenue earned by the Company with this ELA is based on a percentage of lotto sales generated by the Company's terminals.

In 2004, the Company acquired 50% of Total Gaming Technologies Inc. (TGTI), which has its own ELA with the PCSO for the latter's online keno operations nationwide. TGTI's ELA with PCSO provides for a lease period of ten (10) years commencing on the date of actual commercial operations of at least 200 online keno agents. With October 2010 established as the start of commercial operations for online keno, TGTI's ELA will expire on September 30, 2020. On September 30, 2020, TGTI's ELA with PCSO was extended for 6 months until March 31, 2021 to recover losses during the suspension of sales due to the pandemic and the 2019 two-month suspension. TGTI's equipment rental revenue is based on a percentage of keno ticket sales or a fixed annual rental of P40,000 per terminal, whichever is higher. By 2013, the Company already owns 98.92% of TGTI.

In 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO, for a period of seven years to undertake the printing, distribution and sale of instant scratch tickets nationwide. The instant scratch ticket, branded as Scratchit™, provided a steady stream of revenues for PCSO and its agents. It also expanded the Company's experience in the lottery business. On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) to be the exclusive marketing, distribution, selling and collecting agent of the Company for Scratchit™ tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

On June 16, 2014, TGTI and the shareholders of Falcon Resources, Inc. (FRI) entered into a Memorandum of Understanding (MOU) for the former's intention to acquire the latter's interest in FRI representing 100% ownership. On December 11, 2014, the deed of sale for the transfer of shares of stocks was executed. FRI is a company engaged in consultancy services for TGTI and a sub-distributor of instant scratch tickets. FRI is a company incorporated in the Philippines.

In 2007, the Company set up Loto Pacific Leisure Corporation (LotoPac) primarily to acquire, establish, own, hold, lease, sell, conduct, operate, and manage amusement, recreational and gaming equipment facilities, and enterprise of every kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business. LotoPac subsequently acquired Lucky Circle Corporation (LCC) in August 2007. LCC is an authorized PCSO agent operating online betting stations that sell sweepstakes, lotto, keno and instant tickets in outlets located in major shopping malls like SM Supermall, Robinsons, and Gaisano nationwide. LCC earns a certain percentage of the sales of lotto, keno, sweepstakes and instant scratch as tickets as commission income. In 2010, the Company subscribed to additional 124 million shares of LCC, after the SEC's approval of the increase in the latter's authorized capital stock, which increased the Company's interest in LCC to 97.64%.

On July 1, 2017, LCC and the stockholders of the following entities entered into a Deed of Sale Agreement for the transfer of shares of stock representing 100% ownership.

a) Athena Ventures, Inc.
b) Avery Integrated Hub Inc.
c) Circle 8 Gaming Ventures Inc.
d) Lucky Deal Leisure Inc.
e) Lucky Fortune Business Ventures Inc.
f) Lucky Pick Leisure Club Corp.
g) Lucky Ventures Leisure Corp.
h) Lucky Games Entertainment Ventures Inc.
i) Orbis Valley Corporation

These entities are engaged in the trading and selling of goods such as lotto, keno, sweepstakes and scratch tickets, on retail basis. The acquisition is in line with the Company's business strategy of expanding its market reach nationwide. On February 13, 2020, the Company and LotoPac sold 100% of LCC in light of the need for the Company to focus on its core business.

As of December 31, 2020, the Company's subsidiaries with its corresponding percentage of its ownership are summarized below:

	Percentage of Ownership	
	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	100.00	-
Total Gaming Technologies, Inc. ("TGTI")	98.92	-
Falcon Resources, Inc. ("FRI")**		100.00
TGTI Services, Inc. (TGTISI)**		100.00

*** Indirectly owned through TGTI*

For the year ended December 31, 2020, the Company together with its subsidiaries ("Group") generated P298.53 million gross revenues, primarily through lottery equipment rentals billed to PCSO, and posted a P381.39 million net loss. As of December 31, 2020, the Group had total assets of P1.1 billion and shareholders' equity of P863.14 million.

Background on the TGTI Investment

On April 13, 2004, the Company purchased 50% of the outstanding capital stock of Innovative Solutions Consultancy Group, Corp. (Innovative), which is a joint stock company incorporated to manage enterprises engaged in the gaming business. On May 31, 2004, Innovative, in turn, acquired 80% of the outstanding capital stock of Total Gaming Technologies, Inc. (TGTI), a domestic corporation founded in October 2002 to develop new games for the Philippine gaming industry and to provide consultancy service and state-of-the-art equipment to the local gaming operators through its strategic partnership with Intralot. TGTI has entered into an Equipment Lease Agreement (ELA) with the PCSO for the nationwide operation of the Online Keno (initially referred to as Fast Keno) game. A Shareholders' Agreement was executed whereby Innovative shall provide management counsel and expertise to TGTI to ensure proper execution of the Online Keno game, among others. In April 2008, the Company acquired from Intralot additional 574,885 shares of Innovative for a contract price of P4.3 million. This increased the Company's interest in Innovative from 50% in 2007 to 87.38% in 2008. In August 2010, the minority shareholders of TGTI and Innovative entered into a contract wherein the minority shareholders sold all of their 2,650,000 common stock to the

Company, part of the consideration of which is that the Company, as controlling shareholder of TGTI, will cause the creation of preferred stock, of which 3,312,500 preferred shares will be issued to the minority shareholders of TGTI. The total preferred stock of 3,312,500 has been fully subscribed, and of the said subscription, the amount of P331,250 has been paid. Preferred stock will have a par value of P1.00 per share, non-voting and will have preference in the distribution of assets in the event of dissolution. On December 20, 2012, the majority of TGTI's stockholders and its Board of Directors (BOD) approved the Company's application for increase in its authorized capital stock with the SEC from Fifty Million Pesos (P50,000,000.00) divided into Forty Million (40,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P1.00) per share, to Seven Hundred Million Pesos (P700,000,000.00), divided into Six Hundred Ninety Million (690,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

Recent Developments

On February 5, 2021, PCSO published its bid documents for the Five-Year Lease of the PCSO National Lottery System (PLS). PCSO indicated March 29, 2021 as the bid submission and opening date for the PLS. The Company is participating in the bidding.

In December 2020, the Company passed its yearly surveillance audit for ISO 2700:2013 and ISO 9001:2015 conducted by Societe Generale de Surveillance (SGS), the world's leading inspection, verification, testing and certification company. On November 16, 2015, the Company obtained an ISO accreditation through SGS for ISO 9001:2008 Quality Management Systems and ISO/IEC 27001:2013 Information Security Management. In 2018, the certification for ISO 9001:2008 was updated to the 2015 version.

On September 30, 2020, TGTI's ELA with PCSO was extended for 6 months until March 31, 2021 to recover losses during the suspension of sales due to the pandemic and the 2019 two-month suspension. PCSO also approved the change of draw frequency from every 10 minutes to every 5 minutes and implemented it on November 6, 2020. The official document extending the current ELA for another year is expected to be issued by PCSO on March 31, 2021, at the earliest.

On March 17, 2020, selling of PCSO games; i.e. lotto, keno, instant scratch tickets and Small-Town Lottery (STL), was suspended due to the COVID-19 pandemic. Keno sales resumed on July 28, 2020. Sales of lotto jackpot games resumed on August 7, 2020, while 2D and 3D lotto games followed on August 24. 4D and 6D digit sales resumed on January 7 and 8, 2021, respectively.

Agreements with the Philippine Charity Sweepstakes Office (PCSO)

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.

Pacific Online's Agreements

The Equipment Lease Agreement (ELA) was awarded to Pacific Online on November 25, 1995 whereby the PCSO leases online lottery equipment from the Company for its VISMIN lotto operations.

2004 ELA. The initial ELA as amended on February 13, 2004, allows the Company to continue to deploy online lotto terminals in its covered regions. General terms of the amended ELA and MRA stipulate a certain percent share by the Company of all PCSO sales from the conduct of online lotto games in the VISMIN area and a term of eight (8) years commencing from the date of commercial operations of the Company. Commercial operation, as amended, was defined to be the operation of not less than 800 lotto terminals. However, commercial operation was formally effected on April 1, 2005, setting the term of the Company's ELA up to 2013, even if the PCSO had actually begun operations of the Company's online lotto terminals since 1996. The delay in the deployment of the required number of terminals to constitute commercial operation was mainly due to strong opposition from religious sector leaders and certain Local Government Unit (LGU) officials during the introductory phase and due to the absence of telecommunications service in many areas in VISMIN. Thus, this ELA covers the lease of not less than 800 lotto terminals, central computer system, communications and draw equipment, and the right to use the application software and manuals for the central computer system of PCSO for its VISMIN operations for a period of eight years from April 1, 2005 to March 31, 2013.

2012 Amended ELA. On May 22, 2012, the Company and PCSO amended certain provisions of the ELA to lower rental fee on the lotto terminals for VISMIN operations and for the lease of lotto terminals for Luzon operations effective June 1, 2012. The ELA provides PCSO an option to purchase the equipment related to its VISMIN operations at the end of the lease period for a sum of P15.0 million. Lotto terminals for PCSO's Luzon operations are not included in the "Option to Purchase" provision of the amended ELA. In accordance with the terms of the ELA, the Company also provides maintenance and repair services fee which were incorporated in the rental fee as part of the lowered rental rate provision of the amended ELA.

2013 Supplemental ELA. On March 26, 2013, the Company and PCSO further amended some provisions of the ELA, which extended it from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Company agreed to reduce the rental fees for VISMIN and with the approval to service PCSO's Luzon lotto operations. The amendment also incorporated the fee for the supply of bet slips and ticket paper rolls for the PCSO's VISMIN and Luzon operations as part of the rental fee.

2015 Supplemental ELA. On July 15, 2015, the Company and PCSO further amended some provisions of the ELA, which extended it from August 1, 2015 to July 31, 2018. The amendment also required the Company to deposit an additional P5 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

2018 Supplemental ELA. On September 12, 2018, the ELA was further amended to extend the term from July 31, 2018 to August 1, 2019 at a reduced rate. The amendment also required the Company to increase its initial cash bond from P5 million to P12 million, to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

2019 Supplemental ELA. On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020.

2020 Supplemental ELA. On July 30, 2020, the ELA was amended to extend the term on a month-to-month basis from August 1, 2020 to July 31, 2021.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

Instant Scratch Tickets. On March 25, 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of instant scratch tickets effective December 1, 2009. The share of PCSO is guaranteed for every 500 million tickets sold for a period of seven years from the date of the MOA's effectivity. The MOA required a P10 million cash bond to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. Said cash bond is in an escrow account with BDO since January 2010 and was authorized by PCSO for release in November 2018.

On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) to be the exclusive marketing, distribution, selling and collecting agent of the Company for its instant scratch tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

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

TGTI's Equipment Lease Agreement

2004 ELA. TGTI entered into an ELA with PCSO on April 6, 2004, which provides for the lease of the equipment for PCSO's online keno games. The lease is for a period of ten (10) years commencing on the date of actual commercial operation of at least 200 online keno outlets. The rental fee is based on a percentage of the gross sales of the online keno terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher.

2008 Amended ELA. On July 15, 2008, TGTI and PCSO agreed on some amendments to the ELA. Under the terms of the Amended ELA, TGTI shall provide the services of telecommunications integrator and procure supplies for the online keno operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all online keno terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly. Commercial operations for online keno commenced on October 1, 2010 and ELA term ends on September 30, 2020.

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

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

2020 Supplemental ELA. On December 11, 2020, the ELA was again amended to extend the term for six (6) months, effective October 1, 2020 to March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with the aggregate amount of P2.5 million.

LCC Agency Agreement

LCC enters into a two-year agency agreement with PCSO for every retail outlet it opens to operate. Agency agreements for lotto and keno terminals are executed separately at different times. These agreements are renewed by PCSO pending payment of the required surety bond and compliance with the terms and conditions of the Agency Agreement. The same type of agency agreement with PCSO is entered into by the 9 companies that LCC acquired in 2017.

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

From 1996 to 2005, the Company had provided the PCSO a single integrated system for its online lottery operations using the GTECH Legacy system. In 2005, the Company decided to contract Scientific Games to provide its new AEGIS™ system, after having assessed the obsolescence of GTECH's lottery system infrastructure. On November 21, 2005, the Company implemented the migration from the Legacy lottery system into the new AEGIS™ System. In 2006, the Company entered into another contract with Intralot, for the provision of another new system using the LOTOS® application software. Since December 2006, therefore, the Company has been providing the PCSO a two-network system for its VISMIN online lotto operations.

Having two (2) online lottery systems running in parallel has expanded the availability of lottery terminals nationwide and provides a safety net for PCSO's operations. The new technology also helps provide versatility in connectivity given the country's hybrid telecommunications network. These systems are capable of operating nationwide through GPRS, LTE, VSAT and DSL technology which offer diversity in providing options to sites unserviceable by specific telecommunication providers. Terminal connectivity is now a lot easier due to compatibility of the lottery terminals with widespread mobile phone cell sites in VISMIN. Online connectivity in VISMIN is now available wherever there is a cell site of Globe and Smart Telecoms, as well as VSAT providers for sites unreachable by Globe and Smart.

<u>Scientific Games</u>
Scientific Games (SG) is a top provider in the global lottery and regulated gaming industries. It has over 40 years of gaming and lottery experience in over six continents. On February 15, 2005, the Company, entered into a Supply and Service Contract with SG for the provision of a new system, AEGIS™. On November 20, 2005, the Company migrated into the new AEGIS™ System. Under the terms of the Contract, Scientific Games will provide the Company with Extrema® terminals as well as the required training necessary for its operation. In consideration of the foregoing, The Company shall pay Scientific Games a pre-agreed rate of its revenue from the conduct of online lottery games running under the system provided by Scientific Games. This Contract was amended in 2012 to extend the period to August 31, 2015 and provide for its supply of additional lotto terminals. The Company's agreement with SGI is now co-terminus with the Company's ELA with PCSO.

SG was also contracted by the Company to print the instant scratch tickets under its MOA with PCSO for its nationwide instant ticket program from 2009 thru 2016.

<u>Intralot</u>
Intralot S.A. (Intralot) is a company incorporated under the laws of Greece and is one of the top gaming systems provider globally and operator in over 55 jurisdictions. On March 13, 2006, the Company entered

into a contract with Intralot for the supply of equipment necessary for the operation of a new online lotto system effective December 8, 2006. Under the terms of the contract, Intralot will provide the Company with the computer hardware, the license to use Intralot's Lottery Application Software consisting of the software platform, LOTOS® Application Software, and the Games Application Software, the terminals as well as the required training necessary to operate the system. Based on the amended contract signed on July 7, 2006, Intralot will provide the Company with Coronis HEE terminals. In consideration of the foregoing, the Company shall pay Intralot a pre-agreed rate of the revenue generated by the terminals from the conduct of online lotto and digit games running on its systemor a fixed fee per terminal per month, whichever is higher. In April 2016, the Company and Intralot agreed to amend the contract for the latter to supply additional lotto terminals to the former and extend the term of the contract until August 31, 2018. In September 2018, the contract with Intralot was again amended to extend the term until August 31, 2019. This contract is co-terminus with the Company's ELA with the PCSO

On July 10, 2006, Intralot entered into an agreement with its subsidiary, Intralot Inc., a company domiciled in Atlanta, Georgia, through which Intralot assigned whole of the contract, including all its rights and obligations arising from its said subsidiary.

Intralot is also the systems and equipment provider for TGTI, the Company's subsidiary that has the ELA with PCSO for its online keno operations. On April 1, 2004, TGTI entered into a contract with Intralot for the supply of the system and equipment for PCSO's online keno lottery operations. Intralot shall be paid based on a pre-agreed percentage of revenues generated by the keno terminals. In 2008, the contract was amended to change the calculation of amounts due Intralot to be based on a percentage of gross receipts of PCSO from its online keno games. On March 22, 2011, the contract was further amended for Intralot to supply additional keno terminals to TGTI through year 2020 and reduce the percentage charged to TGTI or a fixed fee per terminal per month, on an average basis, whichever is higher.

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/or the 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, 2020, the Company together with its subsidiary TGTI, had over 3,650 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 table below 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

Due to the suspension of lottery operations of over four (4) months owing to the COVID19 pandemic, the Company did not spend on development activities in 2020. Company resources were instead utilized to ensure the continuous operations of the lottery system hardware and compliance with health and safety protocols of PCSO and the concerned LGUs. However, investment in development activities was 20% and 2% in 2019 and 2018, respectively.

Market Profile

Approximately 76% of PCSO's lotto sales nationwide was generated by Luzon operations, and about 24% of sales is contributed by the VISMIN regions for the year ended 2020. This may be due to Luzon's higher population density, and higher average disposable income of residents. On the other hand, the VISMIN area faces some challenges due to its geography, more frequent power failures and intermittent telco connectivity.

It is noted that while in Luzon, the jackpot games account for 69% of total lottery sales, the VisMin area shows that it is digit games that dominates the sales of the region, accounting for 77% of total lottery sales.

As of the end of 2020, the Company's total terminal deployment in VISMIN territory covered 69 cities out of 72 total cities and 539 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment, covered 52 cities and 79 municipalities. The Company covers 100% of the VISMIN sales and only 7% in Luzon due to its restricted entry since 2012 up to 2019.

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 expects to expand its operations in Luzon, where the additional revenues can offset the lost sales in VisMin due to STL.

Organization and Manpower

As of December 31, 2020, the Group had a total of 244 employees, of which, 174 belong to Operations and 70 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

   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.

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

2. Risks Relating to the Equipment Lease Agreement (ELA) with PCSO

   The Company's ELA with PCSO is currently on a month-to-month basis since August 2020 following the failed bidding in 2019 of its national online lottery system (NOLS). With the PCSO bidding for its nationwide lottery system known as PCSO Lottery System (PLS) being held on March 29, 2021, the Company is well positioned to be a front runner in said bidding due to its credentials and track record. It is most likely that the Company's contract with PCSO will be extended for, at least, a year due to the transition period required for a new system to be implemented, if any.

3. 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 existing contracts, 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 negatively affect the Company's financial performance. However, this risk of business interruption is unlikely to happen due to the redundancy offered by the two suppliers. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe. The Company also contracted VSAT to provide connectivity to sites where Smart and Globe are not available.

Item 2. Properties

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 7 logistics hubs in 7 major VisMin 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, reached about 4,153 sqm by year end 2020. About 51% of these properties are located in Luzon, and 49% in VisMin. Majority of the properties in Luzon are found in Metro Manila while those in VisMin are in Cebu. The logistics centers' areas are about 2,857 sqm in total, with 1,479 sqm in Cebu and 1,378 sqm in Metro Manila. Lease terms for most office and warehouse spaces range from two (2) to three (3) years. 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 ranging from 3% to 10%. Three (3) office leases located in Metro Manila were terminated in 2020.

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 against PCSO 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

A special stockholders' meeting was convened last September 25, 2018, wherein the increase in capitalization to P2.288 billion and stock dividend of 422,431,981 shares to its shareholders were approved. Said special stockholders' meeting was approved by the BOD during its meeting on August 14, 2018. The increase in authorized capitalization was approved by the SEC on February 28, 2019. On March 15, 2019, the SEC approved the Record Date of March 29, 2019 and the Payment Date of on or before April 29, 2019 for LOTO's 100% stock dividends.

PART II - OPERATIONAL FINANCIAL INFORMATION

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

The Company became a listed company with the listing of its shares with the Philippine Stock Exchange on April 12, 2007.

As of December 31, 2006, the Company had an authorized capital stock of 500 million common shares (at P1.00 par value), of which 125.25 million shares have been issued and outstanding. On February 9, 2007, the Company issued an additional 54 million shares from its authorized capital stock, increasing the issued and outstanding shares to 179.25 million shares. On March 27, 2007, the Company offered its shares for sale to the public through an initial public offering (IPO) with a primary offer of 11.8 million common shares and a secondary offer of 28 million common shares. Prior to the Offer, there have been no public trading market for the Company's common shares. On November 19, 2007, the SEC approved the issuance of 8.048 million common shares from the Company's unissued authorized capital stock resulting from the valuation of the deposits for future subscription as consideration for the issuance of shares, at the total subscription price of P124.744 million. On May 6, 2008, the BOD approved the allocation of 2.174 million shares to its executives and employees and to the officers of Lucky Circle Corporation ("LCC"), which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The exercise price of the option was fixed at P8.88 per share. On May 19, 2008, grantees of the stock options exercised 617 thousand shares of the Company's stock at P8.88 per share. In 2011 and 2010, certain grantees of the stock options exercised 495 thousand shares and 455 thousand shares respectively, also at P8.88 per share.

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock. For the same reasons as above, the Company bought back 1,478,000 shares in 2018 and 18,771,546 shares in 2017. The Company did not buy back any treasury shares in 2019 but the number of treasury shares doubled as a result of the stock dividend.

The movements in treasury shares are as follows:

	December 31, 2020		December 31, 2019	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of the year	**50,466,984**	**P285,267,558**	25,233,492	P285,267,558
Effect of stock dividend	-	-	25,233,492	-
Acquisitions	-	-	-	-
Balance at end of the year	**50,466,984**	**P285,267,558**	50,466,984	P285,267,558

Dividends

No cash or stock dividends were declared in 2020.

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

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

On August 14, 2018, the BOD declared a 100% stock dividend to the Parent Company's stockholders, which the record and payment dates will be set subject to the approval of the SEC of the increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock. The declaration of the stock dividend was approved at the special meeting of the stockholders held on September 25, 2018.

On August 14, 2018, the BOD approved the amendment in the Parent Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock was subsequently approved by the SEC last February 28, 2019. On March 15, 2019, the SEC approved the record date of March 29, 2019 and the payment date of on or before April 2019, 2019 for the Parent Company's 100% stock dividend.

There is no provision in the Company's charter or by-laws that would delay, deter, or prevent a change in control of the Company.

Stock Prices

As of the trading date, February 24, 2021 the stocks of the Company closed at P2.05 per share. The Company's stock price was pegged at a high of P2.15 and at a low of P2.05 as of the same date. The stock prices as of quarter end date for 2020 are as follows:

2020	High	Low
First Quarter	1.52	1.49
Second Quarter	1.99	1.85
Third Quarter	1.91	1.80
Fourth Quarter	2.11	2.05

As of December 31, 2020, the Company's market capitalization amounted to P1,889,148,296 based on the closing price of P2.11 per share. Likewise, its market capitalization as of February 24, 2021 amounted to P1,835,428,439 based on the closing price of P2.05 per share.

Security Holders

As of December 31, 2020, Pacific Online had 56 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	327,381,777	39.5654
3. OCIER, WILLY N.	71,819,350	8.0215
4. ABACUS CONSOLIDATED RESOURCES & 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. WS FAMILY FOUNDATION, INC.	450,000	0.0503
8. OCIER, MISCHEL GABRIELLE E.Y.	390,000	0.0436
9. KILAYKO, GREGORIO U.	200,000	0.0223
10. LIM, MAURICE D.	100,000	0.0112
11. BENITEZ, ALFREDO B.	68,200	0.0076
12. CHAN, CARMELITA	66,000	0.0074
13. VILLANUEVA, MYRA P.	23,400	0.0026
14. CHAN, CARMELITA D.L.	33,300	0.0037
15. TAGUBA, LUCILA A.	20,000	0.0022
16. SY, CAROLINE TANCUAN	20,000	0.0022
17. SY, HANS JR. TANCUAN	20,000	0.0022
18. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
19. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
20. PEREZ, JOSE DEXTER F.	18,000	0.0020

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 and Financial Condition

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 operating 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 given by 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 all marketing activities were also suspended during the lottery suspension period;
-
- Taxes and licenses expense decreased by P22.90 million (69%) and software license fees decreased by P95.75 million (70%) due to lower lottery sales;

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

- Operating supplies expense decreased by P37.49 million (78%) due to lower consumption 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 lower withholding 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 in any material way;
b) No events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
c) No material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period; and
d) Not breached any loans, leases or other indebtedness or financing agreement.

Key Performance Indicators

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

	As of	
	Dec. 31, 2020	Dec. 31, 2019
Current Ratio	2.92:1.00	2.40 : 1.00
Debt-to-Equity Ratio	0.28:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.28:1.00	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	(0.78):1.00	(0.39) : 1.00
Book Value per Share	1.02	2.15

The above performance indicators are calculated as follows:

Current Ratio	<u>Current Assets</u> Current Liabilities
Debt to Equity Ratio	<u>Total Liabilities</u> Total Equity
Asset-to-equity Ratio	<u>Total Assets</u> Total Equity
Return on Stockholders' Equity	<u>Net Income</u> Total Equity
Return on Assets	<u>Net Income</u> Total Assets
Interest Coverage Ratio	<u>Income Before Interest & Tax</u> Interest Expense
Solvency Ratio	<u>Net Income + Depreciation</u> Total Liabilities
Book Value per Share	<u>Total Equity</u> 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.

<u>2019 Compared to 2018</u>

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

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

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;

- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;

- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;

- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;

- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;

- Operating supplies expense decreased by P104.9 million (66%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

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

- Travel and accommodation expense increased by P10.9 million (15%) mainly due to the increased volume of field visits;

- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;

- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;

- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;

- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;

- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

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

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

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

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

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

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

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

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

- Trade and other current liabilities decreased by P100.8 million (41%) due to lower trade payables resulting from lower operating expenses;
- Current portion of obligations under finance lease decreased by P3.4 million (17%) due to the amortization of capital lease for 2019;
- Withholding taxes payable decreased by P2.6 million (43%) due to lower withholding taxes resulting from lower operating expenses;

- Income tax payable decreased by P5.1 million (55%) due to less income tax as a result of lower net income for the year;

- Obligations under finance lease – net of current portion decreased by P16.0 million (100%) due to reclassification to current portion;

- Deferred tax liability decreased by P37.3 million (100%) as it was offset to deferred tax asset.

Key Performance Indicators

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

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

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

The above performance indicators are calculated as follows:

Current Ratio	Current Assets / Current Liabilities
Debt to Equity Ratio	Total Liabilities / Total Equity
Asset-to-equity Ratio	Total Assets / Total Equity
Return on Equity	Net Income / 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

Plans and Prospects

Due to the COVID-19 Pandemic, the Group's lottery operations were halted for more than 4 months in 2020. Though operations have resumed, the sales generated are not yet at par with pre-pandemic levels. The Group foresees the next year to still be a very challenging period as health restrictions/protocols have not yet been softened in various jurisdictions, but is optimistic that it will be able to generate more favorable financial results than the past year as players and agents adjust to the new normal.

The PCSO commenced the re-bidding for its nationwide online lottery system, known as PCSO Lottery System (PLS) on February 5, 2021. Opening of bids is scheduled for March 29, 2021 and, barring any unforeseen events, the PCSO should be able to select the winning bidder and issue its Notice to Proceed sometime in June 2021. The Company is participating in the bidding and is confident that it is able to meet all the requirements of the bidding's Terms of Reference (TOR) given its track record of over 20 years in the lottery business and its technology partners that are global leaders in the gaming industry. Moreover, the Company has also maintained its ISO certification for Quality Management System (ISO 9001) and Information Security Management (ISO/IEC 27001), with SGS as its certifying body since 2015. Whatever the outcome of the bid will be, the TOR mandates the winning bidder to be ready to go on line within fourteen (14) months from receipt of the Notice to Proceed. With this, it is expected that the current lottery system being provided by the Company to PCSO will continue to be in use during this transition period from the current system to the new system.

The ELA of TGTI, the Group's keno business unit, is due to expire on March 31, 2021. PCSO officers, however, has indicated that PCSO intends to undertake a bidding for a new lottery system for Keno sometime in 2022. With this, it is expected that the ELA of TGTI will also be extended, subject to existing guidelines from the Government Procurement Policy Board, to allow PCSO time to undertake the bid.

The Company is committed to its vision of being the gaming partner of choice, despite all the regulatory, environmental and social hurdles of the industry, along with the ever-changing market demands and rapid technological developments in the shifting landscape of the Philippine gaming industry. To ensure growth, stability, and sustainability in the long-term, the Company is determined to push forward with relevant projects and be dynamic and proactive in its business strategies in serving the Philippine gaming market.

Item 7. Financial Statements

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2020 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 R. G. Manabat & Co. for reappointment at the scheduled annual meeting.

Representatives of the principal accountant (R. G. Manabat & 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.

R. G. Manabat & Co. audited the Company's statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year ended December 31, 2020 and a summary of significant accounting policies and other explanatory notes. R. G. Manabat & 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 Mr. Enrico E. Baluyut.

The Company's Board of Directors in the annual shareholders' meeting on June 22, 2020 recommended, and the shareholders approved, the appointment of R. G. Manabat & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2020.

In the Company's three (3) most recent fiscal years, there has been no change in auditor and there has been no disagreement on accounting and financial disclosures. Since LCC was divested in February 2020 no audit fees for LCC will be incurred for the year 2020.

The aggregate fees for each of last three (3) fiscal years for professional services rendered by the external auditors are as follows:

	2020	2019	2018
Audit fee	P1,098,000	P1,848,000	P2,054,000
Tax services Other fees	-	600,000	600,000
TOTAL	P1,098,000	P2,448,000	P2,654,000

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 members are: Mr. Laurito E. Serrano (Chairman), Mr. Jerry C. Tiu, and Mr. Tarcisio M. Medalla. 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 26, 2021.

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 and President
Ma. Virginia V. Abo-Hamda	Director and Chief Financial Officer
Armin Antonio B. Raquel-Santos	Director
Tarcisio M. Medalla	Director
Henry N. Ocier	Director
Regina O. Reyes	Director
Jerry C. Tiu	Lead Independent Director
Laurito E. Serrano	Independent Director
Joseph C. Tan	Independent Director
A. Bayani K. Tan	Corporate Secretary
Jason C. Nalupta	Assistant Corporate Secretary
Christopher C. Villaflor	VP- Central System & Network Management
Romeo J. Roque, Jr.	VP- Agent Management
Ma. Concepcion T. Sangil	VP- Human Resources Management

Board of Directors
The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on June 22, 2020. The term of the current members of the BOD shall be until the next stockholders' meeting on May 28, 2021. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier, Filipino, 64, is the Chairman and President of the Company and a Director since July 29, 1999. He is an Executive Director and Co-Vice Chairman of Belle Corporation, Highlands Prime, Inc. and Tagaytay Highlands International Golf Club, Inc. He is also the Chairman of the Board and Director of Premium Leisure Corp. as well as with APC Group, Inc., and Premium Leisure and Amusement, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge Inc. He is a Director of Leisure & Resorts World Corporation, Vantage Equities Inc., and Abacore Capital Holdings Inc. He also serves as the Chairman of Philippine Global Communications, Inc. He was the former President and Chief Operating Officer of Eastern Securities Development Corporation. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics. In recognition of Mr. Ocier's corporate leadership and role in providing employment opportunities to Filipinos, the University of Batangas conferred him a degree in Doctor of Humanities, honoris causa.

Tarcisio M. Medalla, Filipino, 72, 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, 61, is a Director of the company since June 29, 2009. He serves as Senior Manager for Corporate Social Responsibility for Belle Corporation. He currently holds the position of

President & General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

Regina O. Reyes, Filipino, 56, elected as Director last July 21, 2016. She is currently the President and CEO of listed firm, Abacore Capital Holdings, Inc., and President of private company, Click Communications, Inc. She also served as a Solicitor at the Office of the Solicitor General, Provincial Administrator of the Province of Marinduque, and a member of the House of Representatives, representing the lone district of Marinduque, from 2013 to June 2016. In Congress, she was Vice Chairman of the Committee on National Defense and Security and was a member of several key committees, including Appropriations, Justice, Health, and Natural Resources. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA and her Bachelor of Laws degree from the Ateneo de Manila University Law School. Ms. Reyes is a member of both the Philippine Bar and the State Bar of California.

Ma. Virginia V. Abo-Hamda, Filipino, 61, is a Director and Chief Financial Officer of the Company. She joined Pacific Online in September 2009 as Vice President of Instant Tickets Division and was promoted as SVP for Corporate Planning & Business Development in 2013. Prior to this, she worked as a Consultant for AB Leisure Exponent, Inc. (1999-2009), and AB Gaming & Leisure Specialist Inc. (2003-2009). Ms. Abo-Hamda served as General Accounting Manager for D'Agostino Supermarkets, Inc. New York, USA from 1990 to 1996 and as Senior Financial Analyst for Kraft-General Foods International, New York, USA from 1988 to 1989. She worked with Carlos J. Valdes & Co., CPAs from 1981 to 1986, in its Management Services Division as an Associate Consultant. She graduated Summa Cum Laude with a Bachelor of Science degree in Commerce (Major in Accounting) from College of the Holy Spirit. Ms. Abo-Hamda passed the CPA board exams in 1980 at 16th place. She earned her Master's degree in Business Administration (Concentration in Finance) from Fordham University, New York, USA.

Armin Antonio B. Raquel Santos, Filipino, 53, is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) and concurrently the Executive Vice President – Integrated Resorts of Belle Corporation. He is a Director of Tagaytay Highlands International Golf Club, Inc. and Trustee and Vice President of Melco Crown Philippines Foundation Corporation. He was former Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II and First Philippine Electric Company. He was also former Governor of the Board of Investments (BOI), served as Assistant Secretary with the Department of Trade and Industry (DTI), Vice Chairman and CEO of Philippine Retirement Authority (PRA), Executive Vice President of Philippine International Trading Corporation (PITC), and Deputy Administrator of Subic Bay Metropolitan Authority (SBMA). His experience includes stints with multinational companies; Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York. He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A.

Independent Directors

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

Laurito E. Serrano, Filipino, 60, is a Director of the company since May 23, 2014. Mr. Serrano concurrently serves as Independent Director of Atlas Consolidated Mining and Development Corporation, Rizal Commercial Banking Corporation, 2GO Group Inc., and Axelum Resources Corp. 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.

Jerry C. Tiu, Filipino, 64, is an Independent Director of the company since February 21, 2007 and was appointed as the Lead Independent Director last May 31, 2017. He is a Director and the President of

Tagaytay Highlands Community Condominium Association, Inc., Tagaytay Midlands Community Homeowners' Association, Inc., and Greenlands Community Homeowners' Association, Inc. He is likewise the President of the following companies: Tagaytay Highlands International Golf club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., and The Spa & Lodge at Tagaytay Highlands, Inc. He is a former Director of the Manila Polo Club. He holds a Bachelor of Science degree in Commerce (Major in Marketing) from University of British Columbia.

Atty. Joseph C. Tan, Filipino, 63, is the Founding Partner of MOST Law Firm from September 2006 to present. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He is currently an Independent Director of 2GO Group, Inc., Premium Leisure, Corp., Pacific Online Systems Corporation and LMG Chemicals Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).

Executive Officers

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

Romeo J. Roque, Jr., Filipino, 52, is Vice President for Agent Management of the Company. He joined the Company in February 5, 1996. He served as Product Support Manager for Infonet Solutions, Inc. from 1995 to 1996 and as Systems Engineer for ATS Software Pte. Ltd. in Singapore from 1993 to 1995. He previously worked for Electroworld as Systems Consultant from 1991 to 1993. He graduated with a degree in Bachelor of Science in Computer Engineering from University of San Carlos. He was credited with Master in Business Administration academic units from the University of the Philippines.

Christopher C. Villaflor, Filipino, 44, is the Vice President for Central System and Network Management of the Company since 2016. 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 Assistant Vice President overseeing the Central System 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 had formal trainings on 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.

Ma. Concepcion T. Sangil, Filipino, 63, is the Vice President for Human Resources Management of the Company. She has a total of 37 years professional experience, initially as a Management Consultant for over 17 years specializing in project management, institutional strengthening, organizational development, change management processes, management and operations audit, systems development and business re-engineering. She was also exposed to actual hands-on operations and management of a micro-lending institution, as an executive officer for over 8 years and later as Head of the Human Resource Division for a multi car brand dealership and multi-media company for 10 years. She graduated from St. Paul College of Manila with a degree of Bachelor of Science in Commerce, major in Accounting. She earned an MA in Urban and Regional Planning from the School of Urban and Regional Planning, University of the Philippines. She was an accredited court mediator by the Supreme Court and a certified life coach.

Atty. A. Bayani K. Tan, 65, Filipino, is the Corporate Secretary of the Corporation (since May 2007, Publicly-Listed). He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Premium Leisure Corporation (since December 1993, Publicly-Listed), Sterling Bank of Asia Inc (A Savings Bank) (since December 2006), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at

Tagaytay Highlands, Inc. (since August 1995), and The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999). He is the Founding Partner of the law offices of Tan Venturanza Valdez (which was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Chairman of Destiny LendFund, Inc. (since June 2020), Director of Pascual Laboratories, Inc. (since March 2014) and Pure Energy Holdings Corporation (since October 2016), Managing Trustee of the SCTan Foundation, Inc. (since 1986), President of Catarman Chamber Integrated School Foundation, Inc. (since August 2012), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013), Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011), Trustee of Guimaras Forest Foundation, Inc. (since September 2019), Reintegration for Care and Wholeness (RCW) Foundation, Inc. (since April 2014) and St. Scholastica's College Manila (since October 2019). Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society). Mr. Tan placed 6th in the bar examinations in 1981. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Atty. Jason C. Nalupta, Filipino, 49, is the Assistant Corporate Secretary of the corporation since October 2009. He is also currently the Corporate Secretary or Assistant Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, and Crown Asia Chemicals Corporation. He is also a Director and/or Corporate Secretary or Assistant Corporate Secretary of private companies Sino Cargoworks Agencies, Inc., Falcon Resources, Inc., Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Metropolitan Leisure & Tourism Corporation, Sagesoft Solutions, Inc., Radenta Technologies, Inc., Xirrus, Inc., Glypthstudios, Inc., Loto Pacific Leisure Corporation, and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Mr. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from Ateneo de Manila University in 1996 and 1992, respectively. Mr. Nalupta was admitted to the Philippine Bar in 1997.

Family Relationships
Henry N. Ocier and Willy N. Ocier are brothers.

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 subject to 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 the following 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, 2020 and 2019, 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 2020 and 2019, as well as the estimated aggregate compensation for calendar year 2021.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman & President				
Ma. Virginia V. Abo-Hamda Director & Chief Financial Officer				
Romeo J. Roque, Jr. VP-Agent Management				
Ma. Concepcion T. Sangil VP- Human Resources Management				
Christopher C. Villaflor VP- Central System & Network Management				
Total for the Executive Officers as a group	2021 (Estimate) 2020 2019			P20,510,576 P20,108,986 P13,343,054
Total for the Directors and Executive Officers as a group	2021 (Estimate) 2020 2019			P23,664,096 P23,150,722 P16,109,720

Total for President and 4 most highly compensated Executive Officers	2021 (Estimate)	P15,111,594
	2020	P14,005,288
	2019	P11,861,950

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

	2020	2019	2018
		(In Millions)	
Short-term employee benefits	**P20.1**	P27.6	P32.0
Post-retirement benefits	**1.8**	2.3	2.3
	P21.9	29.9	P34.3

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 17 of the audited consolidated financial statements.

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, 2020:

Shareholder	Number of Shares	Percent	Beneficial Owner
PREMIUM LEISURE CORPORATION 5/F Tower A, Two E-Com Center, Mall of Asia Complex, Pasay City	448,560,806	50.1000	**PREMIUM LEISURE CORPORATION**
PCD NOMINEE CORPORATION	327,381,777	36.5654	**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 2020:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizenship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,983,950	80,803,500	Filipino	9.02
Common	Virginia V. Abo-Hamda	2,000		2,000	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Regina O. Reyes	300		300	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Jerry C. Tiu	200	250	450	Filipino	0.00
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Armin B. Raquel-Santos	200		200	Filipino	0.00
Common	Joseph C. Tan	200		200	Filipino	0.00
Common	A. Bayani K. Tan	0	1,413,000	1,413,000	Filipino	0.16
Common	Romeo J. Roque, Jr	6,000		6,000	Filipino	0.00
Common	Frederic C. DyBuncio	200	100	300	Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.06
	All Directors and Executive Officers as a group	**72,226,450**	**11,796,200**	**84,022,650**		**9.36**

Item 12. Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance: Advances to Related Parties	Outstanding Balance: Advances from Related Parties	Terms	Conditions
TGTI							
▪ Advances	**2020**	a	**P3,657,573**	P -	**P6,315,487**	On demand, noninterest bearing	Unsecured
	2019	a	(3,928,115)	-	2,657,914		
▪ Reimbursements	**2020**	a	**17,989,687**	-	-		
	2019	a	31,259,301	-	-		
FRI							
▪ Advances	**2020**	a	-	-	-	On demand, noninterest bearing	Unsecured
	2019	a	(10,000,000)	-	-		
LOTO PAC							
▪ Advances	**2020**	a	**(986,855)**	-	-	On demand, noninterest bearing	Unsecured

	2019	a	150,967	-	986,855		
LCC & Nine Entities (sold)							
▪ Advances	2020	a	-	-	-	On demand, noninterest bearing	Unsecured
	2019	a	79,287,018	986,855	108,375,661		
▪ Rental expense	2020	b	-	-	-		
	2019	b	76,662,787	-	-		
▪ Security deposits	2019	b	-	-	-		
	2019	b	22,929,104	-	-		
TOTAL	**2020**			**P -**	**P6,315,487**		
TOTAL	2019			P986,855	P112,020,430		

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

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

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

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

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

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.

A review of the various established Board level committees and its respective charters were done for the year 2020. 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.

In spite of the pandemic's restrictions on mass gatherings, the Company was still able to comply with the SEC guidelines on disclosures and holding of its Annual Stockholder's Meeting. The virtual format on webinars and conference calls has made it possible for the Company to continue to perform its functions during the quarantine period.

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. Furthermore, Atty. Joseph Tan was appointed as a member of the Board Risk Committee.

Members of various committees are expected to serve for a term of one (1) year.

The Company is not aware of any non-compliance with its Manual of Corporate Governance, by any of its officers or employees.

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.

b. Reports on SEC Form 17-C

Document	Date Filed	Item No.	Matter
SEC FORM 17-C dated February 6, 2020	February 7, 2020	Item 9	Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated February 13, 2020	February 13, 2020	Item 2	Acquisition/Disposition of Shares of Another Corporation
SEC FORM 17-C dated March 16, 2020	March 16, 2020	Item 9	Material Information/Transactions
SEC FORM 17-C dated April 15, 2020	April 16, 2020	Item 9	Postponement of Annual Stockholders' Meeting
SEC FORM 17-C dated May 7, 2020	May 8, 2020	Item 9	[Amend-1] Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated June 22, 2020	June 22, 2020	Items 4 and 9	Results of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated June 22, 2020	June 22, 2020	Items 4 and 9	Results of Organizational Meeting of Board of Directors

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 March 01, 2021.

By:

WILLY N. OCIER
Chairman of the Board and President

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

A. BAYANI K. TAN
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ________ day of MAR 01 2021 2021, affiants exhibiting to me their Community Tax Certificates, as follows:

NAME	COMMUNITY TAX CERTIFICATE NO.	DATE OF ISSUE	PLACE OF ISSUE
WILLY N. OCIER	04670990	Jan. 12, 2021	Pasay City
MA. VIRGINIA V. ABO-HAMDA	06887531	Jan. 08, 2021	Pasig City
A. BAYANI K. TAN	06890451	Jan. 29, 2021	Pasig City

ATTY. JAMES K. ABUGAN
NOTARY PUBLIC
APPT. NO. 0412-19
Until 06/30/2021
IBP No. 134105 Dec. 9, 2020 Rizal Chapter
Roll No. 26890 Lifetime
MCLE No. VI-0012875 until 4/14/2022
TIN No. 116-239-956
PTR No. 4574511 01/04/2021
Tel. No. 631-40-90
Rm. 314 J&B Bldg., 251 EDSA,
Mandaluyong City

Doc. No. 447
Book No. 9
Page No. 91
Series of 2021

Mischel O. Mendoza

From: ERMD FS2 <ermdfs2@sec.gov.ph>
Sent: Monday, 1 March 2021 3:37 PM
To: momendoza@pacificonline.com.ph
Subject: Acknowledgement Notice Re: 17-A 2020 Pacific Online Systems Corporation (AS093-008809)

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of form and content of the attached document)

This serves as acknowledgement confirmation. Please print and submit together with the hard copies of the document.

Note: If the email is received on a Saturday, Sunday or holiday (non-working day) the receipt date shall be on the next working day.

Thank you.
SEC ICTD

Mischel O. Mendoza

From: ERMD FS1 <ermdfs1+canned.response@sec.gov.ph>
Sent: Monday, 1 March 2021 3:37 PM
To: momendoza@pacificonline.com.ph
Subject: Re: 17-A 2020 Pacific Online Systems Corporation (AS093-008809)

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of form and content of the attached document)

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Note: If the email is received on a Saturday, Sunday or holiday (non-working day) the receipt date shall be on the next working day.

Thank you.
SEC ICTD

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

PACIFIC ONLINE SYSTEMS CORPORATION LOTO

ISO 9001 QUALITY MANAGEMENT SYSTEM
ISO/IEC 27001 INFORMATION SECURITY MANAGEMENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management **Pacific Online Systems Corporation** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free form material misstatement, whether due to fraud or error.

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

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

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

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

Signature____________________

WILLY N. OCIER / Chairman of the Board

Signature____________________

WILLY N. OCIER / Chief Executive Officer

Signature____________________

MA. VIRGINIA V. ABO-HAMDA / Chief Financial Officer

SUBSCRIBED AND SWORN TO BEFORE ME AT PASIG CITY THIS DAY OF FEB 26 2021 AFFIANT EXHIBITING TO ME HIS/HER COMPETENT EVIDENCE OF IDENTITY NO. ____ ISSUED AT ____ ON ____

Signed this 26th day of February 2021

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2022
PTR No. A-5063681 /01/04/2021 Taguig City
IBP No. 131041/10/22/2020-For Year 2021/ RSM
Roll No. 41969
MCLE Comp. VI-[illegible] / March 28, 2019

Doc. No. 48;
Page No. 10;
Book No. 6;
Series of 21.

COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 3 0 0 8 8 0 9

COMPANY NAME

P A C I F I C   O N L I N E   S Y S T E M S

C O R P O R A T I O N   A N D   S U B S I D I A R I E S

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

2 8 t h   F l o o r ,   E a s t   T o w e r

P h i l i p p i n e   S t o c k   E x c h a n g e

C e n t r e ,   E x c h a n g e   R o a d

O r t i g a s   C e n t e r ,   P a s i g   C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
56		December 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
Ma. Virginia V. Abo-Hamda		8584-1700	

CONTACT PERSON's ADDRESS

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 of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Pacific Online Systems Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

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

Impairment Assessment of Non-financial Assets
Refer to Note 5 to the consolidated financial statements.

The risk

As at December 31, 2020, the gross carrying amount of the Group's non-financial assets was P431.87 million which represents around 37% of its total assets (gross of impairment provision). The impairment of the Group's non-financial assets was considered a matter of significant risk because the Group has experienced challenging business and regulatory environments in 2020 as discussed in Note 2 to the consolidated financial statements. As a result, management determined that an impairment provision of P73.22 million was required to reduce the carrying amounts of these assets to their recoverable amounts as at December 31, 2020. We identified impairment of non-financial assets as a key audit matter because the carrying amounts of these assets and the related impairment losses recognized were material to the consolidated financial statements. Further, the assessment of any impairment of these assets required significant management judgement and estimation which could be subject to error or potential management bias.

Our response

Our audit procedures included, among others, obtaining an understanding of management's processes for impairment testing and assessing management's determination of the recoverable amounts of the Group's non-financial assets including the potential impacts of regulatory processes and decisions on the Group's operations. We analyzed and challenged the reasonableness of significant judgements and estimates used by management in its impairment tests based on our knowledge of the business and industry. To achieve this, we obtained the Group's financial forecasts and strategic plans that were approved by management and evaluated the reasonableness of the inputs and assumptions such as the projected economic growth rates and inflation rates by comparing them to recent performance and market expectation and by reference to prior year forecasts and historical data where relevant. We also assessed the adequacy of the relevant disclosures made in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and is 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 Enrico E. Baluyut.

R.G. MANABAT & CO.

ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-026-2020
Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533892
Issued January 4, 2021 at Makati City

March 1, 2021
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2020**	2019
ASSETS			
Current Assets			
Cash and cash equivalents	*8*	**P162,274,833**	P337,471,529
Marketable securities	*9*	**84,260,926**	140,456,581
Trade and other receivables - net	*10*	**132,373,468**	172,501,609
Other current assets - net	*11*	**164,733,666**	214,265,314
Total Current Assets		**543,642,893**	864,695,033
Noncurrent Assets			
Financial assets at fair value through other comprehensive income	*12*	**281,822,365**	347,630,880
Property and equipment - net	*13*	**83,495,388**	107,415,991
Right-of-use assets - net	*21*	**10,119,536**	50,298,070
Deferred tax assets - net	*20*	**82,414,559**	52,501,395
Other noncurrent assets - net	*2, 11*	**101,909,300**	290,288,060
Total Noncurrent Assets		**559,761,148**	848,134,396
		P1,103,404,041	P1,712,829,429
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	*15*	**P178,225,995**	P144,231,951
Loan payable	*16*	**-**	150,000,000
Lease liabilities	*21*	**7,676,824**	58,353,121
Withholding taxes payable		**1,982,170**	3,458,412
Income tax payable		**6,146**	4,274,940
Total Current Liabilities		**187,891,135**	360,318,424
Noncurrent Liabilities			
Lease liabilities - net of current portion	*21*	**3,928,543**	9,248,884
Defined benefit liability	*23*	**48,443,811**	29,842,768
Total Noncurrent Liabilities		**52,372,354**	39,091,652
Total Liabilities		**240,263,489**	399,410,076
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	*17*	**895,330,946**	895,330,946
Additional paid-in capital		**257,250,677**	257,250,677
Treasury stock	*17*	**(285,267,558)**	(285,267,558)
Fair value reserve	*12*	**(462,610,486)**	(396,801,971)
Retirement benefits reserve	*23*	**(14,014,805)**	(17,614,609)
Retained earnings		**469,987,087**	855,178,425
		860,675,861	1,308,075,910
Non-controlling Interest		**2,464,691**	5,343,443
Total Equity		**863,140,552**	1,313,419,353
		P1,103,404,041	P1,712,829,429

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Note	2020	Re-presented* 2019	Re-presented* 2018
CONTINUING OPERATION				
REVENUES				
Equipment rental	*2, 6*	**P293,104,496**	P681,483,757	P1,448,317,611
Commission and distribution income	*2, 6*	**5,425,907**	25,465,751	55,268,244
		298,530,403	706,949,508	1,503,585,855
COSTS AND EXPENSES	*19*	**793,626,708**	954,685,503	1,187,538,450
OPERATING INCOME (LOSS)		**(495,096,305)**	(247,735,995)	316,047,405
OTHER INCOME (CHARGES)				
Dividend income	*9, 12*	**29,302,224**	31,657,224	29,082,445
Interest income	*8*	**676,852**	1,269,508	1,157,473
Gain on concession		**254,046**	-	-
License fee income		**-**	-	203,459,171
Impairment loss on goodwill	*14*	**-**	(17,046,266)	(110,933,996)
Mark-to-market loss on marketable securities	*9*	**(6,195,655)**	(15,248,311)	(11,903,085)
Finance charges	*16, 21*	**(6,335,216)**	(4,408,963)	(6,187,352)
Others - net	*22*	**3,219,028**	(12,892,446)	49,910,424
		20,921,279	(16,669,254)	154,585,080
INCOME (LOSS) BEFORE INCOME TAX		**(474,175,026)**	(264,405,249)	470,632,485
INCOME TAX EXPENSE (BENEFIT)	*20*			
Current		**6,039**	4,210,086	125,293,072
Deferred		**(52,959,818)**	(68,381,533)	47,432,314
		(52,953,779)	(64,171,447)	172,725,386
NET INCOME (LOSS) FROM CONTINUING OPERATION		**(421,221,247)**	(200,233,802)	297,907,099
DISCONTINUED OPERATION				
Net income (loss) from discontinued operation	*7*	**39,833,733**	(120,738,572)	6,140,916
TOTAL NET INCOME (LOSS)		**(P381,387,514)**	(P320,972,374)	P304,048,015
Attributable to:				
Equity holders of the Parent Company	*24*	**(P378,508,762)**	(P319,411,018)	P302,659,366
Non-controlling interest		**(2,878,752)**	(1,561,356)	1,388,649
		(P381,387,514)	(P320,972,374)	P304,048,015

Forward

	Note	2020	Re-presented* 2019	Re-presented* 2018
Attributable to Equity Holders of the Parent Company				
Basic Earnings Per Share	*24*	**(P0.4480)**	**(P0.3781)**	P0.3579
Diluted Earnings Per Share	*24*	**(P0.4480)**	**(P0.3781)**	P0.3579
Earnings per share - continuing operations**				
Basic Earnings Per Share	*24*	**(P0.4986)**	**(P0.2370)**	P0.3523
Diluted Earnings Per Share	*24*	**(P0.4986)**	**(P0.2370)**	P0.3523

See Notes to the Consolidated Financial Statements.

**Comparative information has been re-presented due to a discontinued operation. See Note 7.*

***The calculation of the basic and diluted earnings per share of the continuing operations is based on the net income (loss) from the continuing operations and the weighted average number of shares outstanding during the year.*

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Note	**2020**	2019	2018
NET INCOME (LOSS)		**(P381,387,514)**	(P320,972,374)	P304,048,015
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefits, net of tax	*23*	**(3,082,772)**	(18,152,999)	12,377,190
Fair value loss on financial assets at FVOCI	*12*	**(65,808,515)**	(108,075,050)	(306,782,380)
		(68,891,287)	(126,228,049)	(294,405,190)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P450,278,801)**	(P447,200,423)	P9,642,825
Attributable to:				
Equity holders of the Parent Company		**(P447,400,049)**	(P445,639,067)	P8,254,176
Non-controlling interest		**(2,878,752)**	(1,561,356)	1,388,649
		(P450,278,801)	(P447,200,423)	P9,642,825

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Note	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax from continuing operation		**(P474,175,026)**	(P264,405,249)	P470,632,485
Income (loss) before income tax from discontinued operation	*7*	**39,836,985**	(130,982,422)	12,246,116
Income (loss) before income tax		**(434,338,041)**	(395,387,671)	482,878,601
Adjustments for:				
Depreciation and amortization	*11,13*	**215,168,506**	173,219,615	223,200,081
Depreciation of right-of-use assets	*21*	**18,491,290**	46,133,826	-
Impairment loss on:				
Trade and other receivables	*10*	**139,677,614**	2,147,391	-
Spare parts and supplies	*5, 11*	**43,534,148**	-	-
Right of use asset	*5, 21*	**9,324,857**	-	-
Goodwill	*14*	**-**	17,046,266	110,933,996
Retirement cost	*23*	**11,290,060**	18,265,466	12,183,420
Finance charges	*16, 21*	**6,335,216**	7,022,938	6,187,352
Fair value loss on marketable securities	*9*	**6,195,655**	15,248,311	11,903,085
Unrealized foreign exchange loss	*22*	**238,218**	885,057	886,280
Interest income	*8, 22*	**(6,267,240)**	(10,149,516)	(14,031,615)
Dividend income	*9, 12*	**(29,302,224)**	(31,657,224)	(29,082,445)
Gain on sale of:				
Subsidiaries	*7*	**(39,836,985)**	-	-
Property and equipment	*22*	**(15,000)**	(839,812)	(1,038,518)
Marketable securities	*22*	**-**	-	(1,548,225)
Operating income (loss) before working capital changes		**(59,503,926)**	(158,065,353)	802,472,012
Decrease (increase) in:				
Trade and other receivables		**(103,433,712)**	110,414,895	218,239,380
Other current assets		**(101,822,913)**	(69,326,528)	(32,960,265)
Right-of-use assets		**(13,694,532)**	(87,806,627)	-
Other noncurrent assets		**92,260,640**	(84,660,518)	(126,319,638)
Increase (decrease) in:				
Trade and other current liabilities		**191,706,448**	(100,839,515)	(163,095,695)
Withholding taxes payable		**301,555**	(2,637,605)	(4,985,780)
Lease liabilities		**7,920,667**	128,087,652	-
Interest received		**6,267,240**	10,149,516	14,031,615
Income tax paid		**(1,901,528)**	(13,924,737)	(149,371,845)
Retirement contributions	*23*	**-**	(6,500,000)	(1,000,000)
Net cash flows provided by (used in) operating activities		**18,099,939**	(275,108,820)	557,009,784

Forward

	Note	2020	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property and equipment	13	**(P90,839,188)**	(29,536,476)	(45,671,156)
Financial assets at FVOCI	12	**-**	-	(34,490,020)
Dividends received	9, 12	**29,302,224**	31,657,224	29,082,445
Proceeds from sale of:				
Marketable securities		**50,000,000**	-	12,423,090
Property and equipment		**827,772**	991,674	1,610,461
Disposal of subsidiaries, net of cash disposed of	7	**9,879,025**	-	-
Net cash flows provided by (used in) investing activities		**(830,167)**	3,112,422	(37,045,180)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid		**-**	-	(337,273,130)
Loan proceeds (payments)	16	**(150,000,000)**	150,000,000	-
Decrease (increase) in:				
Obligations under finance lease	21	**-**	(35,374,474)	(39,488,510)
Installment payable		**-**	(9,205,042)	3,761,219
Payment of lease liabilities	21	**(36,842,763)**	(60,485,647)	-
Acquisitions of treasury shares	17	**-**	-	(16,606,788)
Finance charges paid	16, 21	**(6,335,216)**	(7,022,938)	(6,187,352)
Net cash flows provided by (used in) financing activities		**(193,177,979)**	37,911,899	(395,794,561)
NET INCREASE (DECREASE) IN CASH		**(175,908,207)**	(234,084,499)	124,170,043
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**337,471,529**	571,260,258	447,130,976
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	22	**711,511**	295,770	(40,761)
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**P162,274,833**	P337,471,529	P571,260,258

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2020		P895,330,946	P257,250,677	(P285,267,558)	P -	(P396,801,971)	(P17,614,609)	P855,178,425	P1,308,075,910	P5,343,443	P1,313,419,353
Net loss		-	-	-	-	-	6,682,576	(385,191,338)	(378,508,762)	(2,878,752)	(381,387,514)
Other comprehensive loss	*12, 23*	-	-	-	-	(65,808,515)	(3,082,772)	-	(68,891,287)	-	(68,891,287)
Total comprehensive loss for the year		-	-	-	-	(65,808,515)	3,599,804	(385,191,338)	(447,400,049)	(2,878,752)	(450,278,801)
Transactions with owners											
Stock dividend distributed		-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
December 31, 2020		P895,330,946	P257,250,677	(P285,267,558)	P -	(P462,610,486)	(P14,014,805)	P469,987,087	P860,675,861	P2,464,691	P863,140,552

Forward

	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
		Equity Attributable to Equity Holders of the Parent Company									
Balance at January 1, 2019		P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776
Net loss		-	-	-	-	-	-	(319,411,018)	(319,411,018)	(1,561,356)	(320,972,374)
Other comprehensive loss	12, 23	-	-	-	-	(108,075,050)	(18,152,999)	-	(126,228,049)	-	(126,228,049)
Total comprehensive loss for the year		-	-	-	-	(108,075,050)	(18,152,999)	(319,411,018)	(445,639,067)	(1,561,356)	(447,200,423)
Transactions with owners											
Cash dividends		-	-	-	-	-	-	-	-	-	-
Stock dividend distributed	17	447,665,473	-	-	(422,431,981)	-	-	(25,233,492)	-	-	-
Acquisition of treasury shares		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
December 31, 2019		P895,330,946	P257,250,677	(P285,267,558)	P -	(P396,801,971)	(P17,614,609)	P855,178,425	P1,308,075,910	P5,343,443	P1,313,419,353

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company									
		Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non controlling Interest	Total Equity
Balance at January 1, 2018, as previously classified		P447,665,473	P257,250,677	(P268,660,770)	P -	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872
Realized portion of fair value reserve		-	-	-	-	(98,774,351)	-	98,774,351	-	-	-
Balance at January 1, 2018		447,665,473	257,250,677	(268,660,770)	-	18,055,459	(11,838,800)	1,573,066,775	2,015,538,814	4,536,058	2,020,074,872
Net income		-	-	-	-	-	-	302,659,366	302,659,366	1,388,649	304,048,015
Other comprehensive income (loss)	12, 23	-	-	-	-	(306,782,380)	12,377,190	-	(294,405,190)	-	(294,405,190)
Total comprehensive income for the year		-	-	-	-	(306,782,380)	12,377,190	302,659,366	8,254,176	1,388,649	9,642,825
Transactions with owners											
Cash dividends	17	-	-	-	-	-	-	(253,471,225)	(253,471,225)	(951,441)	(254,422,666)
Stock dividend	17	-	-	-	422,431,981	-	-	(422,431,981)	-	-	-
Acquisition of treasury shares	17	-	-	(16,606,788)	-	-	-	-	(16,606,788)	-	(16,606,788)
Other		-	-	-	-	-	-	-	-	1,931,533	1,931,533
December 31, 2018		P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776

See Notes to the Consolidated Financial Statements

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Corporate Information

Pacific Online Systems Corporation ("Pacific Online" or "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company 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 Group is a 50.1% owned subsidiary of Premium Leisure Corporation (PLC) ("Immediate Parent Company") and its ultimate parent company is Belle Corporation (Belle). Belle and PLC are corporations with shares listed on the PSE.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group"). The following subsidiaries are incorporated in the Philippines and registered with SEC:

	Percentage of Ownership			
	2020		2019	
	Direct	Indirect	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	**100.00**	-	100.00	-
Total Gaming Technologies, Inc. ("TGTI")*	**98.92**	-	98.92	-
Lucky Circle Corporation ("LCC")*	-	-	97.64	2.36
Falcon Resources, Inc. ("FRI")**	-	**100.00**	-	100.00
TGTI Services, Inc.(TGTISI)**	-	**100.00**	-	100.00
Athena Ventures Inc. (AVI)***	-	-	-	100.00
Avery Integrated Hub Inc. (AIHI)***	-	-	-	100.00
Circle 8 Gaming Venture, Inc. (C8)***	-	-	-	100.00
Lucky Deal Leisure Inc. (LLI)***	-	-	-	100.00
Lucky Fortune Business Ventures, Inc. (LBVI)***	-	-	-	100.00
Lucky Pick Leisure Club Corp. (LLCC)***	-	-	-	100.00
Lucky Ventures Leisure Corp. (LLC)***	-	-	-	100.00
Lucky Games Entertainment Ventures Inc. (LGEVI)***	-	-	-	100.00
Orbis Valley Corporation (OVC)***	-	-	-	100.00

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

Pacific Online

The Parent Company is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. The Parent Company can also engage in any lawful arrangement for sharing profits, union of interest, unitization or formal agreement, reciprocal concession, or cooperation with any corporation, association, partnership, syndicate, entity, person or governmental, municipal or public authority, domestic or foreign.

TGTI

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

LotoPac

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

LCC and Nine Entities

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

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

On February 13, 2020, LCC and Nine Entities (LCC Group) were sold to a third party for a consideration of P137,413,460 (Note 7).

FRI

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

TGTISI

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

2. Agreements with PCSO

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

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

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

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

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

2018 Supplemental ELA. On September 12, 2018, the ELA was amended to extend the term from August 1, 2018 to July 31, 2019. The amendment required the Parent Company to post an additional deposit of P7.0 million cash bond. The total cash bond of P12.0 million is included under "Other noncurrent assets" in the consolidated statements of financial position *(Note 11)*.

2019 Supplemental ELA. On August 1, 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.

2020 Supplemental ELA. On September 9, 2020, the term of the ELA was extended on a month-to-month basis effective August 1, 2020 but not to exceed one (1) year, commensurate to the necessity and immediacy to complete the bidding process of the new lottery system. POSC undertakes not to pull-out the lottery terminals until after the 7th month after the expiration of the ELA.

The PCSO announced that a bidding for its customized PCSO Lottery System, also known as the "2021 PLS PROJECT", will be conducted during the early part of 2021. The Parent Company has expressed its readiness to participate in the said bidding, as it had joined the PCSO bidding exercises held in 2019. The Parent Company's ELA with PCSO is currently on an annual basis because of the failed bidding in 2019. This means that the Parent Company will have to continue to operate under the current ELA terms beyond July 2021; i.e., when PCSO is able to hold its bidding, award the new ELA contract and undertake a transition from the current lottery system to the new system. The Parent Company is well positioned to be a front runner in the said bidding due to its credentials and track record. But should POSC not win the bid, the Parent Company will continue to operate given that the Parent Company's contract with PCSO for the extension until July 31, 2021 has a provision for POSC to undetake not to pull out the lottery equipment for another seven (7) months from date of expiration.

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales generated by lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 3,370 and 3,785 as at December 31, 2020 and 2019, respectively. The Parent Company's equipment rental revenue amounted to P245.9 million, P427.9 million, and P788.6 million in 2020, 2019 and 2018, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P43.3 million and P42.7 million as at December 31, 2020 and 2019, respectively (Note 10).

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

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

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

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

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

In 2018, the Parent Company received a certification from the OIC-Manager of Accounting and Budget Department (ADB) of PCSO stating the fulfillment of the Parent Company's obligation under the MOA and thereby clearing the Parent's Company of any accountability thereunder. ADB certified that the Parent Company is entitled to the release of the P10.0 million cash bond.

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

TGTI's Equipment Lease Agreement

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

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

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

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

2020 Amended ELA. On December 11, 2020, the ELA was again amended to extend the term for six (6) months, effective October 1, 2020 to March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with the aggregate amount of P2.5 million. The cash bond of P2.5 million is included under "Other noncurrent assets" in the consolidated statements of financial position *(Note 11).*

TGTI management has submitted all requirements to the PCSO relative to the application for the renewal of the ELA. However, as of reporting date, an official document from PCSO confirming the extension of TGTI's ELA is not yet available. Accordingly, and amidst the challenging business and regulatory environments, TGTI management has also been working on possible business ventures that it can embark on to continue its operations in case ELA is not extended. As of December 31, 2020, TGTI has cash and cash equivalents of P31.88 million and marketable securities of P106.48 million, adequate to support itself in the next twelve months. Moreover, it expects to receive cash dividends of about P40 million from its wholly-owned subsidiary Falcon Resources Inc. next year.

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of the gross amount of ticket sales from all of TGTI's online keno lottery terminals, excluding value-added taxes (VAT) or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 1,180 and 1,833 as at December 31, 2020 and 2019, respectively. TGTI's equipment rental revenue amounted to P47.24 million, P253.6 million, and P659.7 million in 2020, 2019 and 2018, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P6.73 million and P22.7 million as at December 31, 2020 and 2019, respectively (Note 10).

On March 17, 2020 up to July 31, 2020, PCSO games were suspended in light of the declaration by the National Government of a public health emergency and the declaration of a national state of calamity due to the COVID-19 pandemic (Note 26). Keno sales resumed on July 28, 2020, while the lotto jackpot games resumed on August 7, 2020. The 2D and 3D lotto games resumed sales on August 24, 2020, followed by the 4D and 6D Lotto games on January 7 and 8, 2021, respectively.

3. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations. The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 26, 2021.

Basis of Measurement

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

- marketable securities and financial assets at FVOCI are measured at fair value; and
- defined benefits liability which is measured as the net total of the present value of the defined benefit obligation and the fair value of the plan assets.

Functional and Presentation Currency

These consolidated financial statements are presented in Philippine peso (P or Php), which is the Parent Company's functional currency. All amounts have been rounded off to the nearest peso, unless otherwise indicated.

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

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

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

4. Significant Accounting Policies

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

Adoption of Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following revised standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  (c) clarifying the explanatory paragraphs accompanying the definition; and

  (d) aligning the wording of the definition of material across PFRS Standards and other publications.

  The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

Standard Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Group has not adopted the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective June 1, 2020

- *COVID-19-Related Rent Concessions (Amendment to PFRS 16 Leases).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

Effective January 1, 2022

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16 Property, Plant and Equipment).* The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 *Inventories.*

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the Company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statements of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statements of comprehensive income.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

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

Financial Assets

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

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

The Group's investments in equity securities included under "Marketable securities" are classified under this category (Note 9).

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

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

Subsequent to initial recognition, financial assets at FVOCI are measured at fair value and changes therein are recognized in other comprehensive income and presented in the "Fair value reserve" in equity which can be transferred to retained earnings when earned. Dividends earned on holding FVOCI equity securities are recognized as "Dividend income" in profit or loss when the right to receive payment has been established. Gains and losses on equity financial assets at FVOCI are not reclassified to profit or loss and no impairment is recognized in profit or loss.

The Group's investments in equity securities included under "financial assets at FVOCI" account are classified under this category (Note 12).

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

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

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

<u>Business Model Assessment</u>

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and its expectation about future sales activity.

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

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

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

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

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

Reclassification of Financial Assets and Liabilities

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

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

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

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

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

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

- the rights to receive cash flows from the asset expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.

- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

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

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

- the debtor is past due more than 90 days on any material credit obligation to the Group.

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

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

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

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Spare Parts and Supplies

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

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Equipment under installation are stated at cost, which includes purchase price and other direct costs. Such assets are not depreciated until such time when the relevant property and equipment are available for its intended use.

When major repairs and maintenance are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

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

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

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Impairment of Nonfinancial Assets Excluding Goodwill
The Group assesses at each reporting date whether there is an indication that nonfinancial assets such as property and equipment, right-of-use assets and intangible assets with definite useful life may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in the expense category consistent with the function of the impaired asset.

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Non-controlling Interest

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

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

Intangible Assets
Development 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 intangible asset is measured at cost less accumulated amortization and any accumulated impairment losses.

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

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

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

Fair Value Reserve
Fair value reserve represents the cumulative change in the fair value of financial assets at FVOCI until they are derecognized. Movements in the reserve are set out in the consolidated statements of changes in equity.

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

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

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

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

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

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 geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic 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.

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

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

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

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

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

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

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

Other Income. Income is recognized when earned.

Costs and Expenses

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

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

Leases
At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency Transactions

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

Allowance for impairment losses on trade and other receivables amounted to P141.8 million and P2.1 million as at December 31, 2020 and 2019, respectively. Trade and other receivables - net amounted to P132.4 million and P172.5 million as at December 31, 2020 and 2019, respectively (Note 10).

Estimated Useful Lives of Property and Equipment. The useful life of each of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment and intangible asset with useful life would increase the recorded operating expenses and decrease noncurrent assets. There were no changes in estimated useful lives in 2020 and 2019.

The carrying amount of property and equipment as at December 31, 2020 and 2019 amounted to P83.5 million and P107.4 million, respectively (Note 13).

Impairment of Non-financial Assets (except Goodwill) including Deferred Tax Assets. PFRSs require that an impairment review be performed on non-financial assets such as property and equipment and right-of-use assets when certain impairment indicators are present. Determining the recoverable amounts of property and equipment and right-of-use assets requires the estimation of future cash flows expected to be generated from the continued use and ultimate disposition of such assets or fair value less costs to sell, whichever is higher. Similarly, the Group reviews the carrying amount of deferred tax assets at each reporting date and reduces deferred tax assets 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 Group's assessment is based on forecast of the amount and timing of future taxable profits and reversal of temporary differences. While it is believed that the assumptions used in the estimation of recoverable values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and the impairment loss.

As the official document from PCSO confirming the extension of TGTI's ELA is not yet available and with the current COVID-19 pandemic (Note 2), management considered these factors in the impairment assessment of non-financial assets.

Management has considered the external and internal sources of impairment including the review of useful lives of the Group's property and equipment and management assessed that there were no impairment indicators affecting the Group's property and equipment as at December 31, 2020 and 2019. 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 (Notes 11, 21).

Certain deferred tax assets pertaining to NOLCO and deductible temporary differences were not recognized because it is not probable that future taxable profit will be available against which the Group can use the benefit therefrom (Note 20).

Management provided full provision for the remaining amount of spare parts and supplies as these are identified as obsolete and unusable owing to the necessary upgrades of hardware and software upon renewal of TGTI's ELA. 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 (Note 11).

Below is a summary of the breakdown of the Group's non-financial assets and impairment provision/unrecognized balance:

	Note	**Gross Amounts December 31, 2020**	**Impairment Provision/ Unrecognized Balance**	**Carrying Amounts December 31, 2020**
Advances and deposits	*10*	**P6,751,404**	**P -**	**P6,751,404**
Spare parts and supplies	*11*	**62,150,635**	**(43,534,148)**	**18,616,487**
Software development - net	*11*	**11,136,364**	**-**	**11,136,364**
Prepayments - net	*11*	**68,859,333**	**-**	**68,859,333**
Creditable withholding taxes	*11*	**77,729,268**	**(471,422)**	**77,257,846**
Property and equipment - net	*13*	**83,495,388**	**-**	**83,495,388**
Right-of-use assets - net	*21*	**10,578,532***	**(458,997)**	**10,119,536**
Deferred tax assets - net	*20*	**111,168,131**	**(28,753,572)****	**82,414,559**
		P431,869,056	**(73,218,139)**	**P358,650,917**

**After deducting P8,865,861 as a result of remeasurement of lease liability to zero.*

***Recognized as "Deferred tax expense" in the statement of comprehensive income.*

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

Impairment loss on goodwill amounted to nil, P17.0 million and P110.9 million in 2020, 2019 and 2018, respectively. The carrying amount of goodwill is nil as at December 31, 2020 and 2019. (Note 14).

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

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liability. The present value of defined benefit obligation amounted to P112.7 million and P128.8 million as at December 31, 2020 and 2019, respectively (Note 23).

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

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

The discount rate used in determining the financing component of the income from the Group's license agreement is 6.7%. This represents the risk-free interest rate for the payment period plus estimated credit spread. The financing component deducted from the license fee income amounted to P36.5 million in 2018. The accreted interest income amounted to P5.6 million, P8.6 million, and P12.6 million in 2020, 2019 and 2018, respectively (Note 22).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management expects future operations will generate sufficient taxable income that will allow part of the deferred tax assets to be utilized. The Group has unrecognized deferred tax assets amounting to P26.5 million and P17.0 million in 2020 and 2019, respectively. The Group also has derecognized deferred tax assets amounting to P2.2 million in 2020.

Deferred tax assets amounted to P82.4 million and P52.5 million as at December 31, 2020 and 2019 respectively (Note 20).

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.

Contingencies. The Group currently has no legal and administrative claims in process and only a couple of tax assessments, costs of which have been accrued for and will not have a material adverse effect on its consolidated financial position and consolidated financial performance.

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 against PCSO 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 February 8 2021, the court dismissed the case against Pacific Online.

Measurement of Fair Values. A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The methods and assumptions used to estimate fair values for financial assets and liabilities are discussed in Note 25.

The fair value of financial assets amounted to P0.7 billion and P1.1 billion as at December 31, 2020 and 2019, respectively. The fair value of financial liabilities amounted to P188.4 million and P360.0 million as at December 31, 2020 and 2019, respectively (Note 25).

6. Segment Information

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

The Group is engaged in the businesses of leasing lottery equipment to PCSO (leasing activities) and sale of lottery tickets like lotto, keno, sweepstakes and instant tickets (distribution and retail activities), among others. Revenues generated from the leasing activities account for 98%, 69%, and 75% of the Group's revenues in 2020, 2019 and 2018, respectively.

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

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

	2020			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	P293,104,496	P -	P -	P293,104,496
Commission and distribution income	-	5,425,907	-	5,425,907
Total revenue	P293,104,496	P5,425,907	P -	P298,530,403
Segments Results				
Income (loss) before income tax	(569,779,214)	(8,556,911)	159,922,238	(418,413,887)
Income tax expense (benefit)	(53,139,818)	186,039	-	(52,953,779)
Net income (loss)	(P516,639,396)	(P8,742,950)	P159,922,238	(P365,460,108)
Segment assets	P1,291,413,275	P103,428,485	(P291,437,719)	P1,103,404,041
Deferred tax assets - net	P81,738,151	P -	P676,408	P82,414,559
Segment assets (excluding deferred tax assets)	P1,209,675,124	P103,428,485	(P292,114,127)	P1,020,989,482
Segment liabilities	P247,404,339	P23,051,656	(P30,192,506)	P240,263,489
Other Information				
Capital expenditures	P90,839,188	P -	P -	P90,839,188
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

	2019 (Re-presented)			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	P681,483,757	P -	P -	P681,483,757
Commission and distribution income	-	25,465,751		25,465,751
Total revenue	P681,483,757	P25,465,751	P -	P706,949,508
Segments Results				
Income (loss) before income tax	(P375,765,509)	P96,215	P111,264,045	(P264,405,249)
Income tax expense (benefit)	(64,714,850)	543,403		(64,171,447)
Net income (loss) from discontinued operation	-	(120,738,572)	-	(120,738,572)
Net income (loss)	(P311,050,659)	(P121,185,760)	P111,264,045	(P320,972,374)
Segment assets	P1,949,630,084	P434,910,553	(P672,311,208)	P1,712,229,429
Deferred tax assets - net	P27,277,145	P24,547,842	P676,408	P52,501,395
Segment assets (excluding deferred tax assets)	P1,922,352,939	P410,362,711	(P672,987,616)	P1,659,728,034
Segment liabilities	P320,033,751	P229,654,430	(P150,278,105)	P399,410,076
Other Information				
Capital expenditures	P19,359,959	P10,176,519	P -	P29,536,478
Depreciation and amortization	159,503,099	2,017,917	-	161,521,016
Finance charges	4,367,236	41,727	-	4,408,963
Interest income	1,129,011	140,497	-	1,269,508

	2018 (Re-presented)			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	P1,448,317,611	P -	P -	P1,448,317,611
Commission and distribution income	-	55,268,244	-	55,268,244
Total revenue	P1,448,317,611	P55,268,244	P -	P1,503,585,855
Segments Results				
Income before income tax	P648,369,793	P25,022,769	(P202,760,077)	P470,632,485
Income tax expense	164,514,930	8,210,456	-	172,725,386
Net income (loss) from discontinued operation	-	6,140,916	-	6,140,916
Net income	P483,854,863	P22,953,229	(P202,760,076)	P304,048,015
Segment assets	P2,320,565,897	P464,748,111	(P682,234,627)	P2,103,079,381
Retirement benefits asset - net	P2,252,207	P5,603,346	P -	P7,855,553
Segment assets (excluding retirement benefits asset)	P2,318,313,690	P459,144,765	(P682,234,627)	P2,095,223,828
Segment liabilities	P240,397,556	P148,761,690	(P46,699,641)	P342,459,605
Other Information				
Capital expenditures	P22,839,420	P22,831,736	P -	P45,671,156
Depreciation and amortization	199,435,777	2,003,165	-	201,438,942
Finance charges	6,187,352	-	-	6,187,352
Interest income	1,041,474	115,999	-	1,157,473

7. Discontinued Operation

On February 13, 2020, the Group sold its Distribution and Retail Activities segment (Note 6). Management committed to a plan to sell this segment early in 2020, following a strategic decision to place greater focus on the Group's core business. With the online gaming business fast becoming a more challenging environment owing to the proliferation of other forms of gaming, legal or otherwise, it has been decided by the BOD that the Group should focus its resources to its principal business of providing modern and efficient online gaming facilities and equipment to its customers.

The Distribution and Retail Activities segment was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statements of income and OCI have been re-presented to show the discontinued operation separately from continuing operation.

A. Results of Discontinued Operation

	2020	2019	2018
Revenues	**P29,909,718**	P282,915,888	P432,358,141
Expenses	**45,708,617**	415,406,119	P426,949,742
Results from operating activities	**(15,798,899)**	(132,490,231)	5,408,399
Gain on sale of subsidiaries	**55,761,139**	-	-
Other income (expense)	**(125,255)**	1,507,809	6,837,717
Income (loss) before income tax from discontinued operation	**39,836,985**	(130,982,422)	12,246,116
Provision for income tax:			
Current	**3,252**	3,393,294	6,105,200
Deferred	**-**	(13,637,144)	-
Net income (loss) from discontinued operation, net of tax	**P39,833,733**	(P120,738,572)	P6,140,916

	2020	2019	2018
Basic earnings (loss) per share	**0.0471**	(0.1429)	0.0073
Diluted earnings (loss) per share	**0.0471**	(0.1429)	0.0073

The net income (loss) from the discontinued operation of P39.8 million, (P120.7 million), and P6.1 million in 2020, 2019, and 2018, respectively, is attributable entirely to the equity holders of the Parent Company. Of the net income (loss) from continuing operation of (P421.2 million), (P200.2 million), and P297.9 million in 2020, 2019, and 2018, respectively, an amount of (P418.3 million), (P198.7 million) and P296.5 million is attributable to the equity holders of the Parent Company.

Total gain on deconsolidation amounted to P55.76 million, which is the difference between the consideration received and the Group's share on LCC Group's net assets at the date of disposal.

B. Cash flows provided by (used in) discontinued operation

	2020	2019	2018
Net cash provided by (used in) operating activities	**(P13,665,741)**	(P25,970,672)	P18,450,031
Net cash provided by (used in) investing activities	**9,879,025**	(9,698,616)	16,708,114
Net cash used in financing activities	**-**	(2,613,975)	-
	(P3,786,716)	(P38,283,263)	P1,714,917

C. Effect of disposal on the financial position of the Group

	2020
Cash and cash equivalents	**(P127,534,435)**
Trade and other receivables - net	**(3,884,240)**
Other current assets	**(48,047,685)**
Property and equipment - net	**(25,369,421)**
Right-of-use assets - net	**(26,056,920)**
Other noncurrent assets	**(29,299,938)**
Trade and other payables	**157,712,404**
Withholding taxes payable	**1,777,797**
Lease liabilities	**27,074,542**
Net Assets and Liabilities	**(P73,627,896)**
Consideration received, satisfied in cash	**P137,413,460**
Cash and cash equivalents disposed of	**(127,534,435)**
Net Cash Inflows	**P9,879,025**

8. Cash and Cash Equivalents

This account consists of:

	Note	2020	2019
Cash on hand and in banks		**P162,274,833**	P299,209,748
Cash equivalents		**-**	38,261,781
	25	**P162,274,833**	P337,471,529

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Interest income from cash in banks amounted to P0.7 million, P1.2 million, and P1.5 million in 2020, 2019 and 2018, respectively.

9. Marketable Securities

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

The movements in marketable securities are as follows:

	Note	**2020**	2019
Balance at beginning of year		**P140,456,581**	P155,704,892
Acquisitions		**-**	-
Disposals		**(50,000,000)**	-
Mark-to-market loss		**(6,195,655)**	(15,248,311)
Balance at end of year	*25*	**P84,260,926**	P140,456,581

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 P2.4 million, P4.7 million, and P5.0 million in 2020, 2019 and 2018, respectively.

10. Trade and Other Receivables

	Note	**2020**	2019
Trade receivables	*2,25*	**P114,880,889**	P126,602,764
Nontrade receivables	*25*	**113,677,614**	-
Accrued license fee income - current portion	*25*	**41,886,958**	40,062,153
Advances:			
Officers and employees		**1,291,113**	4,575,259
Contractors and suppliers		**2,186,791**	2,249,254
Other receivables	*25*	**275,107**	1,159,570
		274,198,472	174,649,000
Less allowance for impairment loss		**141,825,004**	2,147,391
		P132,373,468	P172,501,609

Trade receivables are generally on a 30-to-60-day credit terms. The risks associated on this account are disclosed in Note 25.

Nontrade receivables pertain to reclassified amounts from advances to subsidiaries of the Parent Company to LCC Group . The management assessed that there may be delayed payments from LCC Group due to the impact of COVID 19 pandemic to its operations and since the balances pertain to long outstanding advances, the management assessed that provision is necessary.

Due to the suspension of PCSO games on July 27, 2019 for 2 months and on March 17, 2020 for 4.5 months (Note 2), PMLC was not able to supply and distribute instant scratch tickets to its customers. The management expects delay on the payment for those months, thus, the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable.

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

	Note	2020	2019
Balance at beginning of year		**P2,147,391**	P -
Impairment losses recognized during the year	*19*	**139,677,613**	2,147,391
Balance at end of year		**P141,825,004**	P2,147,391

Allowance recognized in 2020 pertains to nontrade receivables and accrued license fee. Allowance recognized in 2019 pertains to the accounts receivables from suppliers,

11. Other Current and Noncurrent Assets

Current Assets

	Note	2020	2019
Creditable withholding taxes	*5*	**P77,729,268**	P99,767,274
Prepayments - net		**68,859,333**	71,897,116
Spare parts and supplies at cost	*5*	**62,150,635**	37,430,916
Input VAT		**-**	5,170,008
		208,739,236	214,265,314
Less allowance for impairment loss	*19*	**44,005,570**	-
		P164,733,666	P214,265,314

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

Allowance recognized during the year pertains to spare parts and supplies and creditable withholding taxes (Note 5).

Noncurrent Assets

	Note	2020	2019
Accrued license fee income - net of current portion	*10, 25*	**P70,319,085**	P96,553,502
Guaranteed deposits	*2, 25*	**14,500,000**	12,000,000
Software development - net		**11,136,364**	104,545,455
Refundable deposits	*25*	**4,159,704**	35,424,154
Prepaid service & maintenance - net		**-**	40,227,273
Others		**1,794,147**	1,537,676
		P101,909,300	P290,288,060

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

An amount of P1.8M was impaired pertaining to the pre-termination of ROU-assets (Note 21).

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

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

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

Amortization for the year pertaining to prepayments, software development, and prepaid service & maintenance amounted to P126.59 million (Note 19).

12. Financial Assets at Fair Value Through Other Comprehensive Income

The movements in financial assets at FVOCI are as follows:

	Note	**2020**	2019
Balance at beginning of year		**P347,630,880**	P455,705,930
Acquisitions		**-**	-
Disposals		**-**	-
Fair value loss		**(65,808,515)**	(108,075,050)
Balance at end of year	*25*	**P281,822,365**	P347,630,880

There were no acquisitions or disposals in 2020 and 2019 for the above investments. The fair value loss on financial assets at FVOCI is reported as "Other Comprehensive Income (Loss)" in the consolidated statements of comprehensive income.

Dividend income amounted to P27.0 million, P27.0 million, and P24.1 million in 2020, 2019 and 2018, respectively.

13. Property and Equipment

The movements in the account are as follows:

	Note	Lottery Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2019		P911,789,356	P99,270,113	P196,047,654	P77,853,744	P1,284,960,867
Acquisitions		7,759,051	2,984,917	8,826,345	9,966,163	29,536,476
Reclassifications		(163,499,020)	-	-	-	(163,499,020)
Disposals		(13,280,268)	(87,500)	(3,762,911)	(11,742,906)	(28,873,585)
December 31, 2019		742,769,119	102,167,530	201,111,088	76,077,001	1,122,124,738
Acquisitions		89,370,392	211,114	1,130,182	127,500	90,839,188
Reclassifications		-	-	-	(156,250)	(156,250)
Disposals		(17,962,170)	(3,007,325)	(4,047,891)	(8,093,117)	(33,110,503)
Sale of subsidiaries		-	(68,195,834)	(158,744,891)	(14,710,883)	(241,651,608)
December 31, 2020		814,177,341	31,175,485	39,448,488	53,244,251	938,045,565
Accumulated Depreciation and Amortization						
January 1, 2019		750,870,733	83,589,685	143,463,079	47,161,110	1,025,084,607
Depreciation and amortization	*19*	114,088,548	2,084,528	10,361,474	10,601,172	137,135,722
Reclassifications		(154,873,751)	-	44,983	(44,983)	(154,873,751)
Disposals		(13,280,266)	(87,500)	(3,762,911)	(11,591,047)	(28,721,724)
Sale of subsidiaries		-	7,616,589	24,131,390	4,335,914	36,083,893
December 31, 2019		696,805,264	93,203,302	174,238,015	50,462,166	1,014,708,747
Depreciation and amortization	*19*	71,475,894	1,975,893	7,716,746	7,409,064	88,577,597
Disposals		(17,962,170)	(3,007,325)	(4,047,894)	(7,436,591)	(32,453,980)
Sale of subsidiaries		-	(64,358,066)	(141,306,507)	(10,617,614)	(216,282,187)
December 31, 2020		750,318,988	27,813,804	36,600,360	39,817,025	854,550,177
Carrying Amount						
December 31, 2020		P63,858,353	P3,361,681	P2,848,128	P13,427,226	P83,495,388
December 31, 2019		P45,963,855	P8,964,228	P26,873,073	P25,614,835	P107,415,991

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

14. Goodwill

Goodwill acquired through business combinations has been allocated to distribution and retail activities, a cash-generating unit (CGU), which is also the reportable operating segment for impairment testing. The group performs impairment testing annually or more frequently when there are indicators of impairment for goodwill.

Impairment loss on goodwill amounted to nil, P17.0 million and P110.9 million in 2020, 2019 and 2018, respectively.

15. Trade and Other Current Liabilities

	Note	2020	2019
Accounts payable		**P80,208,348**	P75,397,172
Accrued expenses:			
Professional fees		**28,358,274**	25,181,600
Communications		**24,146,710**	11,996,294
Rental and utilities		**419,410**	5,670,542
Consultancy, software and license fees payable		**38,592,854**	17,207,061
Output tax		**494,845**	494,845
Others		**6,005,554**	8,284,437
	25	**P178,225,995**	P144,231,951

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

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

a. Consultancy Agreements
The Group hired the services of several consultants for its gaming operations. Consultancy fees are based on a certain percentage of the sales of certain variants of PCSO lottery. Consultancy fees amounted to P30.3 million in 2018 (Note 19).

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

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

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

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

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

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

Software and license fees amounted to P11.5 million, P22.0 million, and P37.8 million in 2020, 2019 and 2018, respectively (Note 19).

c. Intralot

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

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

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

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

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

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

   Software and license fees amounted to P16.9 million, P76.1 million, and P96.4 million in 2020, 2019 and 2018, respectively (Note 19).

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

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

Software and license fees amounted to P12.1 million, P42.7 million, and P61.6 million in 2020, 2019 and 2018, respectively (Note 19).

d. Management Agreement
The Parent Company has a Management Agreement with AB Gaming and Leisure Exponent Specialist, Inc. for the latter to provide investment and management counsel and to act as manager and overseer of the Parent Company's operations. In consideration for these services, the Parent Company shall pay a monthly fee of P0.1 million and an amount equivalent to a certain percentage of the Company's earnings before interest, taxes, depreciation and amortization (EBITDA).

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

Management fees amounted to P44.7 million in 2018 (Note 19).

16. Loan Payable

On December 18, 2019, the Parent Company availed of a one (1) year unsecured loan from Asia United Bank amounting to P150.0 million with an interest rate of 5.25% per annum, payable in monthly installments. On December 18, 2020, the Parent Company fully paid the principal amount and interest payable.

Interest expense incurred in this loan amounted to P4.3 million in 2020.

17. Equity

a. Capital Stock

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK				
Authorized:				
Common shares - P1 par value	2,288,000,000	P2,288,000,000	2,288,000,000	P2,288,000,000
Issued:				
Balance at beginning of year	895,330,946	895,330,946	447,665,473	447,665,473
Issuance during the year	-	-	447,665,473	447,665,473
Balance at end of year	895,330,946	895,330,946	895,330,946	895,330,946
Treasury stock:				
Balance at beginning of year	50,466,984	285,267,558	25,233,492	285,267,558
Effect of stock dividend	-	-	25,233,492	-
Purchases during the year	-	-	-	-
	50,466,984	285,267,558	50,466,984	285,267,558
Outstanding shares	844,863,962	P610,063,388	844,863,962	P610,063,388

On August 14, 2018, the Board of Directors approved the amendment in the Parent Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock was approved by the SEC on February 28, 2019.

b. Stock Dividend Distributable

On August 14, 2018, the Board of Directors declared a 100% stock dividend to the Parent Company's stockholders which the record and payment dates will be set subject to the approval of the SEC of the Parent Company's increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock. The stock dividend declaration was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock was subsequently approved by SEC last February 28, 2019. On March 15, 2019, the SEC approved the record date of March 29, 2019 and the payment date of on or before April 29, 2019 for the Parent Company's 100% stock dividend.

c. Dividends

No cash or stock dividends were declared in 2020 and 2019.

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

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

d. Treasury Stock

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

The movements in treasury stock are as follows:

	December 31, 2020		December 31, 2019	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of the year	**50,466,984**	**P285,267,558**	25,233,492	P285,267,558
Effect of stock dividend	**-**	**-**	25,233,492	-
Acquisitions	**-**	**-**	-	-
Balance at end of the year	**50,466,984**	**P285,267,558**	50,466,984	P285,267,558

18. Related Party Transactions

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance Advances to Related Parties	Outstanding Balance Advances from Related Parties	Terms	Conditions
TGTI							
▪ Advances	2020	*a*	P3,657,573	P -	P6,315,487	On demand, non-interest bearing	Unsecured
	2019	*a*	(3,928,115)	-	2,657,914		
▪ Reimbursements	2020	*a*	17,989,687	-	-		
	2019	*a*	31,259,301	-	-		
FRI							
▪ Advances	2020	*a*	-	-	-	On demand, non-interest bearing	Unsecured
	2019	*a*	(10,000,000)	-	-		
LOTO PAC							
▪ Advances	2020	*a*	(986,855)	-	-	On demand, non-interest bearing	Unsecured
	2019	*a*	150,967	-	986,855		
LCC & Nine Entities (sold)							
▪ Advances	2020	*a*	-	-	-	On demand, non-interest bearing	Unsecured
	2019	*a*	79,287,018	986,855	108,375,661		
▪ Rental expense	2020	*b*	-	-	-		
	2019	*b*	76,662,787	-	-		
▪ Security deposits	2020	*b*	-	-	-		
	2019	*b*	22,929,104	-	-		
TOTAL	2020			P -	P6,315,487		
TOTAL	2019			P986,855	P112,020,430		

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

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

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

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

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

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

The total receivables and payables eliminated amounted to P6.3 million and P30.2 million, respectively.

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

	2020	2019	2018
		(In Millions)	
Short-term employee benefits	**P20.1**	P27.6	P32.02
Post-retirement benefits	**1.8**	2.3	2.33
	P21.9	P29.9	P34.35

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

19. Costs and Expenses

	Note	**2020**	2019	2018
Depreciation and amortization	*13,21*	**P233,659,796**	P161,521,016	P201,438,942
Provision for impairment loss	*10,11, 21*	**184,142,180**	2,147,391	-
Personnel costs		**129,508,427**	162,793,070	178,837,397
Communications		**78,540,098**	112,863,776	105,915,337
Software and license fees	*15*	**40,565,718**	136,317,928	195,747,032
Rent and utilities	*21*	**28,920,270**	38,717,421	52,625,586
Travel and accommodation		**28,780,603**	74,955,207	60,372,790
Repairs and maintenance		**23,499,680**	102,943,022	63,076,134
Operating supplies	*2*	**10,535,022**	48,029,768	151,042,801
Taxes and licenses		**10,293,305**	33,193,982	29,846,975
Professional fees		**5,803,981**	12,136,316	11,466,934
Entertainment, amusement and representation		**4,234,542**	21,104,240	13,069,166
Marketing and promotion		**9,193,468**	47,609,243	38,426,399
Management fees	*15*	**-**	-	44,665,897
Consultancy fees	*15*	**-**	-	30,312,175
Others		**5,949,618**	353,123	10,694,885
		P793,626,708	P954,685,503	P1,187,538,450

Personnel costs are as follows:

	2020	2019	2018
Salaries and wages	**P87,299,273**	P105,894,614	P120,066,410
Other short-term employee benefits	**29,109,451**	40,031,191	47,843,540
Post-employment benefits	**13,099,703**	16,867,265	10,927,447
	P129,508,427	P162,793,070	P178,837,397

20. Income Tax

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

	2020	2019	2018
Income (loss) before income tax from continuing operations	**(P474,175,026)**	(P264,405,249)	P470,632,485
Income tax expense (benefit) at statutory income tax rate (30%)	**(P142,252,508)**	(P79,321,575)	P141,189,746
Additions to (reductions in) income tax:			
Nondeductible expenses	**9,314,534**	45,315,529	5,433,994
Unrecognized NOLCO	**28,753,572**	-	-
Nontaxable income	**(8,790,667)**	(9,497,167)	(8,724,733)
Impairment loss on goodwill	**-**	5,113,880	33,280,199
Impairment loss on receivables, spare parts and supplies	**57,760,985**	-	-
Mark-to-market loss on marketable securities	**1,858,697**	4,574,493	3,570,926
Income subjected to final tax	**(253,820)**	(512,443)	(553,175)
Gain on sale of marketable securities	**-**	-	(464,468)
Sale of subsidiaries	**-**	(29,050,877)	(2,431,365)
Others	**655,428**	(793,287)	1,424,262
Income tax expense (benefit) on continuing operations	**(P52,953,779)**	(P64,171,447)	P172,725,386

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

	2020	2019	2018
Amount charged (credited) to profit or loss	**(P52,959,818)**	(P68,381,533)	P47,432,314
Amount charged (credited) to other comprehensive income	**(1,321,188)**	(7,779,857)	5,304,510
	(P54,281,006)	(P76,161,390)	P52,736,824

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

As at December 31, 2020

	Beginning	Less Sale of Subsidiaries	Movements	Ending
Items Recognized in Profit or Loss				
Unamortized past service cost	P11,988,761	P2,748,337	P2,546,397	P11,786,821
Allowance for impairment losses on trade and other receivables	4,186,152	3,541,935	(644,217)	-
NOLCO	71,861,150	17,963,617	43,432,068	97,329,599
Accrued expenses	1,067,844	-	(284,320)	783,525
Unrealized foreign exchange gain	322,060	-	(148,425)	173,635
Prepayments	(715,451)	(655,185)	-	(60,266)
Retirement benefits liability (asset)	(2,730,737)	(2,254,158)	735,433	258,854
Accrued license fee income	(40,984,696)	-	7,322,883	(33,661,813)
	44,995,083	21,344,546	52,959,819	76,610,355
Items Recognized in Other Comprehensive Income				
Remeasurement of retirement benefits	7,506,312	3,023,296	1,321,188	5,804,204
	P52,501,395	P24,367,842	P54,281,007	P82,414,559

As at December 31, 2019

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

The Bicameral Committee had settled the disagreeing provisions of House Bill No. 4157 and Senate Bill No. 1357 of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

Among the reforms, the following are the significant provisions:

- Adoption of graduated regular corporate income tax (RCIT) rate effective 01 July 2020 based on total assets of domestic corporations as follows:
  - domestic corporations with total assets of Php100 million and below
    - with taxable income of Php5 million and below - 20% RCIT
    - with taxable income of more than Php5 million - 25% RCIT
  - domestic corporations with total assets of more than Php100 million - 25% RCIT
- Adoption of 25% RCIT for resident foreign corporations effective 01 July 2020
- Adoption of 25% tax rate for nonresident foreign corporations effective 01 July 2020
- Reduction of minimum corporate income tax (MCIT) from 2% to 1% for a period of three years (effective 01 July 2020 until 30 June 2023)
- Existing enterprises under income tax holiday (ITH) shall be allowed to continue availing the ITH until the remaining period ends. Existing enterprises enjoying the 5% tax based on gross income shall be allowed to continue to enjoy the 5% tax for a period of 10 years, regardless of number of years it has been enjoying the 5% tax rate. After the expiration of the transitory period, they have the option to avail of the tax incentives under CREATE.

This approval of CREATE Act in the Bicameral Comittee is an important step towards its enactment into law. This has been endorsed for the President's signature.

21. Lease Commitments

Leases as Lessee (PFRS 16)

The Group leases office space, outlets and warehouses. The leases typically run for a period of 2-5 years, with an option to renew the lease after that date.

i. Right-of-Use Assets

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

	Note	Offices, Outlets and Warehouses	Equipment	Total
Balance at January 1, 2019		P70,434,635	P8,625,269	P79,059,904
Depreciation charge for the year*	*19*	(37,508,557)	(8,625,269)	(46,133,826)
Additions to right-of-use assets		17,371,992	-	17,371,992
Balance at January 1, 2020		**50,298,070**	-	**50,298,070**
Depreciation charge for the year	*19*	(18,491,290)	-	(18,491,290)
Additions to right-of-use assets		14,788,801	-	14,788,801
Derecognition		(27,151,187)	-	(27,151,187)
		19,444,394	-	19,444,394
Pre-termination of lease		(8,865,861)	-	(8,865,861)
Provision for impairment loss**	*19*	(458,997)	-	(458,997)
Balance at December 31, 2020		**P10,119,536**	**P -**	**P10,119,536**

inclusive of LCC Group's depreciation amounting to P21.8 million.

ii. Lease Liabilities

	2020	2019
Balance at beginning of year	**P67,602,005**	P68,318,240
Reclassification from finance lease	**-**	35,374,474
Interest charge for the year*	**1,997,737**	7,022,938
Payments made	**(36,842,763)**	(60,485,647)
Additions to lease liabilities	**14,788,801**	17,372,000
Sale of subsidiaries	**(27,074,552)**	-
Pre-termination of lease liabilities	**(8,865,861)**	-
Balance at end of year	**P11,605,367**	P67,602,005

**LCC Group's interest charge in 2019 amounted to P2.6 million.*

iii. Amounts to be recognized in profit or loss

	Note	2020
2020 - Leases under PFRS 16		
Interest on lease liability		**P1,997,737**
Depreciation expense	*19*	**18,491,290**
Rent expense relating to short-term leases	*19*	**17,853,572**
Total cash outflows for leases in 2020		**P38,342,599**

	Note	2019
2019 - Leases under PFRS 16		
Interest on lease liability		**P7,022,938**
Depreciation expense	*19*	**46,133,826**
Rent expense relating to short-term leases	*19*	**92,024,069**
2018 - Operating Leases under PAS 17		
Rent expense		**P214,003,791**
Total cash outflows for leases in 2019		**P145,180,833**

22. Other Income (Loss)

"Others" under Other income consists of:

	Note	2020	2019	2018
Accreted interest income	*2, 5*	**P5,590,388**	P8,600,002	P12,556,482
Service income (loss)		**(1,132,202)**	5,396,307	5,163,930
Excess input VAT		**(3,696,247)**	(28,913,770)	32,627,219
Gain on sale of:				
Marketable securities		**-**	-	1,548,225
Property equipment		**15,000**	403,488	540,997
Foreign exchange losses		**(949,729)**	(1,180,826)	(845,519)
Others		**3,391,818**	2,802,353	(1,680,910)
		P3,219,028	(P12,892,446)	P49,910,424

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

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

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

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

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

23. Retirement Plan

The Parent Company, TGTI, LCC and Nine Entities have funded, noncontributory defined benefits plans covering substantially all of its regular employees. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2020. Valuations are obtained on a periodic basis.

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

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

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

On February 13, 2020, LCC Group was sold to a third party (Note 7).

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Defined Benefits Liability (Asset)		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Balance at beginning of year	**P128,758,005**	P72,912,774	P84,212,651	**P98,915,237**	P80,768,327	P85,569,924	**P29,842,768**	(P7,855,553)	(P1,357,273)
Sale of subsidiaries	**(26,692,142)**	-	-	**(29,599,165)**	-	-	**2,907,023**	-	-
Recognized in Profit or Loss									
Current service cost	**11,343,463**	9,816,655	12,297,526	**-**	-	-	**11,343,463**	9,816,655	12,297,526
Past service cost	**(1,809,643)**	9,357,392		**-**	-	-	**(1,809,643)**	9,357,392	-
Interest expense	**5,257,909**	5,750,268	4,749,206	**-**	-	-	**5,257,909**	5,750,268	4,749,206
Interest income	**-**	-	-	**3,517,936**	7,123,506	4,998,686	**(3,517,936)**	(7,123,506)	(4,998,686)
Interest on effect of asset ceiling	**-**	-	-	**(16,267)**	(464,657)	(135,374)	**16,267**	464,657	135,374
	14,791,729	24,924,315	17,046,732	**3,501,669**	6,658,849	4,863,312	**11,290,060**	18,265,466	12,183,420
Remeasurements Recognized in Other Comprehensive Income									
Actuarial (gains) losses arising from:									
Experience adjustments	**(16,894,421)**	(681,139)	(691,375)	**-**	-	-	**(16,894,421)**	(681,139)	(691,375)
Changes in financial assumptions	**17,716,460**	33,150,515	(22,323,512)	**-**	-	-	**17,716,460**	33,150,515	(22,323,512)
Changes in demographic assumptions	**-**	(1,548,460)	(5,235,516)	**-**	-	-	**-**	(1,548,460)	(5,235,516)
Return on plan asset excluding interest	**-**	-	-	**(3,909,818)**	(293,111)	(7,194,150)	**3,909,818**	293,111	7,194,150
Effect of asset ceiling	**-**	-	-	**327,897**	5,281,172	(3,374,553)	**(327,897)**	(5,281,172)	3,374,553
	822,039	30,920,916	(28,250,403)	**(3,581,921)**	4,988,061	(10,568,703)	**4,403,960**	25,932,855	(17,681,700)
Others									
Benefits paid	(4,975,993)	-	(96,206)	**(4,975,993)**	-	(96,206)	**-**	-	-
Contributions paid	-	-	-	**-**	6,500,000	1,000,000	**-**	(6,500,000)	(1,000,000)
	(4,975,993)	-	(96,206)	**(4,975,993)**	6,500,000	903,794	**-**	(6,500,000)	(1,000,000)
Balance at end of year	**P112,703,638**	P128,758,005	P72,912,774	**P64,259,827**	P98,915,237	P80,768,327	**P48,443,811**	P29,842,768	(P7,855,553)

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

	2020	2019
Balance at beginning of period	**P1,068,364**	P5,884,879
Remeasurement gain on the change in the effect of asset ceiling	**(327,897)**	(5,281,172)
Interest expense on effect of asset ceiling	**16,267**	464,657
Balance at end of period	**P756,734**	P1,068,364

The fair value of plan assets consists of the following:

	2020	2019
Cash and cash equivalents	**P19,847**	P6,462,730
Debt instruments - government bonds	**25,196,150**	49,620,862
Debt instruments - other bonds	**3,772,126**	2,994,707
Unit investment trust funds	**37,324,296**	38,169,995
Others	**(2,052,592)**	1,666,943
	P64,259,827	P98,915,237

The Parent Company and TGTI will contribute P10.0 million and P2.0 million to the benefit plan in 2020.

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

	2020	
	Parent Company	**TGTI**
Discount rate	**3.95%**	**3.96%**
Future salary increase	**8.00%**	**8.00%**

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

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

As at December 31, 2020, the weighted average duration of the retirement liability of the Group is 13.9 years to 14.9 years.

Maturity analysis of total benefit payments of the Group:

	Expected Benefit Payments		
Period	Parent Company	TGTI	Total
2021	P14,627,349	P10,087,716	P24,715,065
2022	1,054,002	255,428	1,309,430
2023	2,586,083	-	2,586,083
2024	-	-	-
2025	4,009,672	-	4,009,672
2026-2029	19,827,551	-	19,827,551

As at December 31, 2020, the reasonable possible changes to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below:

	1 Percent Increase	1 Percent Decrease
Discount rate	(3,173,255)	4,089,617
Future salary increase rate	3,876,328	(3,093,570)

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

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

24. Earnings Per Share (EPS)

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

	2020	2019	2018
Issued - beginning of year	**P895,330,946**	P447,665,473	P447,665,473
Treasury shares at beginning of the year	**(50,466,984)**	(25,233,492)	(23,755,492)
Outstanding at beginning of year, before stock dividends	**844,863,962**	422,431,981	423,909,981
100% stock dividends:			
All issued shares	-	447,665,473	447,665,473
On treasury shares	-	(25,233,492)	(23,755,492)
Retrospective Effect of Stock dividends	-	422,431,981	423,909,981
Outstanding at beginning of year, after stock dividends (a)	**844,863,962**	844,863,962	847,819,962

	2020	2019	2018
Effect of acquisition of treasury shares on weighted average, before effect of stock dividends	P -	P -	(P1,113,439)
Effect of 100% stock dividends	-	-	(1,113,439)
Effect of acquisition of treasury shares, after stock dividends (b)	P -	P -	(P2,226,878)
Weighted average number of shares outstanding during the year for Basic EPS and Diluted EPS (a+b)	**844,863,962**	844,863,962	845,593,084
Net income (loss) attributable to equity holders of the Parent Company (c)	**(P378,508,762)**	(P319,411,018)	P302,659,366
Basic EPS and Diluted EPS (c/(a+b))	**(P0.4480)**	(P0.3781)	P0.3579

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

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

Diluted EPS is calculated in the same manner as basic EPS adjusted for dilutive instruments. The calculation for 2017 includes the effect of the 100% stock dividend declared during the year. The increase in authorized capital stock was approved by the SEC on February 28, 2019. (Note 17).

25. Financial Instruments

Financial Risk Management Objectives and Policies

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

Credit Risk

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

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

The table below shows the maximum exposure to credit risk for the Group's financial assets as at December 31, 2020 and 2019 without taking into account any collateral and other credit enhancements:

	Note	2020	2019
Cash in banks and cash equivalents*	*8*	**P161,572,701**	P332,880,313
Trade and other receivables - net**	*10,11*	**195,941,150**	212,881,594
Marketable securities	*9*	**84,260,926**	140,456,581
Refundable deposits	*11*	**4,159,704**	35,424,154
Financial assets at FVOCI	*12*	**281,822,365**	347,630,880
Guarantee bonds***	*11*	**14,500,000**	12,000,000
Total credit exposure		**P742,256,846**	P1,081,273,522

**Excludes cash on hand amounting to P0.7 million and P4.6 million as at December 31, 2020 and 2019, respectively.*

***Inclusive of noncurrent portion of accrued license fee income amounting to P70.3 million and P96.6 million and exclusive of advances amounting to P6.8 million and P56.2 million as at December 31, 2020 and 2019, respectively.*

****Includes the cash bond under "Other current assets" in the consolidated statements of financial position.*

The table below shows the aging analysis of receivables other financial assets as at December 31, 2020 and 2019:

	2020		
	Neither Past Due nor Impaired	**Impaired**	**Total**
Trade and other receivables - net	**P109,459,999**	**P -**	**P109,459,999**
Accrued receivable*	**86,206,043**	**-**	**86,206,043**
Guarantee bonds**	**14,500,000**	**-**	**14,500,000**
Refundable deposits	**4,159,704**	**-**	**4,159,704**
Other receivables	**275,108**	**-**	**275,108**
	P214,600,854	**P -**	**P214,600,854**

**Inclusive of noncurrent portion of license fee income of P70.3 million and exclusive of advance payments of P6.8 million.*

*** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.*

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

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

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

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

	2020			
	Grade A	**Grade B**	**Grade C**	**Total**
At amortized cost:				
Cash in banks and cash equivalents	**P161,572,701**	**P -**	**P -**	**P161,572,701**
Trade and other receivables - net*	**109,735,107**	**86,206,043**	**-**	**195,941,150**
Refundable deposits	**-**	**4,159,704**	**-**	**4,159,704**
Guarantee bonds	**-**	**-**	**14,500,000**	**14,500,000**
At FVPL:				
Marketable securities	**84,260,926**	**-**	**-**	**84,260,926**
At FVOCI:				
Financial assets at FVOCI	**281,822,365**	**-**	**-**	**281,822,365**
	P637,391,099	**P90,365,747**	**14,500,000**	**P742,256,846**

**Inclusive of noncurrent portion of accrued license fee income amounting to P70.3 million and exclusive of advance payments of P6.8 million.*

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

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

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

Estimating ECL

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets as at December 31, 2020 by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost				
December 31, 2020	**12-Month ECL**	**Lifetime ECL not Credit Impaired**	**Total**	**ECL**	**Carrying Amount**
Cash in banks and cash equivalents	P161,572,701	P -	P161,572,701	P -	P161,572,701
Trade and other receivables - net*	337,766,154	-	337,766,154	(141,825,004)	195,941,150
Refundable security deposits	4,159,704	-	4,159,704	-	4,159,704
Guarantee bonds	14,500,000	-	14,500,000	-	14,500,000
	P517,998,559	P -	P517,998,559	(P141,825,004)	P376,173,555

**Inclusive of noncurrent portion of accrued license fee income amounting to P70.3 million and exclusive of advance payments of P6.8 million.*

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

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

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

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

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

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

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

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

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

Marketable Securities

Increase (Decrease) in Equity Price	**Effect on Consolidated Income before Income Tax**
2020	
5%	**P4,213,046**
(5%)	**(4,213,046)**
2019	
5%	7,022,829
(5%)	(7,022,829)

Financial assets at FVOCI

Increase (Decrease) in Equity Price	**Effect on Comprehensive Net Income**
2020	
8%	**P22,545,789**
(8%)	**(22,545,789)**
2019	
8%	27,810,470
(8%)	(27,810,470)

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

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

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

		2020				
	Note	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	15	P68,152,272	P69,757,566	P7,087,656	P31,766,804	P176,764,298
Lease liabilities**	20	3,296,586	2,965,567	2,625,111	2,718,103	11,605,367
		P71,448,858	P72,723,133	P9,712,767	P34,484,907	P188,369,665

** Excluding statutory liabilities amounting to P1.5 million.*
***Inclusive of noncurrent portion*

		2019				
	Note	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	15	P61,145,802	P52,988,151	P634,800	P27,627,805	P142,396,558
Loans payable	16	37,500,000	75,000,000	37,500,000	-	150,000,000
Lease liabilities**	21	9,736,270	18,392,708	30,224,143	9,248,884	67,602,005
		P108,382,072	P146,380,859	P68,358,943	P36,876,689	P359,998,563

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

Foreign Currency Risk

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

As at December 31, 2020 and 2019, assets and liabilities denominated in US$ include cash in banks amounting to P19.6 million ($409,091) and P51.8 million ($1,022,373), and trade and software and license fees payables amounting to P80.3 million ($1,672,996) and P17.2 million ($339,792), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P48.00 and P50.64 to US$1, the Php to US$ exchange rates, as at December 31, 2020 and 2019, respectively.

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

Increase (Decrease) in US$ Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2020		
5%	**(P3,033,372)**	**(P2,123,361)**
(5%)	**3,033,372**	**2,123,361**
2019		
5%	(1,728,296)	(1,209,807)
(5%)	1,728,296	1,209,807

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

Capital Management

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

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

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

As at December 31, 2020 and 2019, the Group is compliant with the minimum public float requirement by the PSE.

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

There were no changes in the Group's approach to capital management during the year. As at December 31, 2020 and 2019, the Group is compliant with the minimum public float requirement by PSE.

The Group's current ratio, calculated as total current assets over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at December 31, 2020 and 2019 are as follows:

Current Ratio

	2020	2019
Current assets	**P543,642,893**	P864,695,033
Current liabilities	**187,891,135**	360,318,424
Current ratio	**2.89:1.00**	2.40:1.00

Debt-to-Equity Ratio

	2020	2019
Total liabilities	**P240,263,489**	P399,410,076
Total equity	**863,140,552**	1,313,419,353
Debt-to-equity ratio	**0.28:1.00**	0.30:1.00

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at December 31, 2020 and 2019:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash and cash equivalents	P160,591,351	P160,591,351	P337,471,529	P337,471,529
Trade and other receivable*	195,941,150	195,941,150	212,881,594	212,881,594
Refundable deposits	4,159,704	4,159,704	35,424,154	35,424,154
Guarantee bonds	14,500,000	14,500,000	12,000,000	12,000,000
At FVPL:				
Marketable securities	84,260,926	84,260,926	140,456,581	140,456,581
At FVOCI:				
Financial assets at FVOCI	281,822,365	281,822,365	347,630,880	347,630,880
	P741,275,496	P741,275,496	P1,085,864,738	P1,085,864,738

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	P176,764,298	P176,764,298	P142,396,558	P142,396,558
Loan payable	-	-	150,000,000	150,000,000
Lease liabilities (inclusive of noncurrent portion)	11,605,367	11,605,367	67,602,005	67,602,005
	P188,369,665	P188,369,665	P359,998,563	P359,998,563

**Inclusive of noncurrent portion of accrued license fee income amounting to P70.3 million and P96.6 million and exclusive of advances amounting to P6.8 million and P56.2 million as at December 31, 2020 and 2019, respectively.*

***Excluding statutory liabilities of P1.5 million and P1.8 million in 2020 and 2019, respectively.*

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

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

The fair values of marketable securities and financial assets at FVOCI are based on quoted market prices.

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

	Level 1	Level 2	Level 3	Total
Marketable Securities				
2020	**P84,260,926**	**P -**	**P -**	**P84,260,926**
2019	140,456,581	-	-	140,456,581
Financial assets at FVOCI				
2020	**P281,822,365**	-	-	P281,822,365
2019	347,630,880	-	-	347,630,880

There were no transfers between Levels in 2020 and 2019.

26. Impacts of COVID-19

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the COVID-19. To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services. The ECQ was further extended until May 15, 2020. On May 12, 2020, the President has approved the proposal of the Inter-Agency Task Force for the Management of Emerging Infectious Disease (IATF-EID) to place Metro Manila, Laguna Province, and Cebu City under Modified ECQ until May 31, 2020. On May 29, 2020, the President approved the IATF Resolution No. 41 changing the MECQ status of Metro Manila to General Community Quarantine (GCQ) effective June 1, 2020 to June 15, 2020. The GCQ was further extended until February 28, 2021.

The Group's operation was suspended from March 17, 2020 to July 31, 2020 (4.5 months) due to the announcement of PCSO on March 17, 2020, as per Proclamation No. 922 and RA 11332, to suspend their gaming activities effective 12:00 noon to comply with the National Government's several measures to manage the spread of COVID-19. Despite the impact on the revenue on lotto and keno due to the temporary closure of lotto and keno outlets, the management noted an increase in the equipment rental revenues in the last quarter of the reporting period thus management foresees that its business will be back as usual in the first quarter of 2021 and the Group would be able to catch-up for its lost revenue during the first half of 2021.

Despite or amidst this event, the consolidated financial statements have been prepared on a going concern basis of accounting as of reporting date since the Group implemented all measures to mitigate the risks on their business operations and has sufficient liquidity to continue operating through the pandemic and for the foreseeable future.

KPMG

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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Pacific Online Systems Corporation and Subsidiaries (the "Group") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 included in this Form 17-A, and have issued our report thereon dated March 1, 2021.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J

KPMG

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

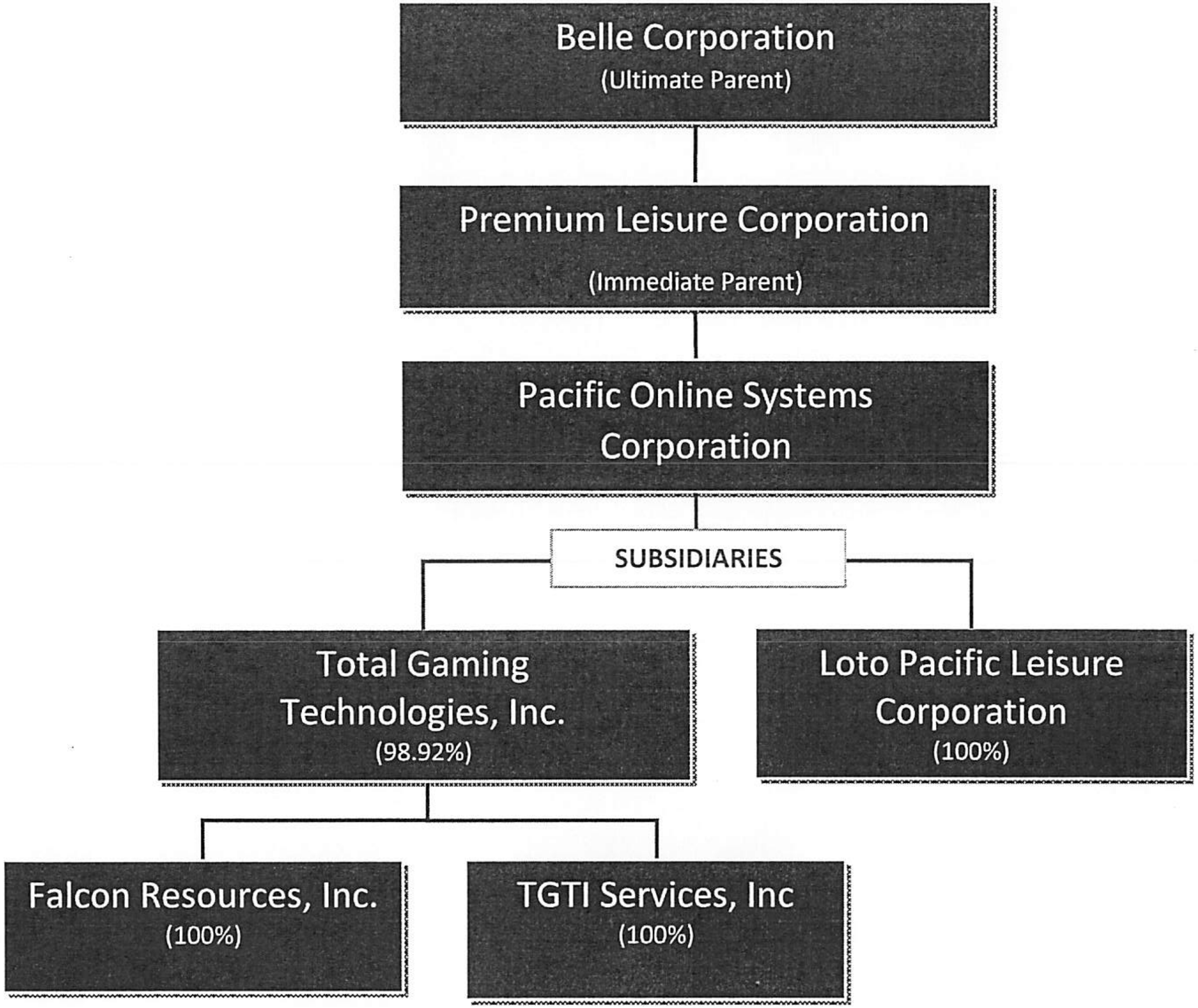
ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-026-2020
Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533892
Issued January 4, 2021 at Makati City

March 1, 2021
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION
AS AT DECEMBER 31, 2020
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION

Total Retained Earnings, beginning available for dividend distribution	**P519,006,374**
Add: Net loss during the period closed to Retained Earnings	**(306,956,063)**
Less: Non-actual unrealized income	
Deferred tax benefit	**(55,808,634)**
Add: Non-actual unrealized losses	
Fair value adjustment (M2M loss)	**6,195,655**
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	**306,273**
Sub-total	**(49,306,706)**
Net loss actually earned during the period	**(356,262,769)**
Add:	
Reversal of appropriations	-
Acquisition of treasury shares	-
Realized portion of fair value reserve	-
Less:	
Cash dividend declared	-
Stock dividends declared	-
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DISTRIBUTION	**P162,743,605**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Conglomerate Map
December 31, 2020



PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES
FORM 17-A
December 31, 2020

Supplementary Schedules

A. Financial Assets

B. Amounts Receivable from Director's, Officers, Employees, Related Parties and Principal Stockholders (Other than Associates)

C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

D. Intangible Assets - Other Assets

E. Long-term Debt

F. Indebtedness to Related Parties

G. Guarantees of Securities of Other Issuers

H. Capital Stock

I. Financial Soundness Indicators

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule A. Financial Assets
For the Year Ended December 31, 2020

Type of Financial Assets			Amount	Schedule
Financial Assets at FVPL	Marketable Securities	₱	84,260,926	A-1
Financial assets at FVOC	Investments in Stocks		281,822,365	A-2
Loans and Receivables	Cash on hand and in banks		162,274,833	A-3
	Trade and other receivables*		195,941,150	
	Refundable deposits		4,159,704	
	Guarantee deposits		14,500,000	
		₱	**742,958,977**	

**Inclusive of noncurrent portion of accrued license fee income amounting to P70.3 million and exclusive of advances amounting to P6.8 million*

A-1 Marketable Securities

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes		Amount Shown in the Statement of Financial Position		Value Based on Market Quotations at Balance Sheet Date
APC Group, Inc.	45,821,000		18,557,505		18,557,505
Leisure and Resorts World Corp	10,724,792		20,591,601		20,591,601
Vantage Equities, Inc.	43,376,750		45,111,820		45,111,820
Total		₱	**84,260,926**	₱	**84,260,926**

A-2 Investment in Shares of Stocks

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotations at Balance Sheet Date
Belle Corporation	66,663,000	113,993,730	113,993,730
Premium Leisure Corporation	377,143,000	167,828,635	167,828,635
Total	**443,806,000**	₱ **281,822,365**	₱ **281,822,365**

A-3 Cash Equivalents

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotations at Balance Sheet Date
Total		₱ **0**	₱ **0**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Associates)
For the Year Ended December 31, 2020

Name and Designation of Debtor	Beginning Balance	Additions	Deductions: Amount Collected	Deductions: Amount Written-off	Ending Balance
Advances to officers and employees	₱ 4,575,260	₱ -	₱ 3,284,147	₱	₱ 1,291,113
TOTAL	**₱ 4,575,260**	**₱ -**	**₱ 3,284,147**	**₱ -**	**₱ 1,291,113**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
For the Year Ended December 31, 2020

Name and Designation of Debtor	Balance at Beg. Of Period	Additions	Amount Collected	Amount Written-off	Current	Not Current	Balance at End Of Period
Advances to Subsidiaries:							
Total Gaming Technologies, Inc.	₱ 2,657,914	₱ 3,657,573	₱	₱ -	₱	₱ -	₱ 6,315,487
Loto Pacific Leisure Corporation	986,855	(986,855)				-	-
Amount receivable from LCC and Nine entities as at December 31, 2019 was reclassed under "Trade and other receivables" due to sale of subsidiaries on February 13, 2020 to a third party.							-
TOTAL	₱ 3,644,769	₱ 2,670,718	₱ -	₱ -	₱ -	₱ -	₱ 6,315,487

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
For the Year Ended December 31, 2020

Description	Beginning Balance	Addition At Cost	Deductions: Charged to Costs and Expenses	Deductions: Charged to Other Accounts	Deductions: Other Changes Additions (Deductions)	Ending Balance
Intangible assets	₱ -	₱	₱ -	₱	₱	₱ -
						-
	₱ -	₱	₱ -	₱	₱ -	₱ -

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule E. Long Term Debt
For the Year Ended December 31, 2020

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	
	₱ -	₱ -	₱
	NONE		
	₱ -	₱ -	₱

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule F. Indebtedness to Related Parties
For the Year Ended December 31, 2020

Name of Affiliate	Beginning Balance	Ending Balance
	₱	₱
	NONE	
	₱	₱

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule G: Guarantees of Securities of Other Issuers
For the Year Ended December 31, 2020

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee
		₱	₱	
		NONE		
		₱	₱	

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule H. Capital Stock
For the Year Ended December 31, 2020

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Shares	2,288,000,000	895,330,946	-		73,823,750	821,507,196
	2,288,000,000	**895,330,946**	**-**	**-**	**73,823,750**	**821,507,196**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Schedule I: Financial Soundness Indicators
As of December 31, 2020 and 2019

Ratio	Formula	2020	2019
Current Ratio	Current assets over current liabilties	2.89 : 1.00	2.40 : 1.00
Debt-to-equity ratio	Debt-to-equity ratio Interest-bearing debt over stockholders equity	0.28 : 1.00	0.30 : 1.00
Asset-to-equity ratio	Total assets over stockholders equity	1.28 : 1.00	1.30 : 1.00
Return on equity	Net income over average equity during the period	-44.15%	-24.44%
Return on assets	Net income over average total assets during the period	-34.54%	-18.74%
Interest rate coverage ratio	Earnings Before Interest and Taxes over interest expense	(67.56) : 1.00	(55.30) : 1.00
Solvency Ratio	Net income (loss) plus depreciation over total liabilties	(0.61) : 1.00	(0.25) : 1.00
Book value per share	Total equity over Total shares outstanding	1.02	1.55

KPMG

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INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Pacific Online Systems Corporation and Subsidiaries (the Group) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 1, 2021 .

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on 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. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

KPMG

This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

R.G. MANABAT & CO.

ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-026-2020
Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533892
Issued January 4, 2021 at Makati City

March 1, 2021
Makati City, Metro Manila

Pacific Online Systems Corporation and Subsidiaries

Schedule showing Financial Soundness Indicators

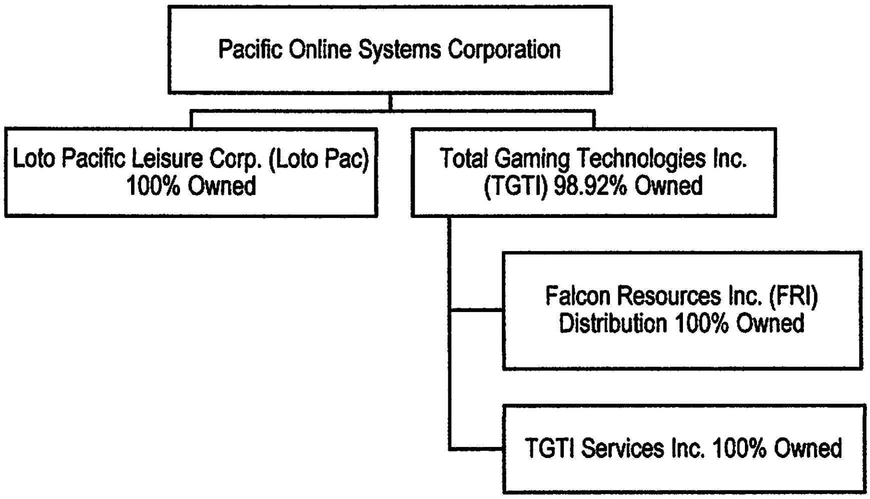
Key Performance Indicators	Formula *(Amounts in millions)*		2020	2019
Current ratio	Total Current Assets	544	**2.9**	2.4
	Divide by: Total Current Liabilities	188		
	Current ratio	2.9		
Acid test ratio	Total Current Assets	544	**2.0**	1.8
	Less: Other current assets	(165)		
	Quick assets	379		
	Divide by: Total Current Liabilities	188		
	Acid test ratio	2.0		
Debt to Equity Ratio	Total Liabilities	240	**0.3**	0.3
	Stockholders' Equity	863		
Asset to Equity Ratio	Total Assets	1,103	**1.3**	1.3
	Stockholders' Equity	863		
Profit before tax margin ratio	Profit (Loss) Before Tax	(P434)	**(145.15%)**	(39.90%)
	Total Revenue	299		
EBITDA (Earnings before interest, tax, depreciation & amortization)	Profit (Loss) Before Tax	(P434)	**(P192) million**	(P169) million
	Add: Depreciation Expenses	234		
	Interest Expense	6		
	Foreign Exchange Loss	1		
	Less: Interest Income	1		
	EBITDA	(P192)		
Return on Equity	Net Income (Loss)	(381)	**(44.15%)**	(24.45%)
	Total Equity	863		
Return on Assets	Net Income (Loss)	(381)	**(34.54%)**	(18.74%)
	Total Assets	1,103		

ANNEX I - SUSTAINABILITY REPORT

Item 1. GENERAL DISCLOSURES

ORGANIZATIONAL PROFILE	
102-1	**NAME OF THE ORGANIZATION** Pacific Online Systems Corporation
102-2	**ACTIVITIES, BRANDS, PRODUCTS, AND SERVICES** Pacific Online Systems Corporation (POSC) is engaged in the management of online lottery systems for the Philippine gaming industry. It was incorporated in November 1993 and was publicly listed in 2007 with the stock symbol LOTO. It sources technology from leading global suppliers of integrated gaming systems and leases to the Philippine Charity Sweepstakes Office (PCSO). In 1995, POSC entered into an Equipment Lease Agreement (ELA) with PCSO for its Lotto operations in Visayas and Mindanao and subsequently was granted entry into the Luzon Lotto market in June 2012. Through its subsidiary Total Gaming Technologies Inc. (TGTI), POSC leases Keno terminals and online operating system nationwide to PCSO through an ELA signed in 2004. POSC is in partnership with two of the top lottery system providers globally; i.e., Scientific Games International Inc. (SGI) and Intralot SA Integrated Lottery Systems & Services for its online Lotto games.
102-3	**LOCATION OF HEADQUARTERS** **Manila Business Center** U2803 A & B East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, 1605, Philippines U1901-B West Tower, Philippine Stock Exchange Centre, 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
102-4	**LOCATION OF OPERATIONS** POSC's scope of operations for its lottery operations is nationwide in the Philippines.

102-5 **OWNERSHIP AND LEGAL FORM**



102-6 **MARKETS SERVED**

POSC's serves the Philippine Lottery market for Lotto and Keno.

102-7 **SCALE OF THE ORGANIZATION**

Total Number of Employees: 244

Total Number of Operations:
- Installed Lotto Terminals nationwide: 3,370
- Installed Keno Terminals nationwide: 1,180

Net Revenues: P298.53M

Total Capitalization: P895.33M

102-8 **INFORMATION ON EMPLOYEES AND OTHER WORKERS**

Total Group Headcount	Quantity	% Dec.
2018	941	
2019	781	-17%
2020	244	-69%

2020 BREAKDOWN (POSC & TGTI):

By Company	Quantity	% to Total
POSC	170	70%
TGTI	74	30%
TOTAL	244	100%

By Gender	2020		2019	
	Quantity	% to Total	Quantity	% to Total
Male	172	70%	299	38%
Female	72	30%	482	62%
TOTAL	244	100%	781	100%

By Age	2020		2019	
	Quantity	% to Total	Quantity	% to Total
Below 30 Years Old	62	25%	425	54%
30-50	160	66%	327	42%
OVER 50	22	9%	29	4%
TOTAL	**244**	**100%**	**781**	**100%**

By Region	2020		2019	
	Quantity	% to Total	Quantity	% to Total
NCR	126	52%	415	53%
Luzon	6	2%	179	23%
Visayas	96	39%	150	19%
Mindanao	16	7%	37	5%
TOTAL	**244**	**100%**	**781**	**100%**

By Rank	2020		2019	
	Quantity	% to Total	Quantity	% to Total
Rank-and File	184	75%	715	92%
Junior Management	31	13%	32	4%
Middle Management	14	6%	15	2%
Senior Management	15	6%	19	2%
TOTAL	**244**	**100%**	**781**	**100%**

102-9

SUPPLY CHAIN

Partnerships

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

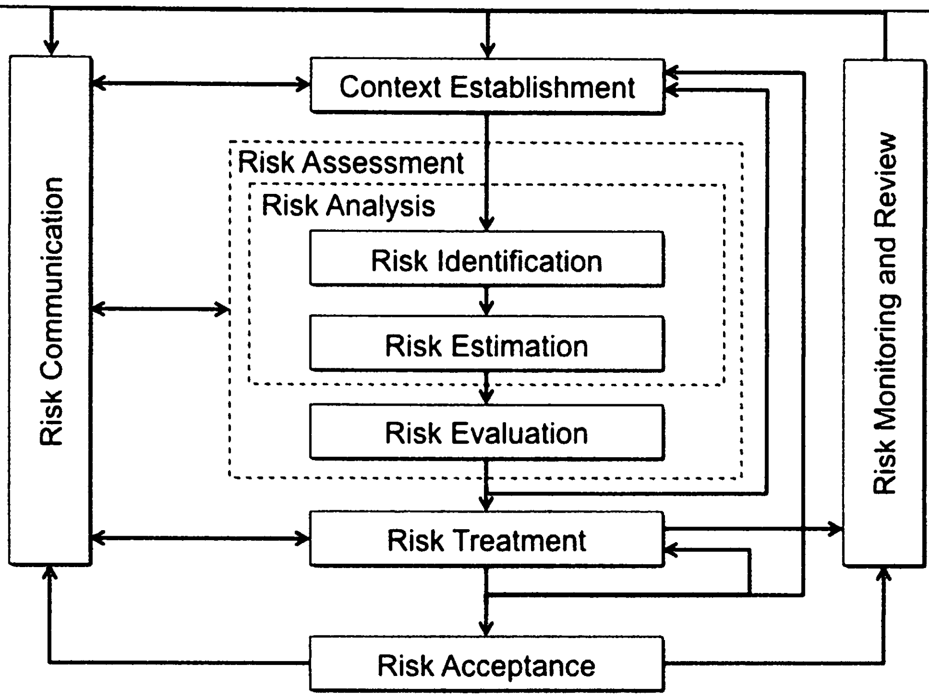
POSC's technology partners for the online lottery system are Scientific Games International, Inc. (SGI) and Intralot S.A. Integrated Lottery Systems & Services (Intralot). SGI and Intralot are both leaders in the global lottery and gaming industry with experience of over 40 years and 20 years, respectively. 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.

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

	Relationships 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.
102-10	**SIGNIFICANT CHANGES TO THE ORGANIZATION AND ITS SUPPLY CHAIN** 2020 has brought about some challenges due to the COVID-19 pandemic and quarantine restrictions. This has greatly affected the Company's delivery and maintenance of its terminals installed nationwide, as 1,800 terminals had to be replaced. In addition, spare parts deliveries experienced delayed shipping schedules and the various quarantine rules in each LGU made it difficult to reach agents for maintenance. Since the data centers also had to be kept running despite the closure of lotto and keno operations, the Company had to provide lodgings to certain employees close to our data enters due to curfew. Another challenge that the Company faced in the past year was the increase in employee resignations for the reason of employees wanting to be close to their families during the pandemic.
102-11	**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:



102-12

EXTERNAL INITIATIVES

POSC has chosen a list of UN Sustainable Development Goals and Targets that the Company will focus its sustainability efforts on:

UN SDG & TARGETS	INITIATIVES
#3 Good Health and Well-Being: Ensure healthy lives and promote well-being for all at all ages 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	The Company ensures that its employees have employee healthcare HMO full coverage and insurances. On top of that, health and wellness programs to promote the strengthening of the mind and the body are scheduled regularly. Here is a list of initiatives prepared by the company: 1. Full HMO coverage upon hiring and extended to 2 dependents upon regularization 2. Life Insurance 3. Group Accident Insurance 4. Annual Physical Exam / Executive Check-Up During the COVID-19 pandemic, where the lives and routines of employees were overhauled significantly, the Company prepared initiatives to help its employees adjust to the new normal and fortify their mental health and standing. Initiatives include: 1. Flexible work arrangements such as telecommuting and work from home 2. Shuttle services and/or temporary accommodation for essential employees 3. Vitamins and PPEs issued to employees 4. COVID financial assistance fund

		5. Online sessions: "Taking care of our Mental Health during the Pandemic", "Taking Care of Our Physical Health During the Covid-19 Pandemic - Practical Tips and Home Remedies", chair yoga and "Kumustahan" for health and wellness, motivational videos We also support this goal for the local community. In both Manila and Cebu, a bloodletting drive was conducted this year to encourage people to donate their blood on a voluntary basis for the benefit of those in need and the Red Cross Blood Bank. This has been the 5th year of the Company's annual bloodletting event. 133 Boxes of Vitamins were donated c/o Caritas Manila to the affected communities and survivors of the Taal Volcano eruption.
	#4 Quality Education: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university 4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship 4.6 By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy	To promote and support quality education opportunities for all, we support Caritas Manila's Youth Servant Leadership & Education Program. The Youth Servant Leadership and Education Program (YSLEP) is the flagship program of CARITAS MANILA that aims to break the chains of poverty in the Philippines by providing opportunities for a college education for poor, underprivileged but deserving youth. In 2020, we provided scholarships to 2 youths, and since June 2017, we have had 8 beneficiaries.
	#5 Gender Equality: Achieve gender equality and empower all women and girls 5.1 End all forms of discrimination against all women and girls everywhere 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	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, the majority of Senior Management/leadership of positions (62%) are women.

	#8 Decent Work and Economic Growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	Our commitment to our nation's economic growth and employment situation is shown by the P792.76 million Total Economic Value distributed by the Company in the past year. We provide decent jobs, with our entry rate 11% above the minimum wage in Manila and 19% in Cebu. 15 is the average number of years of employment for our senior management employees, 12 for middle management and 7 for rank-and-file. We believe in a world without discrimination, and we make efforts to provide productive employment and decent work for all people. We also support and protect labor rights and promote a safe and secure working environment for our employees. Our committee sets and ensures Occupational Health & Safety standards, and as we recognize that our lifeblood is our field service representatives, who travel almost every day through ways and roads of varying quality in the countryside, we provide them protection and accident insurance. Here is a list of some wellness, health and safety initiatives provided for by the company: 1. Creation of Occupational Safety & Health Committee 2. Emergency Procedure/ Guidelines 3. First Aid Training 4. Disaster Preparedness Training 5. PPE for selected personnel 6. Group Accident Insurance
	#12 Responsible Consumption and Production: Ensure sustainable consumption and production patterns 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse 12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle	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 second annual sustainability report aligned to GRI standards is part of a country-wide practice to adopt sustainable practices and integrate this information into our reporting and disclosures.
	#16 Peace, Justice, and Strong Institutions: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Our company participated in DICT's CybersafePH program, which paved the way for the formation of CyberGuardiansPH, a coalition of organizations and individuals driven and committed to co-create a cybersafe Philippines for online protection of children and the youth against sexual abuse and exploitation, cyberbullying and all forms of cyber threats. POSC spearheaded its creation and

	16.2 End abuse, exploitation, trafficking and all forms of violence against and torture of children 16.6 Develop effective, accountable and transparent institutions at all levels	currently is a member of the coalition's Council of Leaders. These activities were conducted by CybersafePH in 2020: 'UNLEASH the Musical Genius' was launched in partnership with GAPB, Inc. to teach children how to play musical instruments as part of a healing program for the survivors of online sexual abuse and exploitation. A call-to-action music video on the plight of victims and survivors of online sexual abuse and exploitation was produced and created by POSC with CyberGuardiansPH volunteers and friends along with celebrity singers/advocates. This was aired on TV Maria last May 2020 and launched in the CyberGuardiansPH YouTube channel in July 2020. Season 1, 13 episodes of CyberChat aired on TV MARIA - Being aware that more adult predators inhabited cyberspace during the pandemic, the CyberGuardiansPH spearheaded by POSC launched Season 1 of CyberChat, a TV program which aired over TV Maria last June 2020 up to September 2020. CyberChat is an awareness campaign program focused on all forms of cyber threats such as online sexual abuse and exploitation of children, cyberbullying, digital and social media addiction and other cybercrimes against children and the youth. The show provided a platform to openly discuss with government, NGOs/people organizations and individuals involved in child protection, teachers, students, parents and the church how these problems can be holistically addressed. Furthermore, the Company contributed P50,000.00 in kind to Rancho ni Kristo for abused children residents of the Center.
102-13	**MEMBERSHIP OF ASSOCIATIONS** World Lottery Association People Management Association of the Philippines Employers' Confederation of the Philippines Philippine Society for Training and Development	

STRATEGY	
102-14	**STATEMENT FROM SENIOR DECISION MAKER** As the world faced and still continues to deal with the looming specter of COVID-19, Pacific Online recognizes the primacy of sustainability in its operations and corporate goals. We maintain our duty to help steward the nation, the environment, and the world, in conjunction with progressing towards our goals as a company. Our second annual Sustainability Report, prepared in accordance with Global Reporting Initiative (GRI) standards, carries on from last year's maiden report, and details the

	Company's performance on economic, social, environmental, and governance issues. No one was spared from the pandemic which dealt a blow to our country and company alike, so Pacific Online made it a priority to protect and safeguard its employees – the people at the center of our mission. Our first priority was to make sure our workers were safe and secure, both financially and medically. During the months-long Enhanced Community Quarantine (ECQ), when lottery operations were temporarily suspended, payroll was still released, flexible work arrangements and shuttle services were scheduled, financial and medical assistance and loan applications were extended. Before office locations were allowed to reopen, health and safety protocols were formed and strictly enforced to ensure the continued safety of our staff. In these challenging times, we reaffirmed our partnership with PCSO and commitment to keeping the Philippine online gaming sector running to provide hope to the public who need it. Despite the temporary suspension of lottery games, we kept our central servers operating so that when the suspension was eventually lifted, the online gaming system could run again seamlessly. Pacific Online remains wholeheartedly committed to full transparency, efficiency, and accountability in remitting the proper dues and revenues to PCSO and its charity fund. Our efforts did not stop there. The Company's awareness campaign, in partnership with DICT, Cybersafe Philippines, which aims to protect children against online sexual abused and exploitation, has expanded its reach and impact in the past year. Multimedia campaigns such as a call-to-action music video and the CyberChat TV program were launched to help bolster awareness amongst the public on these issues. Coordination was also successfully done with government officials – a comprehensive anti-cyberbullying bill was committed to through our efforts. Cybersafe continues to initiate and foster open dialogue on these issues and problems, to promote action, policy development and awareness. We believe in being a responsible part of the country and community, remitting proper taxes to the government, as its partner in promoting responsible gaming. The cornerstone for a sustainable and legitimate program for the government's charity works still lies in the country's vibrant online gaming sector.

ETHICS AND INTEGRITY	
102-16	**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.

GOVERNANCE

102-18

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.

DIRECTOR'S NAME	DESIGNATION	DIRECTORSHIP
Willy N. Ocier	Chairman	Executive Director
Armin Antonio B. Raquel Santos	Member	Non-Executive Director
Ma. Virginia V. Abo-Hamda	Member	Executive Director
Tarcisio M. Medalla	Member	Non-Executive Director
Henry N. Ocier	Member	Non-Executive Director
Regina O. Reyes	Member	Non-Executive Director
Jerry C. Tiu	Independent	Lead Independent Director
Laurito E. Serrano	Independent	Independent Director
Joseph C. Tan	Independent	Independent Director

BOARD COMMITTEES

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

Executive Committee

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

Willy N. Ocier	Chairman
Armin B. Raquel-Santos	Director
Ma. Virginia V. Abo-Hamda	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
Jerry C. Tiu	Independent Director
Tarcisio M. Medalla	Director
Joseph C. Tan	Independent Director

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.

Jerry C. Tiu	Chairman
Laurito E. Serrano	Independent Director
Tarcisio M. Medalla	Director
Joseph C. Tan	Independent Director

	Corporate Governance Committee The Corporate Governance Committee is tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices. Joseph C. Tan — Chairman Laurito E. Serrano — Independent Director Jerry C. Tiu — Independent Director **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. Joseph C. Tan — Chairman Laurito E. Serrano — Independent Director Jerry C. Tiu — Independent Director Regina O. Reyes — Director Henry N. Ocier — Director

STAKEHOLDER ENGAGEMENT	
102-40	**LIST OF STAKEHOLDER GROUPS** • Investors / Shareholders • Board of Directors & Management • Employees • External Providers • Customer – PCSO • Indirect Customers – Lottery Agents & Lottery Players • Government Bodies / Regulators
102-41	**COLLECTIVE BARGAINING AGREEMENTS** Not applicable.
102-42	**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".
102-43	**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	Annual stockholders' meetings, one-on-one dialogues, website, investors /

		results, substantial returns, and shared value	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
102-44	**KEY TOPICS AND CONCERNS RAISED**		
	Stakeholder Group	**Relevant Issues**	**Our Commitment**
	Investors/ Shareholders	- Economic Performance - Environmentally responsible business operations - Corporate Governance and Compliance	Building towards the strategy of being the gaming partner of choice and delivering steady and reliable economic returns while also remaining responsible and compliant with laws and timely disclosures
	Board of Directors & Management	- Economic Performance - Environmentally responsible business operations - Corporate Governance and Compliance - Market Presence - Customer care and service - Quality Management	Work efficiently and effectively to fulfill the corporate goals in order to keep moving on the road to sustainability
	Employees	- Human Resource Development and Welfare - Economic Performance - Market Presence	Empowerment and respectful treatment of our employees across all levels and fulfillment of their career aspirations

External Providers	- Economic Performance - Customer care and service - Corporate Governance and Compliance	Maintenance of good governance, transparency and accountability
Customer – PCSO	- Customer care and service - Corporate Governance and Compliance - Economic Performance - Quality Management - Information Security Management	Providing the best quality service and ensuring the safety and security of the critical data involved; maintenance of good governance, transparency and accountability; making sure that downtime is minimized
Indirect Customer – Lottery Agents & Lottery Players	- Quality Management - Information Security Management - Economic Performance	Providing the best quality service and ensuring the safety and security of the critical data involved; making sure that downtime is minimized
Government Bodies/ Regulators	- Corporate Governance and Compliance - Environmentally responsible business operations - Human Resource Development and Welfare - Information Security Management	Working efficiently, harmoniously and in an aboveboard manner towards the achievement of shared goals and mutual benefits

REPORTING PRACTICE

102-45 **ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS**

Pacific Online Systems Corporation and subsidiaries (Refer to 102-5)

102-46 **DEFINING REPORT CONTENT AND TOPIC BOUNDARIES**

	1	2	3	4
Steps Taken	Build Corporate Capacity	Undergo Materiality Assessment	Identify and Gather Critical Data	Review and Validate Material Data
Description	Training on Sustainability	Review of processes, KPIs	Based on Material Issues,	Affirmation of reported

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<table>
<tr><td></td><td></td><td>and risk assessment</td><td>created templates for data gathering</td><td>disclosures</td></tr>
<tr><td>GRI Reporting Principle Applied</td><td>Stakeholder Inclusiveness and Sustainability Context</td><td>Materiality, Sustainability Context, Stakeholder Inclusiveness and Completeness</td><td>Stakeholder Inclusiveness and Completeness</td><td>Stakeholder Inclusiveness and Completeness</td></tr>
</table>

Details on topic boundaries to be listed below in 102-47
</td>
</tr>
<tr>
<td>102-47</td>
<td>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
- Customer care & service
- Corporate governance and compliance
- Quality Management
- Information Security Management</td>
</tr>
<tr>
<td>102-48</td>
<td>RESTATEMENTS OF INFORMATION

None to report.</td>
</tr>
<tr>
<td>102-49</td>
<td>CHANGES IN REPORTING

None to report.</td>
</tr>
<tr>
<td>102-50</td>
<td>REPORTING PERIOD

This is Pacific Online Systems Corporation's Sustainability Report outlining the Company's economic, environmental, social and governance performance from January to December 2020. It is a testament to our commitment to the United Nations Sustainable Development Goals. This report has been prepared in accordance with the GRI Standards: Core option. The companies highlighted in this report include Pacific Online Systems Corporation and its subsidiaries.</td>
</tr>
<tr>
<td>102-51</td>
<td>DATE OF MOST RECENT REPORT

Annex 1 of 17-A Report of Pacific Online Systems Corporation for the period Jan-Dec 31, 2019, submitted to SEC Feb. 27, 2020.

A portion of the Sustainability Report information was also included in the latest 2019 Annual Report seen on the Corporate website. (See https://www.loto.com.ph/sustainability)</td>
</tr>
</table>

102-52	**REPORTING CYCLE** Annual.
102-53	**CONTACT POINT FOR QUESTIONS REGARDING THE REPORT** For inquiries on Sustainability: Mischel O. Mendoza Corporate Planning Department Head Email: momendoza@pacificonline.com.ph
102-54	**CLAIMS OF REPORTING IN ACCORDANCE WITH THE GRI STANDARDS** This report has been prepared in accordance with the GRI Standards: Core option.
102-55	**GRI CONTENT INDEX** See attached GRI Content Index at the end of the report.
102-56	**EXTERNAL ASSURANCE** Not applicable.

Item 2. MATERIAL TOPICS

MANAGEMENT APPROACH

103-1 **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 cultivate partnerships with customers through excellent service	Customer care & service	Within POSC, customers, business partners	How the Company nurtures relationships by providing quality service and addressing the concerns of its customers and ensuring a symbiotic relationship with them.
To develop an integrated management system that implements world-class standards in order to be the gaming partner	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.

		of choice	Quality management		How the Company maintains efficiency in the aspects of its work through quality controls in its operations and complete documentation.
			Information Security Management		How the Company secures and protects its data, identifying, managing and mitigating risks ahead of time through periodic assessment and analysis and ensuring the business continuity of its operations without any downtime.

103-2

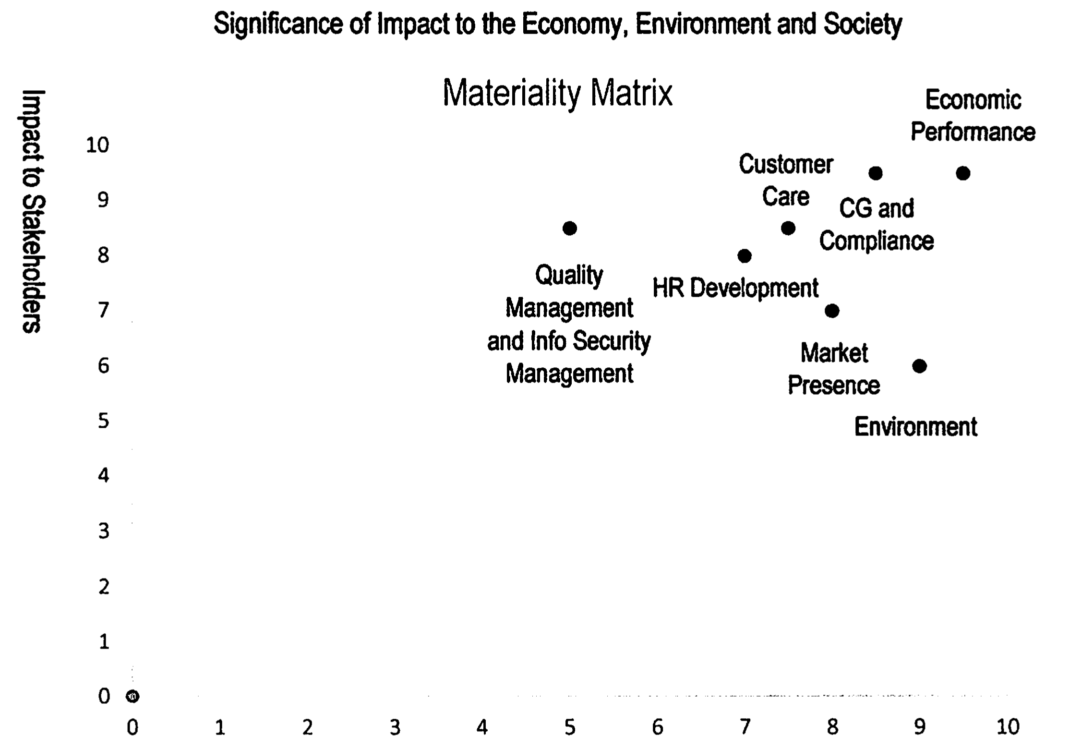
THE MANAGEMENT APPROACH AND ITS COMPONENTS

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

	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. 
103-3	**EVALUATION OF THE MANAGEMENT APPROACH** See 102-46

ECONOMIC PERFORMANCE

201-1 Direct economic value generated and distributed

in PHP millions	TOTAL
Economic Value Generated	298.53
Economic Value Distributed	679.92
Operating Costs	540.12
Employee wages and benefits	129.51
Payments to the government	10.29
Economic value retained (lost)	(381.39)

MARKET PRESENCE

202-1 Ratios of standard entry-level wage by gender compared to local minimum wage

	Min Wage Male	Min Wage Female	Total Min Wage Employees	Total Employees	% Min Wage Employees
TOTAL	0	0	0	170	0%

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

POSC	Minimum Wage	POSC Entry Rate	% Higher
Manila	11,679.75	13,000.00	11%
Cebu	8,787.00	10,500.00	19%

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	%
TOTAL	13	9	4	0	13	100%

ENERGY

302-1 Energy consumption within the organization

Fuel Consumption

	Diesel, in L	Gasoline, in L
YE 2020	23,509	11,663
YE 2019	1,297,294	39,759

Over-all, the company has decreased its consumption of diesel mainly due to the temporary suspension of lottery operations due to the pandemic and the divestment from LCC.

Electricity Consumption By Region

in kWh	Luzon	Visayas	Mindanao	Total
YE 2020	97,995	442,589	3,834	544,418
YE 2019	1,250,732	562,090	2,500	1,815,322

Total Water Consumption

	Total, in cu. m.
YE 2020	1,988
YE 2019	75,198

EFFLUENTS AND WASTE

306-2 **Waste by type and disposal method**

Total volume of hazardous wastes (old terminals, e-wastes) hauled by DENR-accredited hauler/charitable institutions

	Total, in kgs
YE 2020	3,458
YE 2019	9,977

Pacific Online regularly disposes its waste through DENR accredited facilities. Majority of its waste is from lottery terminals and peripherals. The table shows that there has been a marked decrease in the amount of waste generated by POSC, which is part of the company's efforts to actively lessen waste and to recycle items within the organization. Approx. 52% of waste was for plastic and metal casing and defective cables of equipment, while 48% was e-waste.

EMPLOYMENT

401-1 **New employee hires and employee turnover**

NEW HIRES

TOTAL NEW HIRES	4	
BY GENDER		
MALE	2	50%
FEMALE	2	50%
BY AGE GROUP		
BELOW 30 YRS OLD	2	50%
30 - 50	2	50%
OVER 50	0	0%

BY REGION		
NCR	4	100%
LUZON	0	0%
VISAYAS	0	0%
MINDANAO	0	0%

HIRING RATE

POSC	2%
TGTI	1%
ENTIRE GROUP	2%

EMPLOYEE SEPARATIONS

EMPLOYEE SEPARATIONS	29	
BY GENDER		
MALE	23	79%
FEMALE	6	21%
BY AGE GROUP		
BELOW 30 YRS OLD	13	45%
30 - 50	14	48%
OVER 50	2	7%
BY REGION		
NCR	19	66%
LUZON	1	3%
VISAYAS	7	24%
MINDANAO	2	7%

TURNOVER RATE

POSC	10%
TGTI	15%
ENTIRE GROUP	12%

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 and extended to 2 dependents upon regularization. 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 – qualified Officers are allowed to reimburse their health and wellness related expenses up to certain amount per year while all staff below

	manager rank personnel were provided PPE (face masks and face shields) and vitamins C 5. Uniform Allowance for all regular employees
401-3	**Parental leave**

1. **Breakdown of Availment of Maternity and Paternity Leaves**

	Employees who took Parental Leave in 2019		
	Male	Female	Total
Employee Headcount	14	4	18

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**

	Among the employees who took Parental Leave in 2019, how many are still employed in 2020?		
	Male	Female	Total
Employee Headcount	14	4	18

OCCUPATIONAL HEALTH & SAFETY

403-1 **Occupational health and safety management system**

OCCUPATIONAL HEALTH AND SAFETY POLICY

Statement of 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.

Details of Policy

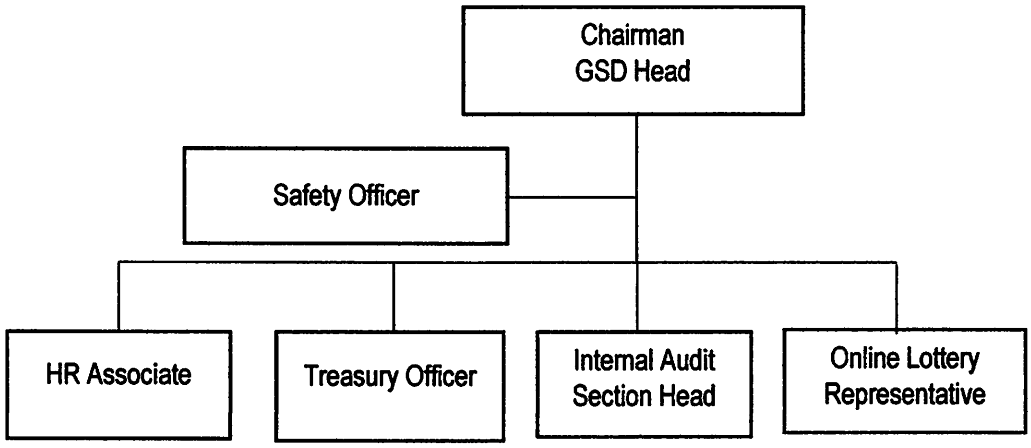
At POSC, we intend:

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.

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. This is categorized by People, Process, Systems and Places. Threats and Vulnerabilities are measured and offset with controls in place to arrive at an acceptable level of risk. A Risk Treatment Plan is updated monthly to address unacceptable risks to ensure risk reduction.

Incidents are screened for information security breaches and documented in an Incident Report and/or Information Security Incident Report. Non-conformities are issued Corrective Action Requests and 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.

This year, risks were updated to reflect possible effects of the COVID-19 pandemic on the Company's operations.

403-5 **Worker training on occupational health and safety**

OCCUPATIONAL HEALTH AND SAFETY	2020
Safe man-hours recorded, in man-hours	369,576
No. of work-related injuries reported	0
No. of work-related fatalities reported	0
No. of work-related ill-health	0
No. of safety drills conducted	0

	POSC SEMINARS/TRAININGS: 1. "Taking care of our Mental Health during the Pandemic" (Online session) Conducted to help employees cope with the COVID-19 pandemic and the 'new normal', mentally adjusting to all the new and unfamiliar factors while keeping their minds healthy and happy despite external factors. 2. "Taking Care of Our Physical Health During the Covid-19 Pandemic - Practical Tips and Home Remedies" (Online session) Conducted to help employees cope with the pandemic by teaching and reminding them things to do to prevent, avoid, and deal with the virus.
403-6	**Promotion of worker health** **POSC** 1. Full HMO coverage (room & board and maximum benefit limit based on rank) of all employees upon hiring and extended to 2 dependents upon regularization. Benefit package includes preventive healthcare, out-patient care and hospitalization, emergency care, dental care, and financial assistance. 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. Various health and wellness activities are being conducted to help employees improve further their health and well-being.

TRAINING AND EDUCATION

404-1 **Average hours of training per year per employee**

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

	By Gender		
	Male	Female	**Total**
Total No. of Training Hours Recorded	537	309	**845**
No. of Employees Trained	129	98	**227**
Average Training Hours	4	3	4

	By Employee Category/Rank			
	Rank & File	Middle Mgt.	Senior Mgt.	**Total**
Total No. of Training Hours Recorded	366	284	195	**845**
No. of Employees Trained	94	81	52	**227**
Average Training Hours	4	4	4	4

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. Hands-On Training for Lottery Terminal Trouble-Shooting (1) 2. Cyber Safety & Data Privacy Compliance Forum (1) 3. 2020 Go Up Forum (Gov't Updates- BIR, DOLE, SSS, Philhealth, HDMF) (1) 4. Various Internal Audit Related Topics (50) 5. Return to Work Guide Ad Covid-19 Response Orientation (5) 6. Implementing Guidelines on The Resumption of the Regular Workweek (4) 7. Session with the OSH Committee and Emergency Marshals (1) 8. Orientation for New Employees (3) 9. IMS Requirements Workshop (2) 10. ISO Workshop 9001:2015 (1) 11. ISO Workshop 27001:2013 (1) 12. IMS Audit Training/Workshop (1) 13. Orientation Remote Audit Guidelines (1)	72
Job-based/Professional Skills	1. 2030 SDG's Game Day 2. Business Communication, 3. Advanced Corporate Governance Training, 4. SM Sustainability Academy: Environment Series (Preparatory Course): Module 1 - Water, 5. Project Management	5
Leadership	N/A	
Others, please specify	Health & Wellness: 1. Taking Care of Our Mental Health During Pandemic, 2. Taking Care of Our Physical Health During the COVID-19 Pandemic - Practical Tips and Home Remedies, 3. Chair Yoga 4. COVID-19 Response Session	4

Amount spent on Training and Development	
Unit: In Philippine pesos	**FY JAN-DEC 2020**
Total amount spent on training and development of employees	₱ 14,698.00

404-3	**Percentage of employees receiving regular performance and career development reviews**

No. of Employees Eligible for Performance Appraisal and Actual No. of Employees Appraised by Gender

	Male	Female	**Total**
No. of Employees Eligible for Appraisal	172	72	**244**
Actual No. of Employees Appraised	172	72	**244**
% employees appraised over total no. of employees eligible for appraisal	**100%**	**100%**	**100%**

No. of Employees Eligible for Performance Appraisal and Actual No. of Employees Appraised by Employee Category/Rank

	Rank-and-File	Middle Mgt.	Senior Mgt.	**Total**
No. of Employees Eligible for Appraisal	184	45	15	**244**
Actual No. of Employees Appraised	184	45	15	**244**
% employees appraised over total no. of employees eligible for appraisal	**100%**	**100%**	**100%**	**100%**

OTHER MATERIAL TOPICS

Customer Care & Service

A yearly Customer Satisfaction Survey is conducted by the company to gain feedback from its direct and indirect customers (PCSO branch heads and Lotto agents) on the technical and service performance in view of its continuing drive to improve its services being provided by the company. The latest survey period was from June 15-19, 2020.

Research methodology: One-on-one interviews using a structured questionnaire for 12 PCSO branch managers and 120 lotto agents (top 10 per province, among 12 provinces)

Overall rating given by 12 PCSO Branch managers was 3.50/5
41% gave an excellent to good rating
88% of respondents stated that the FSR set a schedule for repair or replacement of terminal
98% replied that FSRs properly advised or informed them about the terminal problem
Overall rating given by lotto agents was 4.19, an increase of 0.45 points or 12% higher due to shift in excellent and good ratings.

Corporate Governance & Compliance

Year on year from 2018 to 2019, the company has had a growth of 2.82% in its Corporate Governance Scorecard rating. We are looking at an increase in score for 2020 due to adjustments made in accordance with the good corporate governance principle/ guidelines that we adhere to.

	2015	**2016**	**2017**	**2018**	**2019**
SCORE	**54.82**	**67.82**	**81.75**	**87.67**	**90.15**

Quality Management & Information Security Management

The company is currently ISO certified for ISO 9001:2015 and ISO 27001:2013 standards, which are Quality Management and Information Security Management, respectively. These are consolidated in an integrated management system and documented in an IMS Manual. Non-conformities of the company are issued Corrective Action Requests (CARs) and observations are given Opportunity for Improvement (OFI). These can be issued through different ways, as shown below:

2020 was the first year that the SGS Surveillance Audit reported zero major and minor non-conformities, which could indicate that the company has also improved in its controls and systems. This audit was done remotely through a video conferencing application.

Item 3. GRI CONTENT INDEX (102-55)

GRI Standard	Disclosure		Page number(s), direct answer and/or URLs	Reason for Omission
GRI 101: Foundation 2016				
General Disclosures				
GRI 102: General Disclosures 2016	**Organizational Profile**			
	102-1	Name of the organization	1	
	102-2	Activities, brands, products, and services	1	
	102-3	Location of headquarters	1	
	102-4	Location of operations	1	
	102-5	Ownership and legal form	2	
	102-6	Markets served	2	
	102-7	Scale of the organization	2	
	102-8	Information on employees and other workers	2	
	102-9	Supply chain	3	
	102-10	Significant changes to the organization and its supply chain	4	
	102-11	Precautionary Principle or approach	4	
	102-12	External initiatives	5	
	102-13	Membership of associations	8	
	Strategy			
	102-14	Statement from senior decision-maker	8	
	Ethics and Integrity			
	102-16	Values, principles, standards, and norms of behavior	9	
	Governance			
	102-18	Governance structure	10	
	Stakeholder Engagement			
	102-40	List of stakeholder groups	12	
	102-41	Collective bargaining agreements	12	
	102-42	Identifying and selecting stakeholders	12	
	102-43	Approach to stakeholder engagement	12	
	102-44	Key topics and concerns raised	13	
	Reporting Practice			
	102-45	Entities included in the consolidated financial statements	14	
	102-46	Defining report content and topic boundaries	14	
	102-47	List of material topics	15	
	102-48	Restatements of information	15	
	102-49	Changes in reporting	15	
	102-50	Reporting period	15	
	102-51	Date of most recent report	15	
	102-52	Reporting cycle	16	
	102-53	Contact point for questions regarding the report	16	
	102-54	Claims of reporting in accordance with the GRI Standards	16	
	102-55	GRI Content Index	16, 28	
	102-56	External assurance	16, Not applicable.	

MATERIAL TOPICS				
GRI Standard	**Disclosure**		**Page number(s), direct answer and/or URLs**	**Reason for Omission**
Economic Performance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	20	
Market Presence				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	20	
	202-2	Proportion of senior management hired from the local community	20	
Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	20	
Effluents and Waste				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 306: Effluents and Waste 2016	306-2	Waste by type and disposal method	21	
Employment				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	21	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	22	
	401-3	Parental leave	23	
Occupational Health and Safety				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	23	
	403-2	Hazard identification, risk assessment, and incident investigation	24	
	403-5	Worker training on occupational health and safety	24	
	403-6	Promotion of worker health	25	
Training and Education				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	17	
	103-2	The management approach and its components	18	
	103-3	Evaluation of the management approach	19	

GRI 404: Training and Education	404-1	Average hours of training per year per employee	25	
	404-2	Programs for upgrading employee skills and transition assistance programs	26	
	404-3	Percentage of employees receiving regular performance and career development reviews	26	
Other Material Topics				
Other Material Topics		Customer Care & Service	27	
		Corporate Governance & Compliance	27	
		Quality Management & Information Security Management	27	

SIGNATURES

Pursuant to the requirement of the Securities and Exchange Commission, this Sustainability Report of Pacific Online Systems Corporation is signed on March 01, 2021 on behalf of the registrant by the undersigned.

By:

WILLY N. OCIER
Chairman of the Board and President

MISCHEL O. MENDOZA
Corporate Planning Department Head