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)

Maria Neriza C. Banaria
(Contact Person)

8584-1700
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

17-A
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

CFD
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Domestic | Foreign

57
Total No. of Stockholders

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, 2021**

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**   **1605**
   Address of principal office   Postal Code

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

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

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

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

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

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 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 : ₱ 560.7 million
    This was computed by multiplying the number of voting stocks held by non-affiliates by the stock's closing price on March 23, 2022.

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Pacific Online Systems Corporation ("POSC", "Pacific Online" or "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company is a public company under Section 17.2 of the Revised Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE) starting on April 12, 2007.

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

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

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

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

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

POSC has an Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment. The ELA was extended until July 2022.

<u>LotoPac</u>
LotoPac was incorporated in March 2007, primarily to acquire, establish, operate and manage amusement, recreational and gaming equipment facilities, as well as places for exhibitions, recreational, gaming amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business.

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

TGTI has an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. The ELA was extended until April 1, 2022 (see Notes 19 and 22).

<u>FRI</u>
FRI was incorporated on May 25, 1999 primarily to engage in the business of trading or selling of goods on wholesale or retail basis, such as sweepstakes, instant game tickets, and other lottery and gaming

tickets, including, but not limited to, those introduced by PCSO as well as tickets of shows, concerts and other events.

TGTISI

TGTISI was incorporated on August 31, 2011 primarily to engage in, conduct and carry on the business of providing logistical, technical support, and consultancy services, and providing end-to-end solutions to entities in the gaming industry in all aspects.

PinoyLotto

On September 7, 2021, Pinoylotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated with the SEC. PinoyLotto was awarded the five years lease of the customized PCSO Lottery System, also known as '2021 PLS Project'.

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

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

Recent Developments

Despite the continuing effects of the COVID-19 pandemic and operating under limitations, the Company showed significant recovery in 2021, driven largely by improvements in lotto sales as a result of more robust economic activities during the year. The higher revenues coupled with the thrust of the Company to drive costs down through cost efficiency measures helped the Company to better adapt to the changing business environment.

After decades of friendly competition as the lottery equipment lease providers throughout the Philippines, Pacific Online decided to strategically partner with Philippine Gaming Management Corporation (PGMC) for the PCSO Lottery System (PLS) 2021 bid in order to fully share in the synergies that will come with providing an efficient and transparent nationwide online lottery service for the country. On March 29, 2021, Pacific Online and PGMC, together with International Lottery and Totalizator Systems Inc. (ILTS), a supplier of online lottery systems and equipment worldwide which is based in the US, joined the bidding as a joint venture under PinoyLotto Technologies Corp. (PinoyLotto).

The PCSO issued the Notice of Award of the PLS project on September 16, 2021 to the joint venture. On December 1, 2021, the Parent Company, together with its joint venture partners, signed with the PCSO the Memorandum of Agreement for the for the Five (5) Years Lease of the Customized PCSO Lottery System, resulting from the successful conduct of a public bidding.

Agreements with the 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.

ELA between POSC and PCSO

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

In relation to the amendments of contract with PCSO, POSC was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2021 and 2020, the total cash bond, included under "Other current assets" or "Other noncurrent assets" in the consolidated statements of financial position, amounted to ₱12.0 million.

On July 31, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. The said extension was intended for PCSO to complete the bidding process for the

Philippine Lottery System (PLS) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO.

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 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.

On September 9, 2020, the term of the ELA was month-to-month basis not exceeding 1 year, commencing from April 1, 2021 and not exceeding July 31, 2022.

The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations. The number of installed lotto terminals totaled 3,129 and 3,370 as at December 31, 2021 and 2020, respectively. POSC's rental income amounted to ₱390.8 million in 2021 (₱ 245.9 million and ₱427.9 million in 2020 and 2019, respectively).

ELA between TGTI and PCSO
TGTI has an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories. The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of the gross sales of the "Online KENO" terminals. The ELA may be extended and/or renewed upon the mutual consent of the parties. TGTI's revenue from equipment rental amounted to ₱35.6 million in 2021 (₱47.2 million and ₱253.6 million in 2020 and 2019, respectively). As at December 31, 2021 and 2020, there are 569 and 1,180 Online KENO terminals in operation, respectively.

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 ₱12 to ₱10, inclusive of documentary stamp tax.

On December 11, 2020, the ELA was amended to extend the term for six months, effective October 1, 2020 until March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with an aggregate amount of ₱2.5 million. The cash bond in included under "Other current assets" or "Other noncurrent assets" in the consolidated statements of financial position.

In 2021, the ELA was extended on a month-to-month basis not exceeding 1 year, commencing from April 1, 2021 and not exceeding April 1, 2022.

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

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

Accreted interest income amounted to ₱6.1 million in 2021 (₱5.6 million and ₱8.6 million in 2020 and 2019, respectively. Accrued license fee income amounted to ₱70.3 million as at December 31, 2021 (₱112.2 million as at December 31, 2020).

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

Scientific Games
As at December 31, 2021 and 2020, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC shall pay Scientific Games a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation using the computer hardware and operating system provided by Scientific Games. The contract shall continue as long as the POSC's ELA with PCSO is in effect.

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

Intralot

As at December 31, 2021 and 2020, POSC and TGTI have contracts with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC and TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The Contract shall continue as long as POSC's and TGTI's ELA with PCSO are in effect.

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

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, 2021, the Company together with its subsidiary TGTI, had 3,698 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

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

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

Due to the COVID19 pandemic, the Company did not spend on development activities in both 2021 and 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. Investment in development activities was at 20% in 2019.

Market Profile

As of December 31, 2021, Pacific Online gross lotto sales amounted to P6.512B of which P1.430B (22%) is the share of Luzon Sales. It is noted that while in Luzon, the jackpot games account for 53% of total lottery sales, the VisMin area shows that it is digit games that dominates the sales of the region, accounting for 47% of total lottery sales. While previous years showed higher sales for digit games, the drop in Digit Games particularly with 3D Lotto may be due to the shift of bettors to other Gaming Products like STL, Peryahan ng Bayan, or esabong.

The Company's total terminal deployment in VISMIN Territory covered 69 cities out of 73 total cities and 530 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment covered 52 Cities and 71 municipalities. The Company covers 100% of the VisMin sales and only 15% in Luzon due to its restricted entry since 2012 up to 2021.

Competition

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

Organization and Manpower

As of December 31, 2021, the Group had a total of 135 employees, of which, 92 belong to Operations and 43 were administrative and other support personnel. None of the employees of the Company have organized themselves into any labor union. The Company also provides its employees additional benefits such as health care, life and accident insurance, retirement plan, training and development programs, and wellness programs, among others.

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

Risks

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

1. General Risks

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

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

    c. COVID-19 Pandemic Risk
    The rise of the COVID-19 pandemic since 2020 has affected the operations of the Company. The change in alert levels and lower foot traffic in business sites have caused disruptions to operations.

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. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe.

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 8 logistics hubs in 8 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 2,588 sqm by year end 2021. About 49% of these properties are located in Luzon, and 51% 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 1,364 sqm in total, with 586 sqm in Cebu and 778 sqm in Metro Manila. Lease terms for most office and warehouse spaces range from month-to-month up to one (1) year. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates at around 5%. One (1) office lease and three (3) warehouse units located in Metro Manila were terminated in 2021.

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

Item 3. Legal Proceedings

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

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

On 21 March 2018, the RTC granted the TMA Group's application for WPI, enjoining Pacific Online from continuing to deliver lotto paper to PCSO. During the pendency of this case, the Supreme Court issued a decision in *Philippine Charity Sweepstakes Office v. TMA Group of Companies (G.R. Nos. 212143, 225457, and 236888, 28 August 2019)*, stating that the WPI issued by RTC Makati 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

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

PART II - OPERATIONAL FINANCIAL INFORMATION

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

1. Market Information

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

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

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

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, 2021, the Company's market capitalization amounted to P1,629,502,322 based on the closing price of P2.11 per share.

2. Security Holders

As of December 31, 2021, Pacific Online had 57 shareholders, corresponding to total common shares outstanding of 895,330,946. The top 20 stockholders as of the same date are listed below:

Name	No. of Shares Held	% to Total
1. PREMIUM LEISURE CORP.	448,560,806	50.1000
2. PCD NOMINEE CORPORATION Filipino = 284,993,081 Non- Filipino = 42,836,696	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. OCIER, MISCHEL GABRIELLE E.Y.	390,000	0.0436
8. KILAYKO, GREGORIO U.	200,000	0.0223
9. LIM, MAURICE D.	100,000	0.0112
10. BENITEZ, ALFREDO B.	68,200	0.0076
11. CHAN, CARMELITA	66,000	0.0074
12. VILLANUEVA, MYRA P.	23,400	0.0026
13. CHAN, CARMELITA D.L.	33,300	0.0037
14. TAGUBA, LUCILA A.	20,000	0.0022
15. SY, CAROLINE TANCUAN	20,000	0.0022
16. SY, HANS JR. TANCUAN	20,000	0.0022
17. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
18. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
19. PEREZ, JOSE DEXTER F.	18,000	0.0020
20. LOMARQUEZ, MA. AIMEE R.	12,000	0.0013

Dividends

No cash or stock dividends were declared and paid in 2021 and 2020.

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
2021 Compared to 2020

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

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

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

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

Financial Condition
2021 Compared to 2020

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Key Performance Indicators</u>

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

	As of	
	Dec. 31, 2021	**Dec. 31, 2020**
Current Ratio	4.64:1.00	2.89:1.00

Asset-to-Equity Ratio	1.19:1.00	1.27:1.00

	For the year ended	
	Dec. 31, 2021	**Dec. 31, 2020**
Return on Equity	-17%	-35%
Return on Assets	-14%	-27%
Solvency Ratio	(2.13):1.00	(3.36) : 1.00

The above performance indicators are calculated as follows:

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

2020 Compared to 2019

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

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

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

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

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

- Communication expense decreased by P34.32 million (30%) due to the rebates 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	2.89:1.00	2.40 : 1.00
Debt-to-Equity Ratio	0.27:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.27:1.00	1.30 : 1.00

	For the year ended	
	Dec. 31, 2020	**Dec. 31, 2019**
Return on Equity	-49.54%	-24.44%

Return on Assets	-38.75%	-18.74%
Interest Coverage Ratio	(74.86):1.00	(86.35) : 1.00
Solvency Ratio	(3.36):1.00	(0.39) : 1.00
Book Value per Share	1.02	2.15

The above performance indicators are calculated as follows:

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

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.

2022 Plan of Operations

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 development.

After decades of friendly competition as the lottery equipment lease providers throughout the Philippines, Pacific Online decided to strategically partner with Philippine Gaming Management Corporation (PGMC) for the PCSO Lottery Syetem (PLS) 2021 bid in order to fully share in the synergies that will come with providing an efficient and transparent nationwide online lottery service for the country. On March 29, 2021, Pacific Online and PGMC, together with International Lottery and Totalizator Systems Inc. (ILTS), a supplier of online lottery systems and equipment worldwide which is based in the US, joined the bidding as a joint venture under PinoyLotto Technologies Corp. (PinoyLotto).

The Philippine Charity Sweepstakes Office (PCSO) issued the Notice of Award of the PLS project on September 16, 2021 to the joint venture. On December 1, 2021, the Company, together with its joint venture partners, signed with the PCSO the Memorandum of Agreement for the for the Five (5) Years Lease of the Customized PCSO Lottery System, resulting from the successful conduct of a public bidding. 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.

As the effects of the Covid-19 pandemic continues to be felt especially in the gaming and entertainment industry, the Company is focused on streamlining operations to curtail costs, finding ways to improve profitability and cost efficiency and increasing synergies within the Companies in the Group. It also maintains prudent financial management in decision making to uphold its financial position.

Nevertheless, Pacific Online remains open to look for various opportunities for growth through profitable investments that will increase the company's shareholder value for partners and investors alike.

Item 7. Financial Statements

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2021 presented in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

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

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

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

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

The Company's Board of Directors in the annual shareholders' meeting on May 28, 2021 recommended, and the shareholders approved, the appointment of Reyes, Tacandong & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2021.

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

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

	2021	2020	2019
Audit fee	P1,050,000	P1,098,000	P1,848,000
Tax services Other fees	-	-	600,000
TOTAL	P1,050,000	P1,098,000	P2,448,000

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), Atty. Maria Gracia P. Tan, Atty. Robert C. O. Lim, 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 10, 2022.

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
Regina O. Reyes	Director
Jackson T. Ongsip[1]	Director & President
Tarcisio M. Medalla	Director
Armin Antonio B. Raquel Santos	Director
Henry N. Ocier	Director
Laurito E. Serrano	Lead Independent Director
Ma. Gracia M. Pulido Tan	Independent Director
Roberto C.O. Lim	Independent Director
Maria Neriza C. Banaria	Chief Financial Officer
Jason C. Nalupta	Corporate Secretary
Ann Margaret K. Lorenzo	Assistant Corporate Secretary
Christopher C. Villaflor	Head of Lottery Operations
Romeo J. Roque, Jr.	VP – Agent Management
Grace L. Gatdula	Compliance Officer, Administration Head and Contact for Stakeholders
Ann Josefina G. Esteban	Chief Audit Executive
Mischel Gabrielle O. Mendoza	Corporate Planning Head, Integrated Management Systems Representative and Chief Risk Officer

[1] *Elected on October 7, 2021*

Board of Directors

The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on May 28, 2021. The term of the current members of the BOD shall be until the next stockholders' meeting on May 27, 2022. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier, Filipino, 65, is the Chairman of the Company and a Director since July 29, 1999. He served as the Company's President until October 2021. He is an Executive Director and the Chairman of the Board of Belle Corporation and Premium Leisure Corp. He is also the Chairman of the Board and Director of APC Group, Inc., and PremiumLeisure and Amusement, Inc. Likewise, he is the Co-Vice Chairman of Highlands Prime, Inc. and Tagaytay Highlands International Golf Club, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc. and The Country Club at Tagaytay Highlands, 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.

Jackson T. Ongsip, Filipino, 48, is a Director and President of the company since October 2021. He is also the Vice President for Finance, Chief Financial Officer and Treasurer and Compliance Officer of Premium Leisure Corp., Executive Vice President, CFO and Treasurer of Belle Corporation, Non-

Executive Director of APC Group, Inc., and Vice President for Portfolio Investments of SM Investments Corporation. Mr. Ongsip is a Certified Public Accountant with an extensive audit and finance background accumulated from 5 years in external audit with SyCip, Gorres, Velayo & Co., 11 years with Globe Telecom and 9 years now with the SM Group. He graduated from the University of Santo Tomas with a Bachelor of Science in Accountancy.

Tarcisio M. Medalla, Filipino, 73, 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, 62, is a Director of the company since June 29, 2009. He currently holds the position of President & General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

Regina O. Reyes, Filipino, 57, is a Director of the company since 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. She also served as an associate at international businesses such as Inman, Weisz and Steinberg in Beverly Hills, California, and a partner at Roche, Reyes in Los Angeles. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA, her Bachelor of Laws degree from the Ateneo de Manila University Law School, and a Master's in Entrepreneurship from the Asian Institute of Management. Ms. Reyes is a member of Chamber of Real Estate Developers of the Philippines and is actively engaged in real estate project management and development.

Armin Antonio B. Raquel Santos, Filipino, 54, is a Director of the company since May 2017. He is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) of PremiumLeisure and Amusement, Inc. He is 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, Roberto C.O. Lim, and Ma. Gracia M. Pulido Tan as the Company's independent directors.

Laurito E. Serrano, Filipino, 61, is a Director of the company since May 23, 2014, and is currently the Lead Independent Director. Mr. Serrano concurrently serves as Independent Director of Rizal Commercial Banking Corporation, 2GO Group Inc., Axelum Resources Corp., and Anglo-Philippine Holdings, Inc. He is also a director in privately-held MRT Development Corporation. As independent director in listed entities, Mr. Serrano serves as chairman or member of such companies' audit, compliance, and risk committees. Mr. Serrano is a former partner of the Corporate Finance Consulting Group of SGV & Co. He is a Philippine Certified Public Accountant and has a Master's degree in Business Administration from the Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance in a broad range of clients and industry sectors.

Atty. Roberto C.O. Lim, Filipino, 62, is an Independent Director of the Company since May 28, 2021. He is a practicing lawyer and of counsel of Creencia Carillo Velasco Law, and serves as an Independent Director of several publicly listed companies such as the Philippine Stock Exchange, Asian Terminals, Inc., and Atlas Consolidated Mining. He is also concurrently the Director and Corporate Secretary of Manila Polo Club. Atty. Lim has built a name for himself in the Philippine aviation industry, over the years wearing the hats of General Counsel of Philippine Airlines, Country Head & Legal Counsel of International Air Transportation Association (IATA), Vice Chairman & Executive Director of the Air Carriers Association of the Philippines, as well as Undersecretary of the Department of Transportation for Aviation and Airport. Other positions he holds are Chairman of InteliConsult, Member of Manila Angel Investors Network, Board Member of Philippine Australia Business Council (PABC), and Member of Rotary Club of Makati West. He holds a double-degree of History/Political Science and Commerce in De La Salle University, studied law at the University of the Philippines, and took up his Masters of Law at King's College in England. Atty. Lim has taught Transportation Law, Administrative Law and Corporate Governance at the joint MBA/Law degree of the De La Salle University and Far Eastern University and currently teaches in the Lyceum of the Philippines University College of Law.

Atty. Ma. Gracia M. Pulido Tan, Filipino, 66, is an independent director of the Company since May 28, 2021. She is likewise an independent director of Belle Corporation and Premium Leisure Corp. She is the former Chairperson of the Commission on Audit, Undersecretary of Finance and Commissioner of the Presidential Commission on Good Government. She is currently a Trustee of the International Budget Partnership, an international NGO based in Washington DC, USA. She is a director of several Philippine corporations, a tax consultantand legal adviser of some private clients, and an accredited Arbitrator of the Construction IndustryArbitration Commission, Philippines and Philippine Dispute Resolution Center, Inc, Philippines. Atty. Tan served as Chairman of the United Nations Independent Audit Advisory Committee, the first Filipino to have been elected to this 5-member Committee. She is also a professor at the University of the Philippines for Mandatory Continuing Legal Education. Backed by four decades of professional work in the Philippines and abroad as a private law and accounting practitioner, government official, arbitrator and international consultant. She is an expert in the fields of legal, finance, audit, governance, dispute resolution and administration. She graduated from the University of the Philippines in 1977 with a degree in Bachelor of Science in Business Administration and Accountancy and in 1981 with Bachelor of Laws. In 1987, she obtained her Master of Laws (Tax) from the New York University. She is a Certified Public Accountant.

Executive Officers

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

Maria Neriza C. Banaria, Filipino, 39, is the Chief Financial Officer (CFO) of the corporation since December 2021. She is concurrently the Financial Controller and Assistant Vice President of Belle Corporation and Premium Leisure Corp. As a Certified Public Accountant, her strong background in accounting, audit and finance have been accumulated through extensive experience and exposure to various industries. She holds a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines.

Atty. Jason C. Nalupta, Filipino, 50 is the Corporate Secretary of the Corporation. He is also currently the Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, Belle Corporation, and Crown Asia Chemicals Corporation. He is also a Director and/ or Corporate Secretary or Assistant Corporate Secretary of private companies, Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Belle Infrastructure Holdings, Inc. (Formerly: Metropolitan Leisure & Tourism Corporation), Belle Bay Plaza Corporation, Glypthstudios, Inc., Grabagility, Inc., Loto Pacific Leisure Corporation, Stage Craft International, Inc., FHE Properties, Inc., Stanley Electric Philippines, Inc., and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Atty. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from the Ateneo de Manila University in 1996 and 1992, respectively. Atty. Nalupta was admitted to the Philippine Bar in 1997.

Ann Margaret K. Lorenzo, Filipino, 32, is the Assistant Corporate Secretary of the Corporation. She is concurrently the Corporate Secretary of the following companies: Arquee Corp., Green Asia Resources Corp., GGO Realty Holdings, Inc., and Galileo Software Services Inc. She is also the Assistant Corporate Secretary of Asia United Bank Corporation, Crown Asia Chemicals Corporation, Coal Asia Holdings, Inc., Tagaytay Highlands International Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., The Spa and Lodge at Tagaytay Highlands, Inc., Joy-Nostalg Corporation, Jin Natura Resources Corp., Jin Navitas Resource, Inc., Catmon Felix, Inc., Yeoj Commoditas, Inc., Yeoj Socialis, Inc., Yeoj Turbulentus, Inc., Yeoj Universalis, Inc., Bayby Earth, Inc., Jaman Boracay Corporation, Jaman Cebu Corporation, Jaman Hari Corporation, Jaman Reyna Corporation, Jaman Tagaytay Corporation, Corellia Ventures Incorporated, Sacareen Ventures Incorporated, Iridium Ventures Incorporated, and Bluepanel Equities and Development Inc. She likewise serves as a director of Cloud Arch Ventures Inc. Ms. Lorenzo is a Senior Associate at Tan Venturanza Valdez where she specializes in securities law, special projects, and data privacy. She also lectures at the Paralegal Training Program of the UP Law Center on corporate housekeeping and data privacy. She obtained her Bachelor of Arts degree in English Studies (cum laude) and Juris Doctor degree from the University of the Philippines in 2010 and 2014, respectively. She was admitted to the Philippine bar in April 2015.

Christopher C. Villaflor, Filipino, 45, is the newly appointed Online Lottery Division Head since December 2021. He joined the Company in March 2000 as a Bench Engineer. From June 2004 to October 2009, he served as the Systems Administrator for the Data Center Operations overseeing the lottery administration and maintenance for the Visayas and Mindanao regions. In 2009 he was promoted as Senior Manager of the Data Center Operations and in August 2017, he moved up as Vice President overseeing the Central System & Network Management Department of the Online Lottery Division. Mr. Villaflor has extensive experience in the area of system design, development and testing on both the UNIX (OpenVMS, SunOS/Solaris) environment and Microsoft Windows. He has 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.

Romeo J. Roque, Jr., Filipino, 53, 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.

Grace L. Gatdula, Filipino, 51, is the Administration Division Head since April 2019. She is concurrently the Company's Compliance Officer since 2015. Prior to this, she took positions in Marketing, Business Development and Corporate Planning with Pacific Online since 2015. Ms. Gatdula served as Marketing & Membership Head of PSMT Phils Inc. (S&R Membership Shopping/ PriceSmart Phils.) for 8 years. Earlier work experience included stints in advertising at Columbian Autocar Corporation and customer service at Singapore Telecomms. She graduated with a degree in AB Communication Arts at Miriam College.

Mischel Gabrielle O. Mendoza, Filipino, 35, is the Head of Corporate Planning since April 2019, Apart from strategic planning and business development, she is in charge of monitoring the company's sustainability efforts and corporate image. She concurrently holds the position of Integrated Management Representative (IMR) and Risk Officer of the corporation. Prior to this, she served as Marketing, Corporate Planning Specialist, then Administration Division Head until her recent appointment back in Corporate Planning. Ms. Mendoza is also a director of Total Gaming Technologies, Inc., a subsidiary of Pacific Online, as well as director and co-founder of private company JIM Weaver Designs Corporation. She holds a Bachelor's Degree in Management Engineering from Ateneo de Manila University and took certificate courses abroad in both Tsinghua University in China and Josai International University in Japan.

Anna Josefina G. Esteban, Filipino, 54 is the Chief Audit Executive of the corporation since September 2016. She is also the Chief Audit Executive of publicly listed companies such as Belle Corporation, Premium Leisure Corp., and APC Group, Inc. Prior to joining the Belle Group, she served as Treasurer and Chief Finance Officer of Miriam (formerly Maryknoll) College Foundation, Inc. and worked at the Asian Development Bank for 18 years as Senior Officer at the Office of the Treasurer, Office of the Auditor General and Operations Evaluation Office. Earlier on, she was the Head of the Finance Systems and Audit Unit of Magnolia Nestle Corporation (a joint venture of San Miguel Corporation and Nestle S.A.). She was an auditor and management consultant at Carlos J. Valdes & Co. and was an accounting/finance professor at the College of St. Benilde and the Graduate School of Business of De La

Salle University (DLSU). Ms. Esteban is a Certified Public Accountant, Certified Information Systems Auditor and Certified Data Privacy Auditor. She earned her Bachelor of Science degree in Accounting at the College of the Holy Spirit, Manila and her Master in Business Administration (with distinction) at DLSU.

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

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

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

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company’s shares at the time of grant, and, in no case, be less than the Offer Price at which the Company’s shares are initially offered for sale to the public. Further, the purchase price shall be 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, 2021, 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 2021 and 2020, as well as the estimated aggregate compensation for calendar year 2022.

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	2022 (Estimate) 2021 2020			P13,060,449 P22,746,801 P21,506,278
Total for the Directors and Executive Officers as a group	2022 (Estimate) 2021 2020			P14,533,783 P24,453,468 P23,150,722
Total for President and 4 most highly compensated Executive Officers	2022 (Estimate) 2021 2020			P7,106,754 P15,657,915 P14,005,288

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

	2021	2020	2019
Salaries and wages	**₱22,746,801**	₱20,108,986	₱27,571,301
Professional fees	**1,333,333**	888,889	1,433,333
Retirement benefits	**90,291**	1,777,484	2,354,672
	₱24,170,425	₱22,775,359	₱31,359,306

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 16 and 21 of the audited consolidated financial statements.

In 2021, all Audit Committee members received a per diem of Fifty Thousand Pesos (₱50,000.00) each per Audit Committee meeting attended while other directors received a per diem of Ten Thousand Pesos ₱10,000.00) each. For Board and Board Committee meetings, each director is given a per diem of P10,000.00 per day regardless of the number of meetings during the same day.

The following Board of Directors received gross per diem and compensation for their attendance to Board and Committee meetings in 2021:

NAME	POSITION	TOTAL
Willy N. Ocier	Chairman	128,758.15
Jackson T. Ongsip	President	14,705.88
Regina O. Reyes	Director	77,777.77
Tarcisio M. Medalla	Director	344,444.46
Armin Antonio B. Raquel Santos	Director	99,999.99
Henry N. Ocier	Director	88,888.88
Laurito E. Serrano	Lead Independent Director	344,444.46
Ma. Gracia M. Pulido Tan (ID)	Independent Director	222,222.23
Roberto C.O. Lim (ID)	Independent Director	222,222.23
	TOTAL	**1,543,464.05**

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, 2021:

Shareholder	Number of Shares	Percent	Beneficial Owner
PREMIUM LEISURE CORP. 5/F Tower A, Two E-Com Center, Mall of Asia Complex, Pasay City	448,560,806	50.1000	**PREMIUM LEISURE CORP.**
PCD NOMINEE CORPORATION	327,829,777	36.6155	**VARIOUS**
WILLY N. OCIER 28/F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City	71,819,550	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 2021:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizen-ship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,983,950	80,803,500	Filipino	9.03
Common	Regina O. Reyes	300	0	300	Filipino	0.00
Common	Jackson T. Ongsip	100	0	100	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Armin B. Raquel-Santos	200	0	200	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Ma. Gracia M. Pulido Tan	1,000	0	1,000	Filipino	0.00
Common	Roberto C.O. Lim	1,000	0	1,000	Filipino	0.00
Common	Maria Neriza C. Banaria	0	0	0	Filipino	0.00
Common	Jason C. Nalupta	0	0	0	Filipino	0.00
Common	Ann Margaret K. Lorenzo	0	0	0	Filipino	0.00
Common	Romeo J. Roque, Jr	6,000	0	6,000	Filipino	0.00
Common	Christopher C. Villaflor	0	0	0	Filipino	0.00

Common	Ma. Concepcion T. Sangil	0	0	0	Filipino	0.00
Common	Anna Josefina G. Esteban	0	0	0	Filipino	0.00
Common	Frederic C. DyBuncio	200	100		Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.07
	All Directors and Executive Officers as a group	**72,225,950**	**10,382,850**	**82,608,800**		**9.23**

Item 12. Certain Relationships and Related Transactions

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company totaling 252.2 million and 281.8 million as at December 31, 2020 and 2019, respectively (see Note 11).

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

	2021	2020	2019
Salaries and wages	**₱22,746,801**	₱20,108,986	₱27,571,301
Professional fees	**1,333,333**	888,889	1,433,333
Retirement benefits	**90,291**	1,777,484	2,354,672
	₱24,170,425	₱22,775,359	₱31,359,306

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.

Board Attendance

Regular meetings of the Board are scheduled at the beginning of the year and are held at least six (6) times annually. Special meetings may also be called by the Chairman, the President or Corporate Secretary. A director's absence or non-participation in more than fifty percent (50%) of all meetings in a year is a ground for temporary disqualification in the succeeding election. During 2021, each of the Company's directors have complied with the requirements.

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

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Willy N. Ocier	Chairman	May 28, 2021	N/A	10	10	100%
Jackson T. Ongsip	President	Oct. 7, 2021	N/A	2	2	100%
Ma. Virginia V. Abo-Hamda	Director & CFO	May 28, 2021	Oct, 7, 2021	8	8	100%
Roberto C.O. Lim	Independent Director	May 28, 2021	N/A	6	6	100%
Tarcisio M. Medalla	Director	May 28, 2021	N/A	10	10	100%
Ma. Gracia M. Pulido Tan	Independent Director	May 28, 2021	N/A	5	6	83%
Henry N. Ocier	Director	May 28, 2021	N/A	10	10	100%
Armin B. Raquel Santos	Director	May 28, 2021	N/A	10	10	100%
Regina O. Reyes	Director	May 28, 2021	N/A	9	10	90%
Laurito E. Serrano	Independent Director	May 28, 2021	N/A	9	10	90%
Jerry. C. Tiu	Independent Director	June 22, 2020	May 28, 2021	4	4	100%
Joseph C. Tan	Independent Director	June 22, 2020	April 2021	3	3	100%

Note: Ma. Virginia V. Abo-Hamda retired on October 7, 2021, replaced by Jackson T. Ongsip on the same date.
Roberto C.O. Lim & Ma. Gracia M. Pulido-Tan are new directors as of May 28, 2021 replacing Jerry C. Tiu (retired) and Joseph C. Tan+ (deceased)

In adherence to good governance practice, the schedule of meetings of the Board and Board Committees for the full year of 2022 was discussed and approved during the February 2022 Board of Directors meeting.

Board Performance Evaluation

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

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

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

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

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

1. Chief Financial Officer
2. Chief Risk Officer

3. Compliance Officer
4. Chief Audit Executive

The said performance evaluation for 2021 was conducted in December 2021.

Continuing Education Programs

The Board identifies areas of continuing education on corporate governance topics they require. To keep the Board and key officers well-informed of governance-related developments, regular annual education programs are conducted in coordination with SM Investments Corporation and training providers duly accredited by the SEC. Below is the list of trainings in 2021 attended by the members of our Board of Directors.

	Name of Participants	Training Provider	Date of Training	Topic
1	**Lim, Roberto C.O.**	Institute of Corporate Directors	30-Sep-21	Corporate Governance
2	**Ocier, Henry N.**			
3	**Ocier, Willy N.**			
4	**Ongsip, Jackson T.**			
5	**Raquel Santos, Armin Antonio B.**			
6	**Reyes, Regina O.**			
7	**Serrano, Laurito E.**			
8	**Tan, Maria Gracia P.**			
9	**Medalla, Tarcisio M.**	Risks, Opportunities, Assessment and Management, Inc.	05-Aug-21	Corporate Governance

A review of the various established Board level committees and its respective charters were done for the year 2021. Short descriptions of the committees are as follows:

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

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

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

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

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

Members of various committees are expected to serve for a term of one (1) year. Below is the attendance of the members of the Board Committees for 2021.

Attendance of Audit Committee 2021

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Laurito E. Serrano	Chairman (NED)	May 28, 2021	N/A	4	4	100%
Jerry C. Tiu	Member (NED)	June 22, 2020	May 28, 2021	1	1	100%
Joseph C. Tan	Member (NED)	June 22, 2020	April 2021	0	0	N/A
Tarcisio M. Medalla	Member (NED)	May 28, 2021	N/A	4	4	100%
Roberto C.O. Lim	Member (NED)	May 28, 2021	N/A	3	3	100%
Ma. Gracia M. Pulido Tan	Member (NED)	May 28, 2021	N/A	3	3	100%

Note: Roberto C.O. Lim & Ma. Gracia M. Pulido-Tan are new directors as of May 28, 2021 replacing Jerry C. Tiu (retired) and Joseph C. Tan+ (deceased)

Attendance of Executive Committee 2021

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Willy N. Ocier	Chairman	May 28, 2021	N/A	2	2	100%
Armin B. Raquel Santos	Member	May 28, 2021	N/A	2	2	100%
Jackson T. Ongsip	Member	Oct 7, 2021	N/A	1	1	100%
Ma. Virginia V. Abo-Hamda	Member	May 28, 2021	Oct. 7, 2021	1	1	100%

Note: Ma. Virginia V. Abo-Hamda retired on October 7, 2021, replaced by Jackson T. Ongsip on the same date.

Attendance of Corporate Governance Committee 2021

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Roberto C.O. Lim	Chairman (NED)	May 28, 2021	N/A	2	2	100%
Joseph C. Tan	Chairman (NED)	June 22, 2020	April 2021	0	0	
Laurito E. Serrano	Member (NED)	May 28, 2021	N/A	3	3	100%
Jerry C. Tiu	Member (NED)	June 22, 2020	May 28, 2021	1	1	100%
Ma. Gracia M. Pulido Tan	Member (NED)	May 28, 2021	N/A	2	2	100%

Note: Roberto C.O. Lim & Ma. Gracia M. Pulido-Tan are new directors as of May 28, 2021 replacing Jerry C. Tiu (retired) and Joseph C. Tan+ (deceased)

Attendance of Related Party Transactions Committee 2021

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Roberto C.O. Lim	Chairman (NED)	May 28, 2021	N/A	2	2	100%
Joseph C. Tan	Chairman (NED)	June 22, 2020	April 2021	0	0	N/A
Ma. Gracia M. Pulido Tan	Member (NED)	May 28, 2021	N/A	2	2	100%
Jerry C. Tiu	Member (NED)	June 22, 2020	May 28, 2021	0	0	N/A
Laurito E. Serrano	Member (NED)	May 28, 2021	N/A	2	2	100%
Regina O. Reyes	Member (NED)	May 28, 2021	N/A	2	2	100%
Henry N. Ocier	Member (NED)	May 28, 2021	N/A	2	2	100%

Note: Roberto C.O. Lim & Ma. Gracia M. Pulido-Tan are new directors as of May 28, 2021 replacing Jerry C. Tiu (retired) and Joseph C. Tan+ (deceased)

Attendance of Board Risk Oversight Committee 2021

Name	Position	Date of Last Election	End of Term	No. of 2021 Meetings Held During Term	No. of Meetings Attended	% Attendance
Ma. Gracia M. Pulido Tan	Chairman (NED)	May 28, 2021	N/A	2	2	100%
Jerry C. Tiu	Chairman (NED)	June 22, 2020	May 28, 2021	0	0	N/A
Tarcisio M. Medalla	Member (NED)	May 28, 2021	N/A	2	2	100%
Roberto C.O. Lim	Member (NED)	May 28, 2021	N/A	2	2	100%
Joseph C. Tan	Member (NED)	June 22, 2020	April 2021	0	0	N/A
Laurito E. Serrano	Member (NED)	May 28, 2021	N/A	2	2	100%

Note: Roberto C.O. Lim & Ma. Gracia M. Pulido-Tan are new directors as of May 28, 2021 replacing Jerry C. Tiu (retired) and Joseph C. Tan+ (deceased)

Risk Oversight Committee

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

The Risk Oversight Committee (ROC) evaluates the effectiveness of the Company's risk management system on an annual basis. The Board of Directors, through the ROC, has reviewed the Company's risk management system for 2021 and has found the same effective and adequate.

The Enterprise Risk Matrix of the Company was updated to include risks brought about by the COVID-19 pandemic, and the closure of operations that it led to. Furthermore, Atty. Robert C. O. Lim was appointed as the Chairman of the Board Risk Committee in May 2021.

The Audit Committee

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

The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the Company's internal control system, including the information technology security controls. Effective and adequate internal control mechanisms are in place, implemented and properly complied with for the year 2021.**Manual on Corporate Governance**

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

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

Code of Business Conduct and Ethics

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

Governance Policies

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

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

Board Diversity

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

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

Pacific Online Systems Corporation prohibits the its directors, officers, and employees from using privileged corporate information for personal gain. Trading/ownership of Company shares as of December 31, 2021 is shown below:

Name of Director	Position	Shares as of 12/31/2021	% of Class	Shares as of 12/31/2020	% of Class
Willy N. Ocier	Chairman	80,803,500	9.02%	80,803,500	9.02%
Regina O. Reyes	Director	300	0.00%	300	0.00%
Jackson T. Ongsip	Director & President	100	0.00%	N/A	N/A
Tarcisio M. Medalla	Director	300	0.00%	300	0.00%
Armin Antonio B. Raquel Santos	Director	200	0.00%	200	0.00%
Henry N. Ocier	Director	1,209,000	0.13%	1,209,000	0.13%
Laurito E. Serrano	Independent Director	2,400	0.00%	2,400	0.00%
Ma. Gracia M. Pulido Tan	Independent Director	1,000	0.00%	N/A	N/A
Roberto C.O. Lim	Independent Director	1,000	0.00%	N/A	N/A
Romeo J. Roque Jr.	Head, Agent Management Department	6,000	0.00%	6,000	0.00%
Mischel Gabrielle O. Mendoza	Head, Corporate Planning Department	585,000	0.06%	585,000	0.06%
	Other Officers	0	0.00%	0	0.00%
	All Directors and Executive Officers as a group	82,608,800	9.23%	84,022,650	9.36%

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

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

For Investor Relations, stakeholders may contact:

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

PART V - EXHIBITS AND SCHEDULES

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

a. Exhibits

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

a. Reports on SEC Form 17-C

Document	Date Filed	Item No.	Matter
SEC FORM 17-C dated February 26, 2021	March 01, 2021	Item 9	Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated March 26, 2021	March 29, 2021	Item 9	Joint Ventures
SEC FORM 17-C dated April 14, 2021	April 14, 2021	Item 4	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated April 15, 2021	April 16, 2021	Item 4	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated May 28, 2021	May 31, 2021	Items 4 and 9	Results of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated May 28, 2021	May 31, 2021	Items 4 and 9	Results of Organizational Meeting of Board of Directors
SEC FORM 17-C dated August 20, 2021	August 20, 2021	Item 9	Clarification of New Reports
SEC FORM 17-C dated September 06, 2021	September 06, 2021	Item 9	Material Information/Transactions
SEC FORM 17-C dated September 06, 2021	September 06, 2021	Item 9	[Amend-1] Material Information/Transactions
SEC FORM 17-C dated October 07, 2021	October 07, 2021	Item 4	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)
SEC FORM 17-C dated December 01, 2021	December 01, 2021	Item 9	Material Information/Transactions
SEC FORM 17-C dated December 09, 2021	December 09, 2021	Item 4	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on March 01, 2022.

By:

JACKSON T. ONGSIP
President

MARIA NERIZA C. BANARIA
Chief Financial Officer

ATTY. JASON C. NALUPTA
Corporate Secretary

MAR 24 2022

SUBSCRIBED AND SWORN to before me this ________ day of __________ 2022, affiants exhibiting to me their Community Tax Certificates, as follows:

NAME	ID PRESENTED	DATE OF ISSUE	PLACE OF ISSUE
JACKSON T. ONGSIP	PASSPORT P4550764B	Jan. 25, 2020	DFA Manila
MARIA NERIZA C. BANARIA	PASSPORT P1618332B	May 8, 2019	DFA NCR Central
JASON C. NALUPTA	TIN 908 541 534		

Doc. No. 315
Book No. 64
Page No. II
Series of 2022

ANN MARGARET K. LORENZO
Notary Public for the Cities of Pasig and San Juan
and the Municipality of Pateros
Appointment No. 131 (2021-2022)
Commission Extended on December 31, 2022
2704 East Tower, Tektite Towers
(Formerly Philippine Stock Exchange Centre),
Exchange Road, Ortigas Center, 1605 Pasig City
PTR No. 8131863 / 01.06.2022 / Pasig
IBP No. 171337 / 12.23.2021 / RSM
Roll of Attorneys No. 64875
MCLE No. VII-0010623 / 02.18.2022

PACIFIC ONLINE
SYSTEMS CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Pacific Online Systems Corporation and Subsidiaries (the Company)** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2021 and 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Reyes Tacandong & Co. and R. G. Manabat & Co., the independent auditors appointed by the stockholders for the periods December 31, 2021 and 2020, respectively, have audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

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

Signature: **JACKSON T. ONGSIP**
President

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

Signed this 10th day of February 2022

SUBSCRIBED AND SWORN TO BEFORE ME, AT PASIG CITY THIS DAY OF FEB 10 2022 AFFIANT EXHIBITING TO ME HIS/HER COMPETENT EVIDENCE OF IDENTITY NO. ________ ISSUED AT ________ ON ________.

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. 8098064 /01/04/2022 Pasig City
IBP No. 167462 / 11/18/2021-For Year 2022/ RSM
Roll No. 41969
MCLE Comp. VI-0021812 / March 25, 2019
No. 11, Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 90 (2021-2022)

Doc. No. 110;
Page No. 22;
Book No. IV;
Series of 2022

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	3	0	0	8	8	0	9

COMPANY NAME

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
57	May 28	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
Grace L. Gatdula	glgatdula@pacificonline.com.ph	(02) 8584-1700	0998-594-6190

CONTACT PERSON'S ADDRESS

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

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

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

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

INDEPENDENT AUDITORS' REPORT

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

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Group as at December 31, 2020 and for the years ended December 31, 2020 and 2019 were audited by another auditor whose report dated March 1, 2021, expressed an unmodified opinion on those consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

Reyes Tacandong & Co. is a member of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, and practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

Assessing Recoverability of Nonfinancial Assets
As at December 31, 2021, the carrying amount of the Group's nonfinancial assets amounted to ₱193.1 million (net of allowance for impairment losses amounting to ₱33.6 million), which represents 23% of its total consolidated assets. Management's assessment for impairment of the Group's nonfinancial assets is considered an area of significant judgment and estimate because of the uncertainties and prevailing challenges in the conduct of business brought about by the pandemic and imminent changes in the operations and sources of cash flows of the Group.

Our audit procedures included, among others, assessing management's determination of the recoverable amounts of the Group's nonfinancial assets considering the potential impact of regulatory processes and decisions and changes in business strategies. We evaluated the appropriateness of the assumptions used by the Group in the impairment assessment, in particular those involving the forecasted cash flows from existing and committed contracts. We also reviewed the adequacy of the Group's related disclosures in Note 3, *Significant Judgments, Accounting Estimates, and Assumptions* in the consolidated financial statements.

Assessing Joint Control and Determining Proper Classification of a Joint Arrangement
As at December 31, 2021, the Group accounted for its 50% ownership in Pinoylotto Technologies Corp. (PinoyLotto), a joint venture entity that was awarded with the five year lease of the customized Philippine Charity Sweepstakes Office (PCSO) Lottery System, as a joint operation. Accordingly, the Group's corresponding share in the assets, liabilities, revenue and expenses of PinoyLotto was recognized in the consolidated financial statements. The assessment of the joint arrangement is considered as a key audit matter because of the significant judgment involved in the management's process in evaluating the Group's rights and obligations arising from the arrangement, including its consideration of the structure and legal form of the arrangement, the terms agreed by parties or established by relevant regulatory body, among others.

Our audit procedures included, among others, reviewing the provisions of the joint venture arrangement and other relevant agreements and documents and assessing the appropriateness of the judgment made on the existence of joint control and determining the proper classification and accounting for the joint arrangement by considering the pertinent facts and circumstances as at report date. We also reviewed the adequacy of the related disclosures in Notes 3 and 6*, Interest in Joint Operation* of the consolidated financial statements.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report distributed to stockholders for the year ended December 31, 2021, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report to be distributed to stockholders for the year ended December 31, 2021 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 audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Belinda B. Fernando.

REYES TACANDONG & CO.

Belinda B. Fernando

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2019
Valid until October 16, 2022
PTR No. 8851706
Issued January 3, 2022, Makati City

February 10, 2022
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

(With Comparative Figures for 2020)

	Note	**2021**	2020
ASSETS			
Current Assets			
Cash	7	**₱98,638,883**	₱162,274,833
Marketable securities	8	**61,629,495**	84,260,926
Trade and other receivables	9	**229,355,532**	132,373,468
Other current assets	10	**157,272,264**	164,733,666
Total Current Assets		**546,896,174**	543,642,893
Noncurrent Assets			
Financial assets at fair value through other comprehensive income (FVOCI)	11	**252,166,540**	281,822,365
Property and equipment	12	**23,398,041**	83,495,388
Right-of-use assets	19	**6,672,570**	10,119,536
Deferred tax assets	18	**21,398,655**	82,414,559
Other noncurrent assets	10	**4,624,920**	101,909,300
Total Noncurrent Assets		**308,260,726**	559,761,148
		₱855,156,900	₱1,103,404,041

	Note	**2021**	2020
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	14	**₱112,922,359**	₱180,208,165
Lease liabilities	19	**4,886,938**	7,676,824
Income tax payable		**–**	6,146
Total Current Liabilities		**117,809,297**	187,891,135
Noncurrent Liabilities			
Lease liabilities - net of current portion	19	**1,986,014**	3,928,543
Retirement liability	20	**16,062,627**	48,443,811
Total Noncurrent Liabilities		**18,048,641**	52,372,354
Total Liabilities		**135,857,938**	240,263,489

(Forward)

	Note	2021	2020
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	15	**₱895,330,946**	₱895,330,946
Additional paid-in capital	15	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	15	**(285,267,558)**	(285,267,558)
Fair value reserve		**(492,266,311)**	(462,610,486)
Retirement benefits reserve		**12,544,249**	(14,014,805)
Other reserve	15	**2,610,354**	2,610,354
Retained earnings		**329,713,024**	469,987,087
		717,305,027	860,675,861
Non-controlling Interest		**1,993,935**	2,464,691
Total Equity		**719,298,962**	863,140,552
		₱855,156,900	₱1,103,404,041

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

(With Comparative Figures for 2020 and 2019)

	Note	**2021**	2020	2019
CONTINUING OPERATIONS REVENUES				
Equipment rental	19, 22	**₱426,345,611**	₱293,104,496	₱681,483,757
Commission and distribution income		**–**	5,425,907	25,465,751
		426,345,611	298,530,403	706,949,508
COST OF SERVICES	16	**378,629,801**	514,362,959	726,469,650
GENERAL AND ADMINISTRATIVE EXPENSES	16	**165,518,554**	279,263,749	228,215,853
OPERATING LOSS		**(117,802,744)**	(495,096,305)	(247,735,995)
OTHER INCOME (CHARGES)				
Mark-to-market loss on marketable securities	8	**(22,631,431)**	(6,195,655)	(15,248,311)
Dividend income	8,11	**15,368,577**	29,302,224	31,657,224
Finance charges	19	**(642,417)**	(6,335,216)	(4,408,963)
Interest income	7	**122,135**	676,852	1,269,508
Impairment loss on goodwill	13	**–**	–	(17,046,266)
Others - net	17	**34,975,394**	3,473,074	(12,892,446)
		27,192,258	20,921,279	(16,669,254)
LOSS BEFORE INCOME TAX		**(90,610,486)**	(474,175,026)	(264,405,249)
INCOME TAX EXPENSE (BENEFIT)	18			
Current		–	6,039	4,210,086
Deferred		**50,134,333**	(52,959,818)	(68,381,533)
		50,134,333	(52,953,779)	(64,171,447)
NET LOSS FROM CONTINUING OPERATIONS		**(140,744,819)**	(421,221,247)	(200,233,802)
DISCONTINUED OPERATION				
Net income (loss) from discontinued operation	5	–	39,833,733	(120,738,572)
NET LOSS		**(₱140,744,819)**	(₱381,387,514)	(₱320,972,374)

	Note	**2021**	2020	2019
NET LOSS		**(₱140,744,819)**	(₱381,387,514)	(₱320,972,374)
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified to profit or loss				
Fair value loss on financial assets at FVOCI	11	**(29,655,825)**	(65,808,515)	(108,075,050)
Remeasurement gain (loss) on retirement benefits, net of deferred tax	20	**26,559,054**	(3,082,772)	(18,152,999)
		(3,096,771)	(68,891,287)	(126,228,049)
TOTAL COMPREHENSIVE LOSS		**(₱143,841,590)**	(₱450,278,801)	(₱447,200,423)
Net loss attributable to:				
Equity holders of the Parent Company		**(₱140,274,063)**	(₱378,508,762)	(₱319,411,018)
Non-controlling interest		**(470,756)**	(2,878,752)	(1,561,356)
		(₱140,744,819)	(₱381,387,514)	(₱320,972,374)
Total comprehensive loss attributable to:				
Equity holders of the Parent Company		**(₱143,370,834)**	(₱447,400,049)	(₱445,639,067)
Non-controlling interest		**(470,756)**	(2,878,752)	(1,561,356)
		(₱143,841,590)	(₱450,278,801)	(₱447,200,423)
Loss per share - continuing operations				
Basic / diluted loss per share	23	**(₱0.1666)**	(₱0.4986)	(₱0.2370)

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

(With Comparative Figures for 2020 and 2019)

	Note	**2021**	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax from continuing operations		**(₱90,610,486)**	(₱474,175,026)	(₱264,405,249)
Income (loss) before income tax from discontinued operation	5	**–**	39,836,985	(130,982,422)
Loss before income tax		**(90,610,486)**	(434,338,041)	(395,387,671)
Adjustments for:				
Depreciation and amortization	12	**148,369,577**	233,659,796	219,353,441
Provision for (reversal of) impairment loss on:				
Trade and other receivables	9	**(26,000,000)**	139,677,614	2,147,391
Spare parts, supplies and creditable withholding taxes	10	**–**	44,005,570	–
Right-of-use asset	19	**–**	458,997	–
Goodwill	13	**–**	–	17,046,266
Fair value loss on marketable securities	8	**22,631,431**	6,195,655	15,248,311
Dividend income	8, 11	**(15,368,577)**	(29,302,224)	(31,657,224)
Retirement benefits	20	**9,383,034**	11,290,060	18,265,466
Interest income	7, 17	**(6,235,177)**	(6,267,240)	(10,149,516)
Loss on retirement of asset	12	**834,746**	–	–
Other provisions		**676,407**	–	–
Finance charges	19	**642,417**	6,335,216	7,022,938
Unrealized foreign exchange loss		**511,428**	238,218	885,057
Gain on sale of:				
Property and equipment	12	**(175,500)**	(15,000)	(839,812)
Subsidiaries	5	–	(55,761,139)	–
Write-off of refundable deposit	19	**–**	1,794,147	–
Operating income (loss) before working capital changes		**44,659,300**	(82,028,371)	(158,065,353)
Decrease (increase) in:				
Trade and other receivables		**(64,869,022)**	(97,843,325)	119,294,903
Other current assets		**(59,356,779)**	(168,956,266)	(69,326,528)
Increase (decrease) in trade and other current liabilities		**(66,540,727)**	208,065,476	(105,557,506)
Net cash used for operations		**(146,107,228)**	(140,762,486)	(213,654,484)
Retirement contributions	20	**(5,000,000)**	–	(6,500,000)
Interest received		**122,135**	676,852	1,269,508
Income tax paid		**(6,146)**	(940,580)	(13,924,737)
Net cash flows used in operating activities		**(150,991,239)**	(141,026,214)	(232,809,713)

(Forward)

	Note	**2021**	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in other noncurrent assets		**₱97,284,380**	₱157,284,675	(₱84,660,518)
Dividends received	8, 11	**15,368,577**	29,302,224	31,657,224
Acquisitions of property and equipment	12	**(12,127,263)**	(90,839,188)	(29,536,476)
Proceeds from sale of:				
Property and equipment	12	**913,500**	671,523	955,673
Marketable securities	8	–	50,000,000	–
Disposal of subsidiaries, net of cash disposed of		–	9,879,025	–
Net cash flows provided by (used in) investing activities		**101,439,194**	156,298,259	(81,584,097)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of lease liabilities	19	**(12,827,398)**	(36,842,773)	(60,485,647)
Finance charges paid		**–**	(4,337,479)	–
Loan proceeds (payments)		**–**	(150,000,000)	150,000,000
Increase in installment payable		**–**	–	(9,205,042)
Net cash flows provided by (used in) financing activities		**(12,827,398)**	(191,180,252)	80,309,311
NET DECREASE IN CASH		**(62,379,443)**	(175,908,207)	(234,084,499)
CASH AT BEGINNING OF YEAR		**162,274,833**	337,471,529	571,260,258
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		**(1,256,507)**	711,511	295,770
CASH AT END OF YEAR	7	**₱98,638,883**	₱162,274,833	₱337,471,529

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2021

(With Comparative Figures for 2020 and 2019)

		Equity Attributable to Equity Holders of the Parent Company									
	Note	**Capital stock**	**Additional paid-in Capital**	**Cost of Parent Company Common Shares Held by a Subsidiary**	**Fair Value Reserve**	**Retirement Benefits Reserve**	**Other Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at January 1, 2021		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱462,610,486)**	**(₱14,014,805)**	**₱2,610,354**	**₱469,987,087**	**₱860,675,861**	**₱2,464,691**	**₱863,140,552**
Net loss		**–**	**–**	**–**	**–**	**–**	**–**	**(140,274,063)**	**(140,274,063)**	**(470,756)**	**(140,744,819)**
Other comprehensive loss	11,20	**–**	**–**	**–**	**(29,655,825)**	**26,559,054**	**–**	**–**	**(3,096,771)**	**–**	**(3,096,771)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(29,655,825)**	**26,559,054**	**–**	**(140,274,063)**	**(143,370,834)**	**(470,756)**	**(143,841,590)**
Balance at December 31, 2021		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱492,266,311)**	**₱12,544,249**	**₱2,610,354**	**₱329,713,024**	**₱717,305,027**	**₱1,993,935**	**₱719,298,962**

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital stock	Additional paid-in Capital	Cost of Parent Company Common Shares Held by a Subsidiary	Fair Value Reserve	Retirement Benefits Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱396,801,971)	(₱17,614,609)	₱2,610,354	₱855,178,425	₱1,308,075,910	₱5,343,443	₱1,313,419,353
Net loss		–	–	–	–	6,682,576	–	(385,191,338)	(378,508,762)	(2,878,752)	(381,387,514)
Other comprehensive loss	11,20	–	–	–	(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)
Balance at December 31, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱462,610,486)	(₱14,014,805)	₱2,610,354	₱469,987,087	₱860,675,861	₱2,464,691	₱863,140,552

		Equity Attributable to Equity Holders of the Parent Company										
	Note	Cash capital	Additional paid-in Capital	Cost of Parent Company Common Shares Held by a Subsidiary	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2019		₱447,665,473	₱254,640,323	(₱285,267,558)	₱422,431,981	(₱288,726,921)	₱538,390	₱2,610,354	₱1,199,822,935	₱1,753,714,977	₱6,904,799	₱1,760,619,776
Net loss		–	–	–	–	–	–	–	(319,411,018)	(319,411,018)	(1,561,356)	(320,972,374)
Other comprehensive loss	11,20	–	–	–	–	(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)
Stock dividend distributed	15	447,665,473	–	–	(422,431,981)	–	–	–	(25,233,492)	–	–	–
Balance at December 31, 2019		₱895,330,946	₱254,640,323	(₱285,267,558)	₱–	(₱396,801,971)	₱17,614,609	₱2,610,354	₱855,178,425	₱1,308,075,910	₱5,343,443	₱1,313,419,353

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021
(With Comparative Information for 2020 and 2019)

1. **Company Information**

Corporate Information

Pacific Online Systems Corporation ("POSC" or "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company is a public company under Section 17.2 of the Revised Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE) starting on April 12, 2007.

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

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

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

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

POSC

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

The Parent Company's primary source of revenue arises from the Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment. The existing ELA is valid until July 2022 (see Notes 19 and 22).

LotoPac

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

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

TGTI

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

TGTI's primary source of revenue arises from the ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. The ELA is valid until April 1, 2022 (see Notes 19 and 22).

FRI

FRI was incorporated on May 25, 1999 primarily to engage in the business of trading or selling of goods on wholesale or retail basis, such as sweepstakes, instant game tickets, and other lottery and gaming tickets, including, but not limited to, those introduced by PCSO as well as tickets of shows, concerts and other events.

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

TGTISI

TGTISI was incorporated on August 31, 2011 primarily to engage in, conduct and carry on the business of providing logistical, technical support, and consultancy services, and providing end-to-end solutions to entities in the gaming industry in all aspects.

PinoyLotto

On September 7, 2021, Pinoylotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated with the SEC. PinoyLotto was awarded with the five years lease of the customized PCSO Lottery System, with a contract price of ₱5,800.0 million.

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

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

The consolidated financial statements as at and for the year ended December 31, 2021 (with comparative figures for 2020 and 2019) were approved and authorized for issuance by the Board of Directors (BOD) on February 10, 2022.

2. **Summary of Significant Accounting Policies**

Basis of Preparation and Statement of Compliance

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

Measurement Bases

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

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for marketable securities and financial assets at fair value through other comprehensive income (FVOCI) which are measured at fair value.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in Notes 8, *Marketable Securities,* 11, *Financial Assets at FVOCI*, and 24, *Financial Instruments*.

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

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases – Corona Virus Disease (COVID)-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the *COVID-19* related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

The adoption of the amendment to PFRS did not have any material effect on the consolidated financial statements of the Group. Additional disclosures were included in the notes to consolidated financial statements, as applicable.

Amendments to PFRS Issued But Not Yet Effective
Relevant amendments to PFRS which are not yet effective for the year ended December 31, 2021 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after April 1, 2021:

- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021 but earlier application is permitted. The 2021 amendment is mandatory for entities that elected to apply the previous amendment.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or IFRIC 21, *Levies,* instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are fist applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

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

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

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

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

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial,

(2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

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

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

Deferred effectivity -

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

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

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

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

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

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

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

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

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

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

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

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

Business Combinations and Goodwill. Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed outright.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 is measured at fair value with the changes in fair value recognized in profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment or determined in accordance with PFRS 8, *Operating Segment*.

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

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

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

When goodwill has been allocated to a CGU or group of CGUs and part of the operations within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the CGU retained.

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

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

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

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

Joint ventures are accounted for using the equity method of accounting and recognized at cost and adjusted thereafter for the post-acquisition change in the Parent Company's share of the joint venture's net assets.

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:

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

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

The Group classifies all other liabilities as noncurrent.

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

Financial Instruments

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

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

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transactions price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

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

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

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

As at December 31, 2021 and 2020, the Group does not have financial liabilities at FVPL and debt instruments measured at FVOCI.

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

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

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

Classified under this category are the Group's investments in listed equity securities included under "Marketable securities" account.

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

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

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

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

Classified under this category are the Group's cash, trade and other receivables (excluding advances to contractors, suppliers, officers and employees) and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets").*Financial Assets at FVOCI.* On initial recognition, equity securities which are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

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

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

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

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

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

Impairment of Financial Assets at Amortized Cost

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has expired;

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

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

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

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

Offsetting Financial Assets and Liabilities

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

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

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

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

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

<u>Other Assets</u>

This account mainly consists of creditable withholding taxes (CWT), spare parts and supplies, prepayments, and excess of input value-added tax (VAT) over output VAT.

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

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

Prepayments. Prepayments are expenses not yet incurred but paid in advance. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current asset. Otherwise, these are classified as noncurrent asset.

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

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

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

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

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

The amount of VAT on revenue not yet collected is presented under “Trade and other current liabilities” account in the consolidated statement of financial position.

Property and Equipment

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

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

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

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

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

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

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

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

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

Software Development

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

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

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

Impairment of Nonfinancial Assets (excluding Goodwill)

Nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

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

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

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

Other Income. Revenue is recognized when earned.

Cost and Expense Recognition

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

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

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

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

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

Right-of-use assets (ROU) Assets. At commencement date, the Group measures ROU assets at cost which is comprised of the following:

a) the amount of the initial measurement of lease liabilities;
b) any lease payments made at or before the commencement date less any lease incentives received;
c) any initial direct costs; and
d) an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

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

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

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

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

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

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

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

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

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

Foreign Currency Denominated Transactions

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

Income Taxes

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

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

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

- When it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or

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

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

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

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

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

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

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

Related Parties and Transactions

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

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

Loss per Share

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

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

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

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

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

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

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

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

Judgments

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

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

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

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

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

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

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

Revenue from equipment rental amounted to ₱426.3 million in 2021 (₱293.1 million and ₱681.5 million in 2020 and 2019, respectively) (see Notes 19 and 22).

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

The fair value of the Group's financial assets and liabilities are disclosed in Note 24.

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.

Estimates and Assumptions

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

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

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

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

The Group uses the ECL model in estimation the level of allowance, which includes forecasts of future events and conditions. A credit loss is the difference between the cash flow that are due in accordance with the contract and the cash flow that are expected to be received discounted at the original effective interest rate. The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Group's receivables is less than one year so the lifetime ECL and the 12-month ECL are similar.

The Group recognized provision for (reversal of) impairment losses on trade and other receivables amounting to (₱26.0 million) in 2021 (₱139.7 million and ₱2.1 million in 2020 and 2019, respectively) (see Notes 9, 16 and 17). Allowance for impairment losses on amortized cost amounted to ₱115.8 million (₱141.8 million in 2020).

The carrying amount of financial assets at amortized cost as at December 31, 2021 and 2020 are as follows:

	Note	**2021**	2020
Cash	7	**₱98,638,883**	₱162,274,833
Trade and other receivables	9	**229,355,532**	132,373,468
Guaranteed deposits	10	**14,500,000**	14,500,000
Refundable deposits	10	**3,706,928**	4,159,704

Estimating Impairment of Goodwill. Impairment exists when the carrying value of the CGU, including the goodwill, exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flows model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flows model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant the goodwill.

The Group recognized an impairment loss on goodwill amounting to ₱17.0 million in 2019 (see Note 13). As at December 31, 2019, the goodwill of ₱17.0 million was already fully impaired.

Determining Impairment of Nonfinancial Assets (Except Goodwill) Including Deferred Tax Assets. The Group assesses whether there are any indicators of impairment for all nonfinancial assets at each reporting date. Nonfinancial assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of these nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets which will necessitate the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Similarly, the Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The amount of deferred income tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

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

Management has considered the external and internal sources of impairment 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, 2021 and 2020.

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

In 2020, management provided provision for impairment loss for the remaining amount of spare parts and supplies of TGTI 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. In 2021, however, the management reversed a portion of the impairment loss that were previously recognized for spare parts and supplies that were utilized in the operations.

The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The amount of deferred income tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

Certain deferred tax assets pertaining to NOLCO amounting to ₱53.2 million as at December 31, 2021 (₱28.8 million as at December 31, 2020) were not recognized because it is not probable that future taxable profit will be available against which the Group can use the benefit therefrom (see Note 18).

Provision for (reversal of) impairment loss on nonfinancial assets amounted to nil in 2021 (₱44.5 million and nil in 2020 and 2019, respectively) (see Notes 10 and 19). Allowances for impairment loss on nonfinancial assets amounted to ₱33.6 million and ₱44.5 million as at December 31, 2021 and 2020, respectively (see Notes 10 and 19).

The carrying amounts of nonfinancial assets as at December 31, 2021 and 2020 are as follows:

	Note	**2021**	2020
Property and equipment	12	**₱23,398,041**	₱83,495,388
CWT	10	**101,489,046**	77,257,846
Deferred tax assets	18	**21,398,655**	82,414,559
Spare parts and supplies	10	**28,340,206**	18,616,487
Prepayments	10	**11,809,673**	68,859,333
ROU Assets	19	**6,672,570**	10,119,536
Software development	10	**–**	11,136,364

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

There were no changes in the estimated useful lives of property and equipment and ROU assets in 2021, 2020 and 2019. The carrying amount of property and equipment amounted to ₱23.4 million as at December 31, 2021 (₱83.5 million as at December 31, 2020) (see Note 12). The carrying amount of ROU assets amounted to ₱6.7 million as at December 31, 2021 (₱10.1 million as at December 31, 2020) (see Note 19).

Determining Retirement Benefits. 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 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. Retirement liability amounted to ₱16.1 million as at December 31, 2021 (₱48.4 million as at December 31, 2020) (see Note 20).

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
- 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 ₱36.5 million in 2018. The accreted interest income amounted to ₱6.1 million in 2021 (₱5.6 million and ₱8.6 million in 2020 and 2019, respectively) (see Notes 17 and 22).

Leases - Estimating the Incremental Borrowing Rate on Leases. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to ROU asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for entities within the group that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the entity's standalone credit rating).

The Group's ROU assets amounted to ₱6.7 million as at December 31, 2021 (₱10.1 million as at December 31, 2020) while lease liabilities amounted to ₱6.8 million as at December 31, 2021 (₱11.6 million as at December 31, 2020) (see Note 19).

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

4. **Segment Information**

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

The Group is engaged in the businesses of leasing lottery equipment to PCSO (leasing activities) and sale of lottery tickets like lotto, keno, sweepstakes and instant tickets (distribution and retail activities), among others. On February 13, 2020, the Group sold its Distribution and Retail Activities segment (see Note 5). Thus, in 2021, the Group's segment pertains solely to leasing activities.

Revenue generated from the leasing activities account for 100% of the Group's revenue in 2021 (98% and 96% in 2020 and 2019, 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.

In 2020 and 2019, information regarding the results of each reportable segment is shown below:

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

	2019			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	₱681,483,757	₱–	₱–	₱681,483,757
Commission and distribution income	–	25,465,751	–	25,465,751
	681,483,757	25,465,751	–	706,949,508
Segment results				
Income (loss) before income tax	(375,765,509)	96,215	111,264,045	(264,405,249)
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)	(₱311,050,659)	(₱121,185,760)	₱111,264,045	(₱320,972,374)
Segment assets	₱1,949,630,084	₱434,910,553	(₱672,311,208)	₱1,712,229,429
Deferred tax assets	27,277,145	24,547,842	676,408	52,501,395
Segment assets (excluding deferred tax assets)	₱1,922,352,939	₱410,362,711	(₱672,987,616)	₱1,659,728,034
Segment liabilities	₱320,033,751	₱229,654,430	(₱150,278,105)	₱399,410,076
Other Information				
Capital expenditures	₱19,359,959	₱10,176,519	₱–	₱29,536,478
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

5. **Discontinued Operation**

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

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

The relevant information on discontinued operation is presented below:

Results of Discontinued Operation

	2020	2019
Revenue	₱29,909,718	₱282,915,888
Expenses	45,708,617	415,406,119
Result from operating activities	(15,798,899)	(132,490,231)
Gain on sale of subsidiaries	55,761,139	–
Other income - net	(125,255)	1,507,809
Income (loss) before income tax from discontinued operation	39,836,985	(130,982,422)
Provision for income tax:		
Current	3,252	3,393,294
Deferred	–	(13,637,144)
Net income (loss) from discontinued operation, net of tax	₱39,833,733	(₱120,738,572)
Basic/ diluted earnings (loss) per share	₱0.0471	(₱0.1429)

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

Cash Flow Provided by (Used in) Discontinued Operation

	2020	2019
Net cash provided by (used in) operating activities	(₱13,665,741)	(₱25,970,672)
Net cash provided by (used in) investing activities	9,879,025	(9,698,616)
Net cash used in financing activities	–	(2,613,975)
	(₱3,786,716)	(₱38,283,263)

Effect of Disposal on the Financial Position of the Group as at December 31, 2020

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

6. **Interest in Joint Operation**

On September 7, 2021, Pinoylotto, a joint venture corporation owned by POSC, PGMC and ILTS, was incorporated with the SEC. PinoyLotto was awarded five-year lease of the customized PCSO Lottery System, also known as '2021 PLS Project' with a contract price of ₱5,800.0 million (See Note 1).

The Group's interest in PinoyLotto was considered as joint operation. Financial information of PinoyLotto and the Group's share of the assets, liabilities, and pre-operating expenses as at and for the year ended December 31, 2021 are as follows:

	PinoyLotto	Share in Joint Operation
Cash	₱5,377,271	₱2,688,635
Other current assets	262,591	131,296
Trade and other current liabilities	(3,425)	(1,713)
Net loss (mainly pre-operating expenses)	97,263,563	48,631,781

7. **Cash**

This account consists of:

	2021	2020
Cash on hand	**₱535,132**	₱702,132
Cash in banks	**98,103,751**	161,572,701
	₱98,638,883	₱162,274,833

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱122,135 in 2021 (₱676,852 and ₱1.3 million in 2020 and 2019, respectively).

8. **Marketable Securities**

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

Movements in marketable securities are as follows:

	2021	2020
Balance at beginning of year	**₱84,260,926**	₱140,456,581
Mark-to-market loss	**(22,631,431)**	(6,195,655)
Disposal	**–**	(50,000,000)
Balance at end of year	**₱61,629,495**	₱84,260,926

The fair values of these securities are based on closing quoted market prices on the last market day of the year. Dividend income amounted to nil in 2021 (₱2.3 million and ₱4.7 million in 2020 and 2019, respectively).

9. **Trade and Other Receivables**

This account consists of:

	Note	**2021**	2020
Trade		**₱51,730,465**	₱114,880,889
Nontrade receivables:			
LCC Group		**113,677,614**	113,677,614
Third party		**104,000,000**	–
Accrued license fee income - current portion	22	**70,319,085**	41,886,958
Advances to:			
Contractors and suppliers		**3,310,451**	2,186,791
Officers and employees		**1,867,608**	1,291,113
Other receivables		**275,313**	275,107
		345,180,536	274,198,472
Less allowance for impairment loss		**115,825,004**	141,825,004
		₱229,355,532	₱132,373,468

Trade receivables are generally on a 30-to-60 day credit terms. The risks associated on this account are disclosed in Note 24.Nontrade receivables from LCC Group pertain to reclassified amounts from advances to subsidiaries of the Parent Company to LCC Group at the date of disposal. 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.

Nontrade receivables from third parties pertain to advances to consultant which are noninterest-bearing and are subject to liquidation but are for refund to the Group in the absence of the required output.

Due to the suspension of PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, Powerball Gaming and Entertainment Corporation (PMLC) was not able to supply and distribute instant scratch tickets to its customers. The management expected 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. In 2021, the allowance for impairment losses amounting to ₱26.0 million was reversed since these are expected to be collected in 2022 as agreed by management and PMLC (see Note 22).

The movements in allowance for impairment losses are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱141,825,004**	₱2,147,391
Reversal	17	**(26,000,000)**	–
Impairment losses	16	**–**	139,677,613
Balance at end of year		**₱115,825,004**	₱141,825,004

10. **Other Assets**

Current Assets
This account consists of:

	Note	**2021**	2020
CWT		**₱101,960,468**	₱77,729,268
Spare parts and supplies at cost		**61,013,735**	62,150,635
Guaranteed deposits	22	**14,500,000**	–
Prepayments		**11,809,673**	68,859,333
Input VAT		**1,133,338**	–
		190,417,214	208,739,236
Less allowance for impairment loss		**33,144,950**	44,005,570
		₱157,272,264	₱164,733,666

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

Movement of allowance for impairment loss is as follows:

	Note	Spare parts and supplies	CWT	Total
Provision for impairment losses in 2020 / allowance for impairment loss as at January 1, 2021	16	₱43,534,148	₱471,422	₱44,005,570
Reversal		(10,860,620)	–	(10,860,620)
Balance as at December 31, 2021		₱32,673,528	₱471,422	₱33,144,950

Noncurrent Assets
This account consists of:

	Note	2021	2020
Refundable deposits		**₱3,706,928**	₱4,159,704
Accrued license fee income - net of current portion	9, 22	**–**	70,319,085
Guaranteed deposits	22	**–**	14,500,000
Software development		**–**	11,136,364
Others		**917,992**	1,794,147
		₱4,624,920	₱101,909,300

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

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. Amortization of software development and certain prepayments amounted to ₱66.8 million in 2021 (₱126.6 million in 2020) (see Note 12).

Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest. An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 19).

11. **Financial Assets at FVOCI**

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company (see Note 21). The movement in this account is as follows:

	2021	2020
Balance at beginning of year	**₱281,822,365**	₱347,630,880
Fair value loss	**(29,655,825)**	(65,808,515)
Balance at end of year	**₱252,166,540**	₱281,822,365

There were no acquisitions or disposals in 2021, 2020 and 2019. Dividend income amounted to ₱15.4 million in 2021 (₱27.0 million in 2020 and 2019, respectively).

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

Movements of fair value reserve are as follows:

	2021	2020
Balance at beginning of year	**(₱462,610,486)**	(₱396,801,971)
Fair value loss	**(29,655,825)**	(65,808,515)
Balance at end of year	**(₱492,266,311)**	(₱462,610,486)

12. **Property and Equipment**

The movement in this account is as follows:

	2021				
	Lottery Equipment	**Leasehold Improvements**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost					
Balance at beginning of year	**₱814,177,341**	**₱31,175,485**	**₱39,448,488**	**₱53,244,251**	**₱938,045,565**
Disposal	**(297,333,428)**	**(15,347,420)**	**(1,978,868)**	**(16,987,309)**	**(331,647,024)**
Additions	**10,795,641**	**330,602**	**884,770**	**116,250**	**12,127,263**
Balance at end of year	**527,639,554**	**16,158,667**	**38,354,390**	**36,373,192**	**618,525,803**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**750,318,988**	**27,813,804**	**36,600,360**	**39,817,025**	**854,550,177**
Disposal	**(296,498,683)**	**(15,347,420)**	**(1,978,868)**	**(16,249,308)**	**(330,074,279)**
Depreciation and amortization	**61,349,677**	**1,457,961**	**2,323,236**	**5,520,990**	**70,651,864**
Balance at end of year	**515,169,982**	**13,924,345**	**36,944,728**	**29,088,707**	**595,127,762**
Carrying Amount	**₱12,469,573**	**₱2,234,321**	**₱1,409,662**	**₱7,284,485**	**₱23,398,041**

		2020				
	Note	Lottery Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year		₱742,769,119	₱102,167,530	₱201,111,088	₱76,077,001	₱1,122,124,738
Disposal of subsidiaries	5	–	(68,195,834)	(158,744,891)	(14,710,883)	(241,651,608)
Additions		89,370,392	211,114	1,130,182	127,500	90,839,188
Disposal		(17,962,170)	(3,007,325)	(4,047,891)	(8,093,117)	(33,110,503)
Reclassification		–	–	–	(156,250)	(156,250)
Balance at end of year		814,177,341	31,175,485	39,448,488	53,244,251	938,045,565
Accumulated Depreciation and Amortization						
Balance at beginning of year		696,805,264	93,203,302	174,238,015	50,462,166	1,014,708,747
Disposal of subsidiaries	5	–	(64,358,066)	(141,306,507)	(10,617,614)	(216,282,187)
Depreciation and amortization		71,475,894	1,975,893	7,716,746	7,409,064	88,577,597
Disposal		(17,962,170)	(3,007,325)	(4,047,894)	(7,436,591)	(32,453,980)
Balance at end of year		750,318,988	27,813,804	36,600,360	39,817,025	854,550,177
Carrying Amount		₱63,858,353	₱3,361,681	₱2,848,128	₱13,427,226	₱83,495,388

Depreciation and amortization pertaining to discontinued operation amounted to ₱57.8 million in 2019.

Depreciation and amortization recognized in the financial statements arises from:

	Note	**2021**	2020	2019
Property and equipment		**₱70,651,864**	₱88,577,597	₱137,135,722
Software development	10	**66,818,181**	126,590,909	–
ROU assets	19	**10,899,532**	18,491,290	24,385,294
		₱148,369,577	₱233,659,796	₱161,521,016

Depreciation and amortization are allocated as follows:

	Note	**2021**	2020	2019
Cost of services	16	**₱137,888,868**	₱223,361,791	₱141,647,893
General and administrative expenses	16	**10,480,709**	10,298,005	19,873,123
		₱148,369,577	₱233,659,796	₱161,521,016

13. Goodwill

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

Goodwill in LCC amounting to ₱17.0 million was fully provided with allowance for impairment loss in 2019. In 2020, the goodwill in LCC was included in the net assets derecognized as a result of disposal of LCC (see Note 5).

14. Trade and Other Current Liabilities

This account consists of:

	Note	**2021**	2020
Accounts payable		**₱46,955,265**	₱80,208,348
Accrued expenses:			
Professional fees		**22,822,274**	28,358,274
Communication		**5,792,772**	24,146,710
Rental and utilities		**373,272**	419,410
Software and license fees payable	22	**18,240,075**	38,592,854
Statutory payables		**10,053,206**	3,443,866
Others		**8,685,495**	5,038,703
		₱112,922,359	₱180,208,165

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

Accrued expenses are normally settled in the following month.

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

15. **Equity**

Capital Stock and Additional Paid-in Capital

Details of capital stock as at December 31, 2021 and 2020 are as follows:

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

Additional paid-in capital amounted to ₱254.6 million as at December 31, 2021 and 2020. Additional paid-in capital amounting to ₱2.6 million related to Parent Company common shares held by a subsidiary was reclassified to “Other reserves” account to conform with 2021 presentation.

Cost of Parent Company Common Shares Held by Subsidiary

As at December 31, 2021 and 2020, TGTI holds Parent Company common shares totaling 50,466,984 and amounting to ₱285.3 million. These are presented as “Cost of Parent Company common shares held by subsidiary” account in the consolidated statements of financial position. Related other reserves amounted to ₱2.6 million as at December 31, 2021 and 2020.

The foregoing were previously presented as “Treasury shares” but were reclassified to “Cost of Parent Company common shares held by subsidiary” account to conform with 2021 presentation.

The Parent Company listed its shares in the PSE on April 12, 2007. As at December 31, 2021 and 2020, all issued shares are listed in the PSE.

Pursuant to the PSE’s rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. As at December 31, 2021, public ownership over the Parent Company is 35.78% (35.63% in 2020).

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

16. **Costs and Expenses**

Cost of Services
This account consists of:

	Note	**2021**	2020	2019
Depreciation and amortization	12	**₱137,888,868**	₱223,361,791	₱141,647,893
Personnel costs		**60,181,751**	65,017,547	77,300,881
Communication		**59,064,228**	73,102,227	109,195,807
Software and license fees	22	**54,498,348**	40,565,718	136,317,928
Rent and utilities	19	**23,359,564**	15,101,763	16,897,242
Repairs and maintenance		**21,622,692**	20,336,565	97,454,112
Travel and accommodation		**14,697,869**	13,443,639	50,211,028
Operating supplies		**4,532,056**	8,776,315	45,180,816
Professional fees		**2,640,935**	1,962,326	3,100,444
Marketing and promotion		**92,929**	9,048,000	31,881,237
Provision for impairment loss	10	**–**	43,534,148	–
Others		**50,561**	112,920	17,282,262
		₱378,629,801	₱514,362,959	₱726,469,650

General and Administrative Expenses
This account consists of:

	Note	**2021**	2020	2019
Personnel costs		**₱58,229,330**	₱64,490,880	₱85,492,189
Pre-operating expenses	6	**48,630,295**	–	–
Taxes and licenses		**11,702,081**	10,249,035	33,167,459
Travel and accommodation		**10,570,979**	15,336,963	24,744,179
Depreciation and amortization	12	**10,480,709**	10,298,005	19,873,123
Rent and utilities	19	**7,332,968**	13,818,507	21,820,179
Communication		**5,261,859**	5,437,871	3,667,970
Professional fees		**3,213,406**	3,841,656	9,035,872
Repairs and maintenance		**2,905,206**	3,163,115	5,488,910
Operating supplies		**2,027,307**	1,758,707	2,848,952
Entertainment and representation		**757,066**	4,165,892	3,848,501
Marketing and promotion		**373,920**	145,468	15,728,006
Provision for impairment losses	9, 19	**–**	140,608,031	2,147,391
Others		**4,033,428**	5,949,619	353,122
		₱165,518,554	₱279,263,749	₱228,215,853

Personnel costs are as follows:

	Note	**2021**	2020	2019
Salaries and wages		**₱82,576,302**	₱87,299,273	₱105,894,614
Other short-term employee benefits		**26,451,745**	29,109,451	40,031,191
Post-employment benefits	20	**9,383,034**	13,099,703	16,867,265
		₱118,411,081	₱129,508,427	₱162,793,070

17. Other Income (Charges)

This account consists of:

	Note	**2021**	2020	2019
Reversal of impairment loss	9	**₱26,000,000**	₱–	₱–
Accreted interest income	22	**6,113,042**	5,590,388	8,600,002
Loss on retirement of asset		**(834,746)**	–	–
Foreign exchange gain (loss)		**745,079**	(949,729)	(1,180,826)
Service income (expense)		**490,728**	(1,132,202)	5,396,307
Gain on sale of property and equipment		**175,500**	15,000	403,488
Excess standard input VAT over actual input VAT		**–**	(3,696,247)	(28,913,770)
Others		**2,285,791**	3,645,864	2,802,353
		₱34,975,394	₱3,473,074	(₱12,892,446)

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

18. Income Tax

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

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

	2021	2020
Items recognized in profit or loss		
NOLCO	**₱32,966,294**	₱97,329,599
Accrued license fee income	**(17,579,771)**	(33,661,813)
Retirement benefits	**8,136,166**	258,854
Unamortized past service costs	**2,271,666**	11,786,821
Unrealized foreign exchange loss	**(204,491)**	173,635
Excess payment over lease related expenses	**(70,700)**	–
Accrued expenses	**–**	783,525
Prepayments	**–**	(60,266)
	25,519,164	76,610,355
Items recognized in other comprehensive income		
Remeasurement of retirement liability	**(4,120,509)**	5,804,204
Net deferred tax assets	**₱21,398,655**	₱82,414,559

Unrecognized deferred tax assets pertaining to NOLCO amounted to ₱81.6 million as at December 31, 2021 (₱36.3 million as at December 31, 2020).

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020 to implement Section 4 of the Republic Act No. 11494, *Bayanihan to Recover as One Act* allowing the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 to be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

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

Year Incurred	Beginning Balance	Incurred	Expired	Applied	Ending Balance	Valid Until
2021	₱–	₱53,134,368	₱–	₱–	₱53,134,368	2026
2020	249,198,861	–	–	–	249,198,861	2025
2019	196,173,033	–	–	(40,341,905)	155,831,129	2022
2018	105,655	–	105,655	–	–	
	₱445,477,549	₱53,134,368	₱105,655	(₱40,341,905)	₱458,164,358	

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

	2021	2020	2019
Income tax at statutory income tax rate	**(₱22,652,622)**	(₱142,252,508)	(₱79,321,575)
Income tax effects of:			
Derecognized and unrecognized deferred tax on NOLCO	**51,437,805**	26,472,832	–
Nondeductible expenses and others	**13,448,518**	9,314,535	45,315,529
Effect of change in tax rates	**12,608,916**	–	–
Nontaxable income	**(6,500,000)**	(8,790,667)	(9,497,167)
Mark-to-market loss on securities	**5,657,858**	1,858,697	4,574,493
Income subjected to final tax	**(3,866,142)**	(253,820)	(512,443)
Others	**–**	2,936,167	(793,287)
Income tax expense (benefit) at effective tax rate	**₱50,134,333**	(₱52,953,779)	(₱64,171,447)

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

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

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

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

19. **Lease Commitments**

Group as Lessor

POSC leases online lotto equipment and accessories to PCSO for a period of one year until July 31, 2021 as provided in the 2020 Amended ELA (see Note 21). In 2021, the ELA was extended until July 31, 2022. Rental payments are based on a percentage of gross amount of lotto ticket sales from the operation of all PCSO's lotto terminals. Rental income amounted to ₱390.8 million in 2021 (₱245.9 million and ₱427.9 million in 2020 and 2019, respectively).

TGTI leases "Online KENO" equipment and accessories to PCSO for a period of 10 years from the time the ELA will run in commercial operations. In 2021, the ELA was extended until April 1, 2022. Rental payment by PCSO is based on certain percentage of gross amount of "Online KENO" games from the operation of all PCSO's. Rental income amounted to ₱35.5 million in 2021 (₱47.2 million and ₱253.6 million in 2020 and 2019, respectively).

Group as Lessee

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

Amounts recognized in the consolidated statements of comprehensive income follow:

	2021	2020	2019
Rent expense	**₱14,851,199**	₱17,853,572	₱92,024,069
Amortization on ROU assets*	**10,899,532**	18,491,290	46,133,826
Interest expense on lease liabilities*	**642,417**	1,997,737	7,022,938
	₱26,393,148	₱38,342,599	₱145,180,833

** Including amortization amounting to ₱21.8 million and interest expense on lease liabilities amounting to ₱2.6 million pertaining to discontinued operation in 2019.*

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

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

The movements in the ROU assets are presented below:

	2021	2020
Balance at beginning of year	**₱10,119,536**	₱50,298,070
Amortization	**(10,899,532)**	(18,491,290)
Additions	**8,926,056**	14,788,801
Pre-termination	**(1,473,490)**	(8,865,861)
Derecognition	**–**	(27,151,187)
Provision for impairment loss	**–**	(458,997)
Balance at end of year	**₱6,672,570**	₱10,119,536

The movements in the lease liabilities are presented below:

	2021	2020
Balance at beginning of year	₱11,605,367	₱67,602,005
Payments	(12,827,398)	(36,842,763)
Additions	8,926,056	14,788,801
Pre-termination	(1,473,490)	(8,865,861)
Interest expense	642,417	1,997,737
Sale of subsidiaries	–	(27,074,552)
	6,872,952	11,605,367
Current portion	4,886,938	7,676,824
Noncurrent portion	₱1,986,014	₱3,928,543

Refundable deposits amounted to ₱3.7 million as at December 31, 2021 (₱4.2 million in 2020). An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 10).

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

	2021	2020
Within one year	₱5,124,015	₱15,756,853
After one year but not more than five years	2,012,156	1,171,535
	₱7,136,171	₱16,928,388

20. **Retirement Benefits**

The Parent Company and TGTI have funded, noncontributory defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. Costs are determined in accordance with the actuarial study, the latest of which is dated December 31, 2021.

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

	2021		
	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Liability
Balance at beginning of year	₱112,703,638	₱64,259,827	₱48,443,811
Net retirement income (costs) in profit or loss:			
Current service cost	11,746,110	–	11,746,110
Past service cost	(4,138,954)	–	(4,138,954)
Interest expense	4,031,008	–	4,031,008
Interest income	–	2,255,130	(2,255,130)
	11,638,164	2,255,130	9,383,034
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	(18,558,461)	–	(18,558,461)
Actuarial changes arising from changes in financial assumptions	(11,976,605)	–	(11,976,605)

(Forward)

	2021		
	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Liability**
Actuarial changes due to changes in demographic assumptions	**(₱5,021,814)**	**₱–**	**(₱5,021,814)**
Actual return excluding amount included in net interest cost	**–**	**1,207,338**	**(1,207,338)**
	(35,556,880)	**1,207,338**	**(36,764,218)**
Contributions	**–**	**5,000,000**	**(5,000,000)**
Benefits paid	**(19,430,421)**	**(19,430,421)**	**–**
Balance at end of year	**₱69,354,501**	**₱53,291,874**	**₱16,062,627**

		2020		
	Note	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Liability
Balance at beginning of year		₱128,758,005	₱98,915,237	₱29,842,768
Net retirement income (costs) in profit or loss:				
Current service cost		11,343,463	–	11,343,463
Interest expense		5,257,909	–	5,257,909
Past service cost		(1,809,643)	–	(1,809,643)
Interest income		–	3,517,936	(3,517,936)
Interest on the effect on asset ceiling		–	(16,267)	16,267
		14,791,729	3,501,669	11,290,060
Disposal of subsidiaries	15	(26,692,142)	(29,599,165)	2,907,023
Remeasurement gain (loss) recognized in other comprehensive income:				
Actuarial changes arising from changes in financial assumptions		17,716,460	–	₱17,716,460
Actuarial changes due to experience adjustment		(16,894,421)	–	(16,894,421)
Actual return excluding amount included in net interest cost		–	(3,909,818)	3,909,818
Effect of asset ceiling		–	327,897	(327,897)
		822,039	(3,581,921)	4,403,960
Benefits paid		(4,975,993)	(4,975,993)	–
Balance at end of year		₱112,703,638	₱64,259,827	₱48,443,811

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

	2021	2020
Cash and cash equivalents	**₱29,361**	₱19,847
Debt instruments - government bonds	**31,280,723**	25,196,150
Debt instruments - other bonds	**2,092,934**	3,772,126
Unit investment trust funds	**19,230,112**	37,324,296
Others	**658,744**	(2,052,592)
	₱53,291,874	₱64,259,827

The Group's plan assets are administered by a Trustee. The Group and the retirement plan have no specific matching strategies between the retirement plan assets and define benefit asset or obligation under the retirement plan.

Movements in retirement benefit reserve consist of the following:

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

	2020		
	Retirement Benefits Reserve	Deferred Tax (see Note 19)	Total
Balance at beginning of year	(₱25,120,921)	₱7,506,312	(₱17,614,609)
Remeasurement gain	4,403,960	(1,100,990)	3,302,970
Effect of sale of subsidiaries	897,952	(601,118)	296,834
Balance at end of year	(₱19,819,009)	₱6,006,345	(₱14,014,805)

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

	2021	2020
Discount rates	**5.19%**	3.96%
Future salary increases	**8.00%**	8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2021 and 2020 assuming all other assumptions were held constant:

	2021		2020	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	**-100**	**(11,539,755)**	-100	(3,173,255)
	+100	**8,628,147**	+100	4,089,617
Salary increase rate	**+100**	**11,521,722**	+100	3,876,328
	-100	**(8,614,752)**	-100	(3,093,570)

The average duration of the Group's defined benefit obligation is 24.33 years in 2021.

The maturity analysis of the undiscounted benefit payments follows:

	2021	2020
Less than one year	**₱2,984,279**	₱24,715,065
More than one year to five years	**67,019**	3,895,513
More than five years to ten years	**80,439,492**	23,837,223

21. Related Party Transaction and Balances

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company totaling ₱252.2 million and ₱281.8 million as at December 31, 2021 and 2020, respectively (see Note 11).

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

	2021	2020	2019
Salaries and wages	**₱22,746,801**	₱20,108,986	₱27,571,301
Professional fees	**1,333,333**	888,889	1,433,333
Retirement benefits	**90,291**	1,777,484	2,354,672
	₱24,170,425	₱22,775,359	₱31,359,306

22. Significant Contracts and Commitments

Agreements with PCSO

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

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

Pursuant to the amended ELA, the Parent Company was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2021 and 2020, the total cash bond, included under "Other current assets" or "Other noncurrent assets" in the consolidated statement of financial position, amounted to ₱12.0 million.

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

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 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.

In 2021, the term of the ELA was month-to-month basis not exceeding one year, commencing from April 1, 2021 and not exceeding July 31, 2022.

The rental fee, presented as "Equipment rental" in the consolidated statement of comprehensive income, is based on a percentage of gross sales of lotto tickets from PCSO's Luzon and VISMIN operations. The number of installed lotto terminals totaled 3,129 and 3,370 as at December 31, 2021 and 2020, respectively. The Parent Company's rental income amounted to ₱390.8 in 2021 (₱245.9 million and ₱427.9 million in 2020 and 2019, respectively) (see Note 19).

TGTI. TGTI has an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories. The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of the gross sales of the "Online KENO" terminals. The ELA may be extended and/or renewed upon the mutual consent of the parties.

On October 1, 2019, the ELA was amended to reduce the lease rate. The minimum price per keno bet was reduced from ₱12 to ₱10, inclusive of documentary stamp tax.

On December 11, 2020, the ELA was amended to extend the term for six months, effective October 1, 2020 until March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with an aggregate amount of ₱2.5 million. The cash bond in included under "Other current assets" or "Other noncurrent assets" in the consolidated statements of financial position (see Note 10).

In 2021, the ELA was extended on a month-to-month basis not exceeding 1 year, commencing from April 1, 2021 and not exceeding April 1, 2022.

The number of installed online KENO terminals totaled 569 and 1,180 as at December 31, 2021 and 2020, respectively. TGTI's revenue from equipment rental amounted to ₱35.6 million in 2021 (₱47.2 million and ₱253.6 million in 2020 and 2019, respectively) (see Note 19).

Brand and Trademark Agreement with PMLC

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

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

Accreted interest income amounted to ₱6.1 million in 2021 (₱5.6 million and ₱8.6 million in 2020 and 2019, respectively) (see Note 17). Accrued license fee income amounted to ₱70.3 million as at December 31, 2021 (₱112.2 million as at December 31, 2020) (see Notes 9 and 10).

Contracts with Scientific Games and Intralot and Management Agreement

Scientific Games. As at December 31, 2021 and 2020, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC shall pay Scientific Games a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation using the computer hardware and operating system provided by Scientific Games. The contract shall continue as long as the POSC's ELA with PCSO is in effect.

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

Intralot. As at December 31, 2021 and 2020, POSC and TGTI have contracts with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC and TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The Contract shall continue as long as POSC's and TGTI's ELA with PCSO are in effect.

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

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

Software and license fee recognized amounted to amounted to ₱54.5 million in 2021 (₱40.6 million and ₱136.3 million in 2020 and 2019, respectively) (see Note 16). Software and license fees payable amounted to ₱18.2 million as at December 31 2021 (₱38.6 million as at December 31, 2020) (see Note 14).

23. Loss per Share

As at December 31, 2021, 2020 and 2019, the basic/diluted loss per share was computed as follows:

	2021	2020	2019
Loss attributable to Equity holders of the Parent (a)	**(₱0.1660)**	(₱0.4480)	(₱0.3781)
Number of issued common shares at beginning of year	**895,330,946**	895,330,946	447,665,473
Number of parent company common shares held by a subsidiary at beginning of year	**(50,466,984)**	(50,466,984)	(25,233,492)
Weighted average number of issued common shares - basic, at end of year (b)	**844,863,962**	844,863,962	422,431,981
Basic/diluted loss per share (a/b)	**(₱0.1666)**	(₱0.4986)	(₱0.2370)

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

24. **Financial Instruments**

Financial Risk Management Objectives and Policies

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

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

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

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

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

	2021						
	Neither	**Past Due but not Impaired**					
	Past Due nor Impaired	**Less than 30 Days**	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Impaired**	**Total**
Cash*	**₱98,103,751**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱98,103,751**
Trade and other receivables**	**266,064,430**	**–**	**–**	**–**	**–**	**115,825,004**	**381,889,434**
Refundable deposit***	**3,706,928**	**–**	**–**	**–**	**–**	**–**	**3,706,928**
Guarantee bonds***	**14,500,000**	**–**	**–**	**–**	**–**	**–**	**14,500,000**
	₱382,375,109	**₱–**	**₱–**	**₱–**	**₱–**	**₱115,825,004**	**₱498,200,113**

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

	2020						
	Neither	Past Due but not Impaired					
	Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash*	₱161,572,701	₱–	₱–	₱–	₱–	₱–	₱161,572,701
Trade and other receivables**	195,941,150	–	–	–	–	141,825,004	337,766,154
Refundable deposit***	4,159,704	–	–	–	–	–	4,159,704
Guarantee bonds***	14,500,000	–	–	–	–	–	14,500,000
	₱376,173,554	₱–	₱–	₱–	₱–	₱141,825,004	₱517,998,559

**Excluding cash on hand.*
***Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
****Presented under “Other noncurrent assets” account in the consolidated statement of financial position.*

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

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

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

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

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

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

	2021			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Financial Assets at Amortized Cost				
Cash*	**₱98,103,753**	**₱–**	**₱–**	**₱98,103,752**
Trade and other receivables-net**	**266,064,430**	**–**	**115,825,004**	**381,889,434**
Refundable deposit ***	**3,706,928**	**–**	**–**	**3,706,928**
Guarantee bonds***	**14,500,000**	**–**	**–**	**14,500,000**
Gross Carrying Amount	**₱382,375,111**	**₱–**	**₱115,825,004**	**₱498,200,114**

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

	2020			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash*	₱161,572,701	₱–	₱–	₱161,572,701
Trade and other receivables-net**	195,941,150	–	141,825,004	337,766,154
Refundable deposit ***	4,159,704	–	–	4,159,704
Guarantee bonds***	14,500,000	–	–	14,500,000
Gross Carrying Amount	₱376,173,554	₱–	₱141,825,000	₱517,998,559

**Excluding cash on hand.*
***Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

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

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

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

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

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's 2021 and 2020 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	**2021**	2020
Impact in profit or loss		
5%	**₱3,081,475**	₱4,213,046
(5%)	**(3,081,475)**	(4,213,046)
Impact in comprehensive income		
5%	**20,173,323**	22,545,789
(5%)	**(20,173,323)**	(22,545,789)

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

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

			2021		
	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Trade and other current liabilities*	**₱18,353,479**	**₱48,156,775**	**₱6,765,172**	**₱29,593,727**	**₱102,869,152**
Lease liabilities	**1,457,623**	**1,486,180**	**1,943,134**	**1,986,015**	**6,872,952**
	₱19,811,102	**₱49,642,955**	**₱8,708,306**	**₱31,579,742**	**₱109,742,104**

**Excluding statutory payables*

			2020		
	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Trade and other current liabilities*	₱68,152,272	₱69,757,566	₱7,087,656	₱31,766,805	₱176,764,299
Lease liabilities	4,691,906	2,952,185	2,311,204	1,650,072	11,605,367
	₱72,844,178	₱72,709,751	₱9,398,860	₱33,416,877	₱188,369,666

**Excluding statutory payables*

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

As at December 31, 2021 and 2020, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2021	2020
Cash	**₱10,653,717**	₱19,636,348
Software license fee payable*	**(54,002,683)**	(80,303,793)
Net foreign currency-denominated liabilities	**(₱43,348,966)**	(₱60,667,445)

**Presented under "Trade and other current liabilities" account in the consolidated statement of financial position.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱51.09 to US$1.0 and ₱48.02 to US$1.0, as at December 31, 2021 and 2020, respectively.

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

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rates, with all other variables held constant, of the Group's consolidated income before tax as at December 31, 2021 and 2020. There is no other impact on the Group's equity other than those already affecting the profit or loss in the consolidated statement of comprehensive income.

	2021		2020	
	Increase in US$ Rate	**Decrease in US$ Rate**	Increase in US$ Rate	Decrease in US$ Rate
Change in US$ rate*	**5%**	**(5%)**	5%	(5%)
Effect on income before income tax	**₱2,167,448**	**(₱2,167,448)**	₱3,033,373	(₱3,033,373)

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

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes made in the objectives, policies or processes in 2021 and 2020.

The Group considers the following as its capital:

	2021	2020
Common stock	**₱895,330,946**	₱895,330,946
Additional paid-in capital	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	**(285,267,558)**	(285,267,558)
	₱864,703,711	₱864,703,711

Fair Value of Assets and Financial Liabilities

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

	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash	**₱98,103,751**	**₱98,103,751**	₱161,572,701	₱161,572,701
Trade and other receivables*	**266,064,430**	**266,064,430**	195,941,150	195,941,150
Refundable security deposits**	**3,706,928**	**3,706,928**	4,159,704	4,159,704
Guaranteed deposits**	**14,500,000**	**14,500,000**	14,500,000	14,500,000
At FVPL				
Marketable securities	**61,629,495**	**61,629,495**	84,260,926	84,260,926
At FVOCI				
Financial assets at FVOCI	**252,166,540**	**252,166,540**	281,822,365	281,822,365
	₱696,171,144	**₱696,171,144**	₱742,256,846	₱742,256,846
Financial Liabilities				
At amortized cost:				
Trade and other current liabilities***	**₱102,869,152**	**₱102,869,152**	₱176,764,299	₱176,764,299
Lease liabilities	**11,605,367**	**11,605,367**	8,925,367	8,925,367
	₱114,474,519	**₱114,474,519**	₱185,689,666	₱185,689,666

**Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
***Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statement of financial position.*
****Excluding statutory payables*

The Group has no financial liabilities measured at fair value as at December 31, 2021 and 2020. There were no transfers between fair value measurements in 2021 and 2020.

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

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

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

Lease Liabilities. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used are 5.25% to 6.50% in 2021 and 2020.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pacific Online Systems Corporation and Subsidiaries (the Group) as at and for the year ended December 31, 2021 and have issued our report thereon dated February 10, 2022. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplementary Schedules are the responsibility of the Group's management.

These supplementary schedules include the following:

- Schedule of Financial Soundness Indicators as at and for the years ended December 31, 2021 and 2020
- Reconciliation of Retained Earnings Available for Dividend Declaration as at December 31, 2021
- Schedules required by Annex 68-J as at December 31, 2021
- Conglomerate Map as at December 31, 2021

These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 (with comparative figures for 2020 and 2019) and no material exceptions were noted.

These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68 Part II, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the audit procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

REYES TACANDONG & CO.

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Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2019
Valid until October 16, 2022
PTR No. 8851706
Issued January 3, 2022, Makati City

February 10, 2022
Makati City, Metro Manila

Reyes Tacandong & Co. is a member of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, and practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2021 and 2020

Ratio	Formula	2021	2020
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		
	Total current assets	**₱546,896,174**	₱543,642,893
	Divide by: Total current liabilities	**117,809,297**	187,891,135
	Current Ratio	**4.64**	2.89
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities**		
	Total current assets	**₱546,896,174**	₱543,642,893
	Less: Inventories	**–**	–
	Land held for future development	**–**	–
	Other current assets	**157,272,264**	164,733,666
	Quick assets	**389,623,910**	378,909,227
	Divide by: Total current liabilities	**117,809,297**	187,891,135
	Acid Test Ratio	**3.31**	2.02
Debt-to-Equity Ratio	**Total Interest-Bearing debt divided by Total Equity**		
	Total interest-bearing debt	**₱–**	₱–
	Total equity	**719,298,962**	863,140,552
	Debt to Equity Ratio	**–**	–
Asset-to-Equity Ratio	**Total Assets divided by Total Equity**		
	Total assets	**₱855,156,900**	₱1,103,404,041
	Total equity	**719,298,962**	863,140,552
	Asset to Equity Ratio	**1.19**	1.28
Interest Rate Coverage Ratio	**Loss Before Interest and Taxes divided by Total Interest Expense**		
	Net loss before income tax	**(₱90,610,486)**	(₱474,175,026)
	Less: Interest income	**122,135**	676,852
	Add: Interest expense	**642,417**	6,335,216
	Loss before interest and taxes	**(90,090,204)**	(468,516,662)
	Divide by: Interest expense	**642,417**	6,335,216
	Interest Rate Coverage Ratio	**(140.24)**	(73.95)

Return on Equity	**Net Loss divided by Average Total Equity**		
	Net Loss	**(₱140,744,819)**	(₱381,387,514)
	Average Total Equity	**(791,219,757)**	(1,088,279,953)
	Return on Equity	**0.17**	0.35
Return on Assets	**Net Loss divided by Average Total Assets**		
	Net loss	**(₱140,744,819)**	(₱381,387,514)
	Average total assets	**(979,280,471)**	(1,408,116,735)
	Return on Assets	**0.14**	0.27
Solvency Ratio	**Net Loss Before Non-Cash Expenses divided by Total Liabilities**		
	Net loss	**(₱140,744,819)**	(₱381,387,513)
	Add: Non-cash expenses	**(148,359,524)**	(426,196,415)
	Net loss before non-cash expenses	**(251,048,094)**	(807,583,928)
	Total liabilities	**(135,857,937)**	(240,263,487)
	Solvency Ratio	**2.13**	3.36
Net Profit Margin	**Net Loss divided by Total Revenue**		
	Net loss	**(₱140,744,819)**	(₱381,387,514)
	Total revenue	**(426,345,611)**	(298,530,403)
	Net profit margin	**0.33**	1.28

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

PARENT COMPANY'S RECONCILIATON OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2021

	Amount
Unappropriated retained earnings available for dividend distribution as at beginning of year	₱162,743,605
Net loss during the period closed to retained earnings	(128,406,087)
Add: Movement in deferred tax assets	52,444,149
Mark-to-market loss on marketable securities	22,631,431
Unrealized foreign exchange loss - net	1,396,749
	(51,933,758)
Unappropriated retained earnings as adjusted to available for dividend declaration, at end of year	**₱110,809,847**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6
PART II OF REVISED SRC RULE 68
DECEMBER 31, 2021

Table of Contents

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotations at balance sheet date	Interest received and accrued
	(In Thousands)			
Financial Assets at Amortized Costs				
Cash on hand and in banks	–	₱98,639	₱98,639	₱122
Trade and other receivables	–	355,889	355,889	–
Refundable deposit	–	3,707	3,707	–
Guarantee deposits	–	14,500	14,500	–
	–	₱472,735	₱472,735	₱122
Financial assets at fair value through profit or loss				
APC Goup, Inc.	45,821	₱10,081	₱10,081	–
Leisure and Resorts World Corp.	10,725	15,980	15,980	–
Vantage Equities, Inc.	43,377	35,569	35,569	–
		₱61,629	₱61,629	–
Financial assets at fair value through other comprehensive income				
Belle Corporation	66,663	89,995	89,995	–
Premium Leisure Corporation	377,143	162,171	162,171	–
	443,806	252,167	252,167	–
		₱786,531	**₱786,531**	**–**

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Balance at end of period
Employees							
Officers	₱1,291,113	₱1,503,800	₱927,306	₱–			₱1,867,609
	₱1,291,113	**₱1,503,800**	**₱927,306**	**₱–**			**₱1,867,609**

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts Collected	Allowance for Doubtful Accounts	Current	Not Current	Balance at end of period
Total Gaming Technologies Inc.	₱6,315,487	₱63,388,524	₱33,686,760	₱–	₱–	₱–	₱36,017,251
TGTI Services, Inc.	–	12,500,000	–	–	–	–	12,500,000
	₱6,315,487	**₱75,888,524**	**₱33,686,760**	**₱–**	**₱–**	**₱–**	**₱48,517,251**

Schedule D. Long-term debt

(In Thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"
NONE			

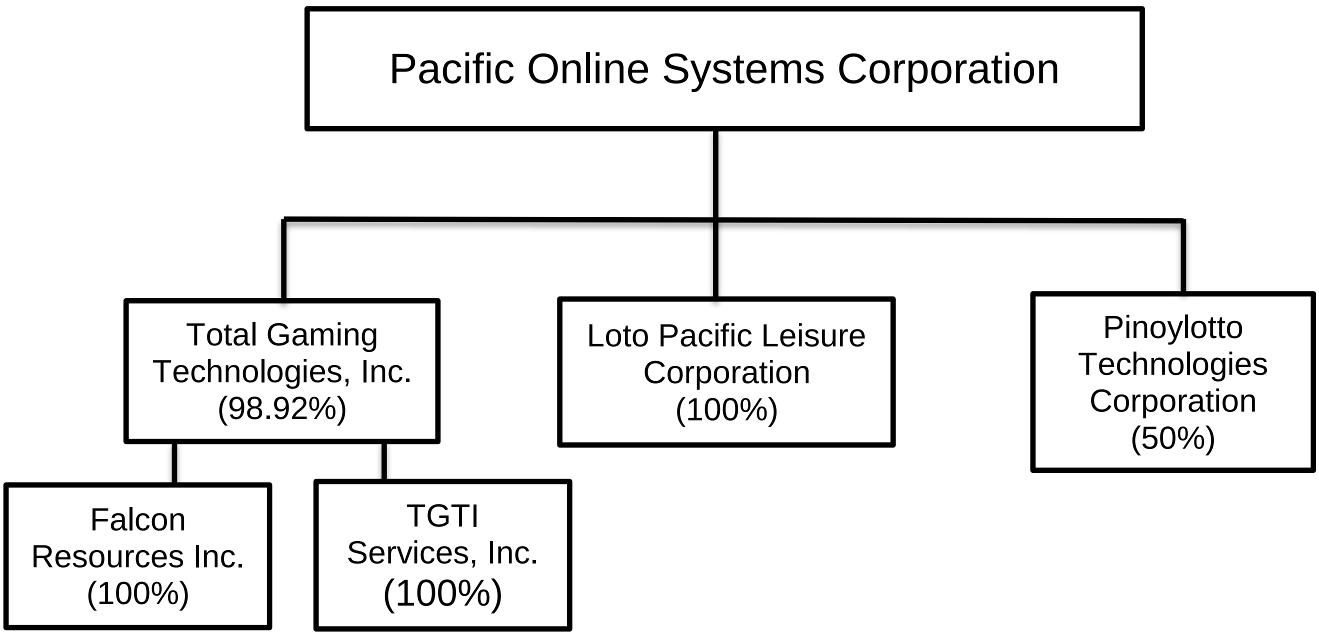
Schedule G. Capital Stock

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under statement of financial position	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stock	2,288,000,000	895,330,946	–	–	73,718,250	821,612,696
	2,288,000,000	**895,330,946**	**–**	**–**	**73,718,250**	**821,612,696**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAP

DECEMBER 31, 2021



PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

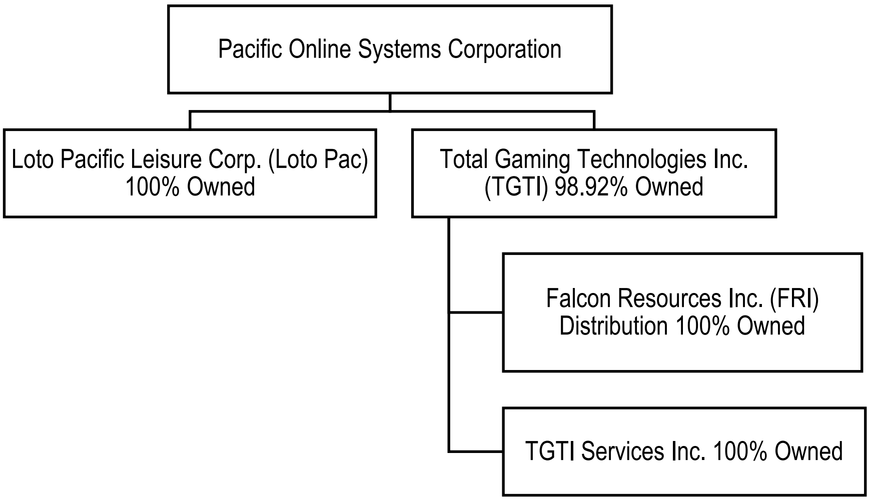
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

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 **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: 170

Total Number of Operations:
- Installed Lotto Terminals nationwide: 3,129
- Installed Keno Terminals nationwide: 662

TOPIC	2021	2020
Net Revenues	P426.35M	P298.53M
Total Capitalization	P895.33M	P895.33M

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

Total Group Headcount	Quantity	% Dec.
2019	781	-17%
2020	244	-69%
2021	**170**	**-30%**

2021 BREAKDOWN (POSC & TGTI):

By Company	2021		2020	
	Quantity	% to Total	Quantity	% to Total
POSC	135	79%	170	70%
TGTI	35	21%	74	30%
TOTAL	**170**	**100%**	**244**	**100%**

By Gender	2021 Quantity	2021 % to Total	2020 Quantity	2020 % to Total
Male	132	78%	172	70%
Female	38	22%	72	30%
TOTAL	**170**	**100%**	244	100%

By Age	2021 Quantity	2021 % to Total	2020 Quantity	2020 % to Total
Below 30 Years Old	32	19%	62	25%
30-50	126	74%	160	66%
OVER 50	12	7%	22	9%
TOTAL	**170**	**100%**	**244**	**100%**

By Region	2021 Quantity	2021 % to Total	2020 Quantity	2020 % to Total
NCR	73	43%	126	52%
Luzon	3	2%	6	2%
Visayas	84	49%	96	39%
Mindanao	10	6%	16	7%
TOTAL	**170**	**100%**	**244**	**100%**

By Rank	2021 Quantity	2021 % to Total	2020 Quantity	2020 % to Total
Rank-and File	116	68%	184	75%
Junior Management	29	17%	31	13%
Middle Management	12	7%	14	6%
Senior Management	13	8%	15	6%
TOTAL	**170**	**100%**	**244**	**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.

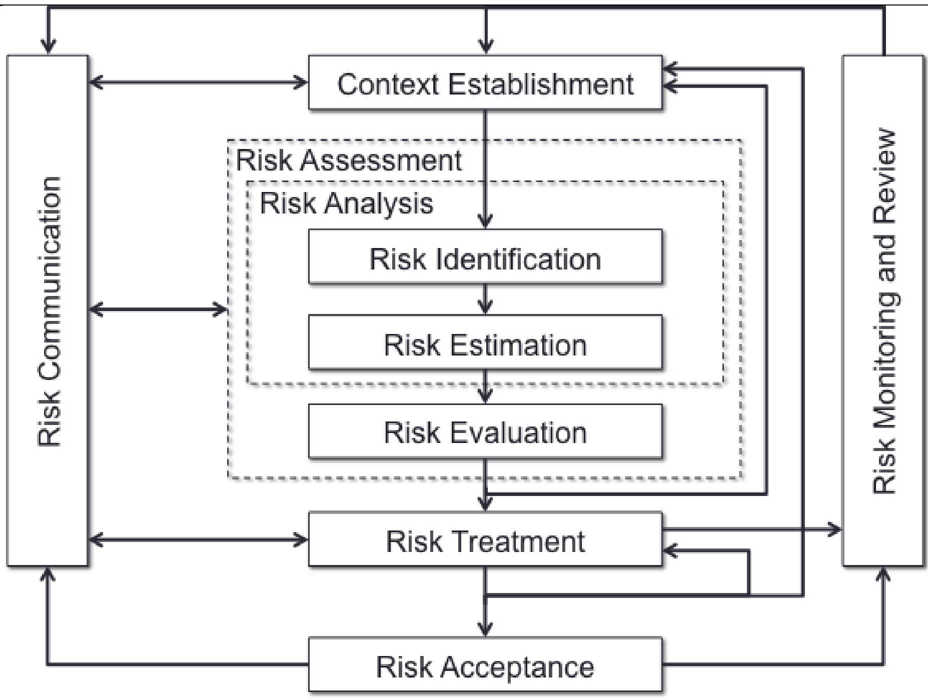
POSC's technology partners for the online lottery system are Scientific Games International, Inc. (SGI) and Intralot S.A. Integrated Lottery Systems & Services (Intralot). SGI and Intralot are both leaders in the global lottery and gaming industry with experience of over 40 years and 20 years, respectively. 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** With the constant resurgence of new waves of the COVID-19 virus, lotto and keno operations has remained stilted by varying LGU restrictions in the past 2 years. The organization saw changes in both board and executive levels. Then in the final quarter of 2021, Management had to make the tough decision to conduct a retrenchment program for its employees in both Pacific Online and TGTI. This was done to streamline operations and create synergy across the two companies, including its supply chain management function.
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	On our road to sustainability, we cannot forget our duty to those who have helped us get to where we are now, which is why 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 5. Wellness Benefit Allowance for Managers-Up 6. Quarterly online talks on health & wellness We also support this goal for the local community. On January 7, 2021, TGTI had a gift-giving project entitled "A Gift of Love. A Share of Joy. A New Year's Hope." This was held at the Tulay Ng Kabataan Foundation, Inc., to give hope to children in need, especially during the pandemic. Various food items and other basic items like toiletries, alcohol and face masks were turned over to the Administration of TNK

	Foundation, Inc. headed by Ms. Elishe Cruise and Father Matthieu Dauchez.
#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, while the proportion of women in the workforce is only 22%, majority of the top positions are held by women. The company's Board of Directors also has 2 female members, one of which is an Independent Director.
#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	100% of our employees are regular, and paid above minimum wage. We provide decent jobs, with our entry rate 11% above the minimum wage in Manila and 19% in Cebu. The Company acknowledges the need of employees to have work-life balance. In 2021, we allowed work from home and flexible working hours due to the COVID-19 pandemic situation. Furthermore, in order to protect staff from infection, the Company provided shuttle service to those who needed to report to the office physically. 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. In 2021, there were zero (0) reported cases of injuries among employees. 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. PPE for selected personnel 4. Group Accident Insurance 5. Updated COVID-related Health Protocols and Guidelines 6. Reiteration of COVID-19 Health and Safety Protocols while at the Workplace 7. Safety and Health Measures for Employees who spend Long Hours Sitting

	#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 maiden sustainability report aligned to the GRI standards is part of a country-wide practice to adopt sustainable practices and integrate this information into our reporting and disclosures. This as part of a bigger movement will hopefully encourage not just the publicly-listed companies, but all companies in the Philippines to understand and adopt the mindset and practice of sustainability.
	#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 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	Our company, along with DICT, started an awareness campaign with CyberguardiansPH – OSAEC (Online Sexual Abuse & Exploitation of Children) and all kinds of cyberthreats, which has grown over the years. We scheduled meetings with different organizations to introduce CyberguardiansPH, its advocacy, and possible collaboration with these organizations. Agreements were undertaken with Holy Angel University, Philippine Guidance Counselling Organization, and Oblate Youth Philippines in joining the cause and in their responsibilities as new members of the campaign. Part of the awareness campaign of CyberguardiansPH is to come up with three groups (high school level, college level, and professional level) that will champion the advocacy in their respective circles. Training and Mentoring activities were conducted among the different groups to orient and empower them in their responsibility to protect the youth against cybercrimes. The culmination of these workshops led to the 2-day National Youth Leadership Summit held on November 20 & 27 via Zoom and Facebook Live. This nationwide event was well-attended, with participants reaching more than 2,000 in number. Speakers from different sectors gave talks on their experiences in business, media, church, and government, on how their organizations create a safer online space for the youth today.

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** 2021 was not just a year of recovery for Pacific Online, but a year of synergy. The company focused on streamlining operations and maximizing strengths in order to thrive as a lean business in the second year of the COVID-19 pandemic. With the publication of our third annual Sustainability Report, prepared in accordance with Global Reporting Initiative (GRI) standards, Pacific Online reaffirms its commitment to help steward the nation, the environment, and the world, in conjunction with progressing towards our goals as a company. Despite the varying states of lockdown across the country in the past year, the company fulfilled its duty of promoting responsible gaming, through full transparency, efficiency, and accountability in remitting the proper dues and revenues to PCSO and its charity fund. The Company's awareness campaign, in partnership with DICT, Cybersafe Philippines, which aims to protect children against online sexual abuse and exploitation, continues to foster open dialogue on these issues to promote action, policy development and awareness.

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	Non-Executive Director
Armin Antonio B. Raquel Santos	Member	Non-Executive Director
Jackson T. Ongsip	Member	Executive Director
Tarcisio M. Medalla	Member	Non-Executive Director
Henry N. Ocier	Member	Non-Executive Director
Regina O. Reyes	Member	Non-Executive Director
Laurito E. Serrano	Independent	Lead Independent Director
Roberto C.O. Lim	Independent	Independent Director
Ma. Gracia M. Pulido 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
Jackson T. Ongsip	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
Ma. Gracia M. Pulido Tan	Independent Director
Tarcisio M. Medalla	Director
Roberto C.O. Lim	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.

Roberto C.O. Lim	Chairman
Laurito E. Serrano	Independent Director
Tarcisio M. Medalla	Director
Ma. Gracia M. Pulido 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. Ma. Gracia M. Pulido Tan — Chairman Laurito E. Serrano — Independent Director Roberto C.O. Lim — 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. Ma. Gracia M. Pulido Tan — Chairman Laurito E. Serrano — Independent Director Roberto C.O. Lim — 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 results, substantial returns, and shared value	Annual stockholders' meetings, one-on-one dialogues, website, investors / media briefings
Board of Directors & Management	Final decision makers of POSC who direct the company's path to sustainability	Regular meetings, one-on-one dialogues, management reports
Employees	Dynamic team of professionals who are the lifeblood of POSC and share a unity of purpose according to the corporate vision, mission and objectives	Internal communications, human resource dialogues, performance reviews, training workshops
External Providers	Suppliers and providers of software, hardware and outside services who partner with POSC	Business meetings, contracts, policies, external provider accreditation and evaluations
Customer – PCSO	Lessee of POSC's lottery system and maintenance	Letters, business meetings, satisfaction surveys, contracts
Indirect Customer – Lottery Agents & Lottery Players	End-users of POSC's services	Satisfaction surveys, hotline calls, field service visits
Government Bodies/ Regulators	Collaborators in the pursuit of social progress and sustainability	Compliance, formal meetings, timely and accurate disclosures

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 and risk assessment	Based on Material Issues, created templates for data gathering	Affirmation of reported disclosures
GRI Reporting Principle Applied	Stakeholder Inclusiveness and Sustainability Context	Materiality, Sustainability Context, Stakeholder Inclusiveness and Completeness	Stakeholder Inclusiveness and Completeness	Stakeholder Inclusiveness and Completeness

Details on topic boundaries to be listed below in 102-47

102-47 **LIST OF MATERIAL TOPICS**

- Economic Performance
- Market Presence
- Environmentally responsible business operations
  - Energy
  - Effluence and Waste
- Human resource development & welfare
  - Employment
  - Occupational Health and Safety
  - Training & Education
- Customer care & service
- Corporate governance and compliance
- Quality Management
- Information Security Management

102-48 **RESTATEMENTS OF INFORMATION**

None to report.

102-49 **CHANGES IN REPORTING**

None to report.

102-50 **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 2021. 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.

102-51	**DATE OF MOST RECENT REPORT** Annex 1 of 17-A Report of Pacific Online Systems Corporation for the period Jan-Dec 31, 2020, submitted to SEC March 2, 2021. A portion of the Sustainability Report information was also included in the latest 2020 Annual Report seen on the Corporate website. (See https://www.loto.com.ph/sustainability)
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 of choice	Corporate governance and compliance	Within POSC, business partners, regulators	How the Company practices accountability for all its actions, decisions and responsibilities through forward-looking corporate governance and checks and balances, and through faithful compliance with regulators.
		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.			

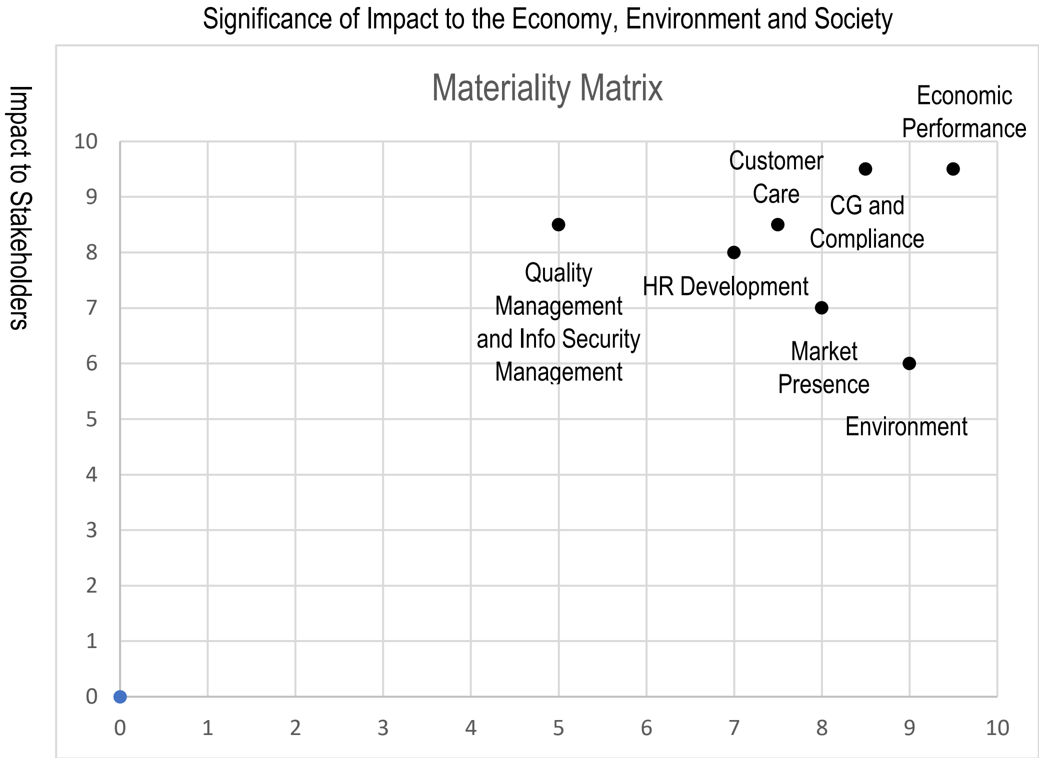
POSC'S SUSTAINABILITY FRAMEWORK

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	2021	2020
Economic Value Generated	426.35	298.53
Economic Value Distributed	544.15	679.92
Operating Costs	413.94	540.12
Employee wages and benefits	118.41	129.51
Payments to the government	11.80	10.29
Economic value retained (lost)	(140.74)	(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
2021	0	0	0	135	0%
2020	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	%
2021	12	8	4	0	12	100%
2020	13	9	4	0	13	100%

ENERGY	
302-1	**Energy consumption within the organization**

Fuel Consumption

	Diesel, in L	Gasoline, in L
YE 2021	35,239	22,270
YE 2020	23,509	11,663

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 2021	148,466	345,279	4,639	**498,384**
YE 2020	97,995	442,589	3,834	**544,418**

Total Water Consumption

	Total, in cu. m.
YE 2021	2,791
YE 2020	1,988

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 2021	**9,498**
YE 2020	**1,663**

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	7	
BY GENDER		
MALE	5	71%
FEMALE	2	29%
BY AGE GROUP		
BELOW 30 YRS OLD	1	14%
30 - 50	6	86%
OVER 50	0	0%
BY REGION		
NCR	4	57%
LUZON	0	0%
VISAYAS	3	43%
MINDANAO	0	0%

HIRING RATE

ENTIRE GROUP	4%

EMPLOYEE SEPARATIONS

EMPLOYEE SEPARATIONS	81	
BY GENDER		
MALE	45	56%
FEMALE	36	44%
BY AGE GROUP		
BELOW 30 YRS OLD	23	28%
30 - 50	48	59%
OVER 50	10	12%
BY REGION		
NCR	57	70%
LUZON	2	2%
VISAYAS	17	21%
MINDANAO	5	6%

TURNOVER RATE

ENTIRE GROUP	39%

401-2	**Benefits provided to full-time employees that are not provided to temporary or part-time employees** 1. Full HMO coverage (room & board and maximum benefit limit based on rank) of all employees upon hiring. Benefit package includes preventive healthcare, out-patient care and hospitalization, emergency care, dental care, and financial assistance. 2. Life Insurance coverage upon hiring, amount of insurance is based on rank. Benefit coverage includes basic life, accidental death, dismemberment & disablement, total & permanent disability, unproved murder & assault, and accident medical reimbursement. 3. Group Accident Insurance coverage upon hiring. Benefit coverage includes accidental death, dismemberment & disablement, total & permanent disability, unproved murder & assault, accident medical reimbursement, accident burial benefit, and daily hospital income. 4. Wellness Benefit Allowance for Managers-Up – 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 FY 2021		
	Male	Female	Total
Employee Headcount	8	0	8

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

	Employees that returned to work in FY 2021 after parental leave		
	Male	Female	Total
Employee Headcount	8	0	8

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

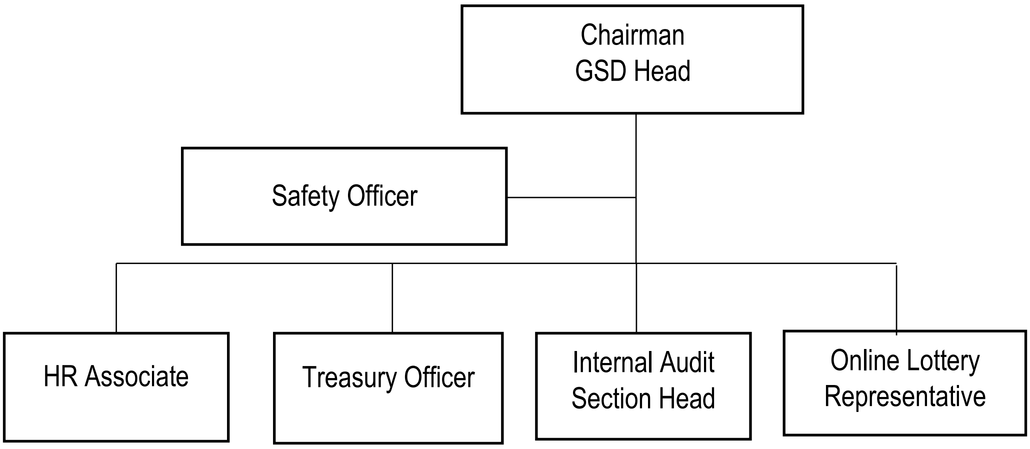
At POSC, we intend:

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. 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. Non-conformities are followed up by the auditor until a correction and corrective action is deemed acceptable. Regular audits are conducted to ensure that such incidents are not repeated.

403-5	**Worker training on occupational health and safety**

OCCUPATIONAL HEALTH AND SAFETY	2021
Safe man-hours recorded, in man-hours	2,088
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. "Virtual Chair Yoga" on February 19, 2021

   This is a 1-hour session to encourage employees to improve physical well-being through simple exercise and stretching. Proper breathing techniques were included in the workshop, which can be used by employees anytime at their workstation when they need a break.

2. "COVID-19 Vaccines: All We Need to Know" on June 18, 2021

   This is a discussion on the different COVID-19 vaccines, brands, and efficacy levels. It aims to educate the employees in dispelling the fears of vaccination, and in making an informed decision on which vaccine to take. This was done in support of the government's drive to vaccinate the Philippine population.

3. "Sleep Deprivation Deficiency: Its Effect on Physical and Mental Health" on September 30, 2021

   This seminar was requested by a number of employees, who have been losing sleep due to stress caused by the pandemic. Techniques on how to achieve fast and good quality sleep were taught by a certified Lifestyle-Medicine Occupational Health physician.

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. 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. 2021 Go Up Forum (Gov't Updates- BIR, DOLE, SSS, Philhealth, HDMF) (1) 2. Various Internal Audit Related Topics (5) 3. Orientation for New Employees (5) 4. Corporate Taxes (1) 5.Creating Family-Friendly Workplaces in the Time of COVID-19 and the New Normal (1)	13
Job-based/Professional Skills	1. Enhancing English Communication (1) 2. PMAP Membership Meetings (2)	3
Leadership	N/A	
Others, please specify	N/A	4

Amount spent on Training and Development	
Unit: In Philippine pesos	**FY JAN-DEC 2021**
Total amount spent on training and development of employees	₱ 7,297.00

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 7-July 9, 2021. Research methodology: One-on-one interviews using a structured questionnaire for 33 PCSO branch managers (all Vismin heads) and 120 lotto agents (top 10 per province, among 12 provinces) Overall rating given by 33 PCSO Branch managers was 3.20/5 While maintenance, installation speed and professionalism ratings were up versus previous year, repair speed went down due to LGU restrictions in the farther provinces. Overall rating given by lotto agents was 4.42, an increase of 0.23 points or 6% higher due to shift in excellent and good ratings.

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	8	
	Governance			
	102-18	Governance structure	9	
	Stakeholder Engagement			
	102-40	List of stakeholder groups	11	
	102-41	Collective bargaining agreements	11	
	102-42	Identifying and selecting stakeholders	11	
	102-43	Approach to stakeholder engagement	12	
	102-44	Key topics and concerns raised	12	
	Reporting Practice			
	102-45	Entities included in the consolidated financial statements	13	
	102-46	Defining report content and topic boundaries	14	
	102-47	List of material topics	14	
	102-48	Restatements of information	14	
	102-49	Changes in reporting	14	
	102-50	Reporting period	14	
	102-51	Date of most recent report	15	
	102-52	Reporting cycle	15	
	102-53	Contact point for questions regarding the report	15	
	102-54	Claims of reporting in accordance with the GRI Standards	15	
	102-55	GRI Content Index	15, 26	
	102-56	External assurance	15, 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	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	18	
Market Presence				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	18	
	202-2	Proportion of senior management hired from the local community	18	
Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	19	
Effluents and Waste				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 306: Effluents and Waste 2016	306-2	Waste by type and disposal method	19	
Employment				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	20	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	21	
	401-3	Parental leave	21	
Occupational Health and Safety				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	21	
	403-2	Hazard identification, risk assessment, and incident investigation	22	
	403-5	Worker training on occupational health and safety	23	
	403-6	Promotion of worker health	23	
Training and Education				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	15	
	103-2	The management approach and its components	16	
	103-3	Evaluation of the management approach	17, 14	

GRI 404: Training and Education	404-1	Average hours of training per year per employee	23	
	404-2	Programs for upgrading employee skills and transition assistance programs	24	
Other Material Topics				
Other Material Topics		Customer Care & Service	25	