COVER SHEET

AS093-008809
SEC Registration Number

PACIFIC ONLINE SYSTEMS
CORPORATION AND SUBSIDIARIES

(Company's Full Name)

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

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

Ma. Virginia V. Abo-Hamda
(Contact Person)

584-1700
(Company Telephone Number)

12 **31**
Month *Day*
(Fiscal Year)

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

CFD
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

57
Total No. of Stockholders

₱68 million
Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **March 31, 2018**
2. SEC Identification Number: **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**
4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**
5. **Metro Manila, Philippines** 6. _______________ (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code
Incorporation or organization
7. **28/F, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City** **1605**
Address of principal office Postal Code
8. **632/584-1700**
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
Common Stock, ₱1.00 par value	**422,990,381**
	Amount of Debt Outstanding
	P68.0 Million

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The following financial statements are submitted as part of this report:

a.) Unaudited Consolidated Statements of Income for the three months ended March 31, 2018 and March 31, 2017;
b.) Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and March 31, 2017;
c.) Unaudited Consolidated Statements of Financial Position as of March 31, 2018 and Audited Statements of Financial Position as of December 31, 2017;
d.) Unaudited Consolidated Statements of Changes in Equity for the three months ended March 31, 2018 and March 31, 2017; and
e.) Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and March 31, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Comparable Discussion on Material Changes in Results of Operations for the Three Month-Period Ended March 31, 2018 vs. March 31, 2017

Revenues

For the first quarter of 2018, Pacific Online Systems Corporation (the "Company") and its subsidiaries (the "Group") earned total revenues of P559.8 million, representing an increase of P19.7 million, or 4%, over total revenues of P540.1 million during the same period in 2017. The net growth in revenues resulted from a 53% increase in distribution revenues due to the acquisition of nine (9) entities engaged in retail distribution of lottery tickets nationwide effective July 2017, offset by a 5% decrease in lottery equipment rental revenues due to lower Lotto sales.

Costs and Expenses

The Group incurred total operating expenses of P425.7 million. Which is an increase of P69.6 million or 20% over last year's P356.1 million for the first three months of the year. The increase in costs and expenses is attributable to the following:

-;

- Rent and utilities increased by P23.5 million (117%); Personnel costs increased by P32.7 million (51%); Travel and accommodation increased by P4.2 million (40%); and other expenses increased by P2.4 million (51%), mainly due to the acquisition of nine (9) companies by its retail distribution business unit (LCC) effective July 2017;

- Software and license fees increased by P6.7 million (13%) due to an increase in the number of terminals whose software and license fees are based on a minimum fee per terminal rather than based on sales;

- Operating supplies increased by P3.6 million (9%) due to increase in Keno agents and increase in paper costs;

- Depreciation and amortization charges increased by P6.0 million (13%) due to depreciation of new online lottery system equipment and other fixed assets acquired in 2017;

- Communication costs increased by P5.7 million (21%) due to additional communication links for new Keno installations;

- Entertainment, amusement and recreation expense increased by P0.5 million (10%) due to higher spending in business representation;

- Advertising and promotion expense increased by P0.1 million (30%) due to higher sponsorships paid and;

The above increases were offset by the decreases in the following expense accounts:

- Consultancy fees decreased by P3.1 million (18%) and Management fees decreased by P3.6 million (18%) due to the lower lottery sales/earnings, which is the basis of the fees paid;

- Repairs and maintenance decreased by P4.9 million (18%) due to less repairs and maintenance works undertaken ;

- Taxes and licenses decreased by P3.2 million (26%) due to reduced business taxes paid in 2018;

- Professional fees decreased by P1.1 million (34%) due to lower fees paid during the period.

<u>Other Income (Charges)</u>

Other income (net of other charges) of P81.4 million increased by P59.0 million (264%) for the period ended March 31, 2018 versus last year's P22.4 million. This change is a result mainly of the P28.2 million increase in unrealized mark-to-market gain on marketable securities, P14.8 million increase in dividend income due to higher shares held on investment, and the P12.4 million royalty income for its instant ticket brand and trademarks.

<u>Operating Income, Net Income, Other Comprehensive Income and Total Comprehensive Income</u>

The Group realized an operating income of P134.1 million, which is lower by P49.9 million (27%) from P184.0 million during the same period last year. The increase in costs and expenses was higher than the increase in revenues. However, with a higher other income, the Company, posted a net income growth of P11.0 million (7%), from last year's P153.0 million to P164.0 million for the first three months of the year.

Total comprehensive income of P55.8 million represents a decrease of P298.1 million (54%) from last year's P353.9 million, which was, mainly due to the P309.1 million decrease in fair value gain on investment.

<u>Comparable Discussion on Material Changes in Financial Condition – March 31, 2018 vs. December 31, 2017</u>

The Group's total assets of P2.61 billion as of March 31, 2018 decreased by P27.2 million or 1% from P2.63 billion as of December 31, 2017. The decrease in total assets is largely attributable to the following:

- Investments in stocks decreased by P77.1 million (11%) due to the fair value loss amounting to P108.2 million, net of about P31.1 million additional investment in stocks purchased January to March 2018;

- Property and equipment decreased by P50.5million (11%) due to the depreciation of additional fixed assets purchased in 2017; and

- Retirement benefit asset decreased by P1.4M (100%) due to the retirement expense for the period;

The decreases above were offset by the increases in the following asset accounts:

- Marketable securities increased by P21.9 million (12%) due to the unrealized mark-to-market gain amounting to P32M million and disposal of some marketable securities;

- Other current assets increased by P18.4 million (16%) due to higher volume of unissued operating supplies and prepaid taxes due to the consolidation of the 9 new subsidiaries; and

- Deferred tax asset increased by P4.5 million (29%) due to additional provision of deferred income tax for the period and the deferred taxes of the new subsidiaries;

The Group's total liabilities at P540.9 million decreased by P72.9 million, or 12% from P613.8 million as of December 31, 2017. The decrease in total liabilities is mainly due to the following:

- Trade and other current liabilities decreased by P100.8 million (20%) due to the payments of P87 million cash dividends due in January 2018 and payments of other payables;

- Obligations under capital lease decreased by P13.6 million (35%) due to amortization of obligations under capital lease for the current period; and

- Withholding taxes payable decreased by P4.4 million (40%) due to remittance of taxes withheld.

The above decreases were offset by increases in the following liability accounts:

- Income tax payable increased by P44.6 million (151%) due to additional provision of income taxes for the period; and

- Installment payable increased by P1.4 million (25%) due to additional employee loans availed.

Total equity as of March 31, 2018 of P2.066 billion was higher by P45.7 million (2%) as compared to the yearend 2017 level of P2.020 billion. The net increase in total equity resulted from the P164.01 million net income earned for the period, reduced by the P108.2 million fair value loss on investment in stocks and by P10.1 million additional treasury shares acquired in 2018.

Comparable Discussion on Material Changes in Cash Flows for the Three Months Ended March 31, 2018 vs. March 31, 2017

The Group's cash balance as of March 31, 2018 of P508.2 million was higher by P170 million, as compared to P338.2 million in 2017 due mainly to the consolidation of the nine (9) subsidiaries acquired by LCC effective July 2017.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Company's existing lease agreement with PCSO is due to expire after July 31, 2018. In 2017, PCSO initiated the bidding for a new Nationwide Online Lottery System (NOLS) which, however, was eventually cancelled after a legal action was instituted to prevent the bidding. To date, the bidding for NOLS has not been resumed. However, should the bidding for NOLS be eventually resumed and concluded within 2018, and an award for a new equipment lessor is made, the incumbent provider, POSC, will most likely be given a minimum of one (1) year, for system transition/conversion prior to take over by the new lessor.

Except for what has been noted in the above, 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:

1. Known trends, demands, commitments, events or uncertainties that would have a material impact on the Group;

2. Material commitments for capital expenditures that are reasonably expected to have a material impact on the Group's short-term or long-term liquidity;
3. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
4. Significant elements of income or loss that did not arise from the Group's continuing operations;
5. Seasonal aspects that had a material impact on the Group's results of operations;
6. Material changes in the financial statements of the Group for the periods ended December 31, 2017 to March 31, 2018, except those mentioned above;
7. Any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

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

	The manner by which the Company calculates the performance indicators	**31 March 2018**	31 December 2017
Current ratio	Current assets over current liabilities	**2.67**	2.16
Debt to equity ratio	Total liabilities over total equity	**0.21**	0.23
Asset-to-equity ratio	Total assets over total equity	**1.26**	1.30
Solvency ratio	Total assets over total liabilities	**4.82**	4.29

	The manner by which the Company calculates the performance indicators	**31 March 2018**	31 March 2017
Gross profit margin	Operating income over revenues	**23.95%**	**34.07%**
Net profit margin	Net income over revenues	**29.30%**	**28.33%**
Return on equity (annualized)	Net income over total equity	**25.16%**	**23.24%**
Return on assets (annualized)	Net income over total assets	**31.76%**	**30.28%**

PART II - OTHER INFORMATION

Financial Instruments

Financial Risk Management Objectives and Policies

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

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

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

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

	Note	**Mar. 31, 2018**	Dec. 31, 2017
Cash in banks	*7*	**P502,297,989**	P441,177,172
Trade and other receivables - net*	*9*	**483,486,792**	499,003,826
Marketable securities	*8*	**200,439,97**	178,482,842
Deposits **	*10*	**28,520,778**	27,954,758
Investments in stocks	*11*	**650,934,610**	727,998,290
Guarantee bonds**		**35,000,000**	35,000,000
Total credit risk exposure		**P1,900,680,166**	P1,909,616,888

** Excluding Advances to contractors and suppliers*
*** Included as part of "Other noncurrent assets and other current assets" in the consolidated statements of financial position*

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

	March 31, 2018		
	Neither Past Due nor Impaired	**Impaired**	**Total**
Trade receivables	**P469,793,077**	**P -**	**P469,793,077**
Advances:			
Officers and employees	**13,261,856**	**-**	**13,261,856**
Contractors and suppliers	**16,122,258**	**-**	**16,122,258**
Other receivables	**431,859**	**-**	**431,859**
Deposits	**28,520,778**	**-**	**28,520,778**
Guarantee bonds	**35,000,000**	**-**	**35,000,000**
	P563,129,828	**P -**	**P563,129,828**

	December 31, 2017		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P492,662,488	P -	P492,662,488
Advances:			
Officers and employees	3,269,065	-	3,269,065
Contractors and suppliers	4,299,449	-	4,299,449
Other receivables	3,072,273	-	3,072,273
Deposits	27,954,758	-	27,954,758
Guarantee bonds	35,000,000	-	35,000,000
	P566,258,033	P -	P566,258,033

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

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

	March 31, 2018			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash in banks	**P502,297,989**	**P -**	**P -**	**P502,297,989**
Trade and other receivables*	**338,033,083**	**145,021,850**	**431,859**	**483,486,792**
Marketable securities	**200,439,997**	**-**	-	**200,439,997**
Deposits	**-**	**28,520,778**	-	**28,520,778**
Investments in stocks	**650,934,610**	**-**	-	**650,934,610**
Guarantee bonds	**35,000,000**	**-**	**-**	**35,000,000**
	P1,726,705,679	**P173,542,628**	**P431,859**	**P 1,900,680,166**

**Excluding advances to contractors and suppliers*

	December 31, 2017			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash in banks	**P441,177,172**	**P -**	**P -**	**P441,177,172**
Trade and other receivables*	**350,909,702**	**145,021,850**	**3,072,274**	**499,003,826**
Marketable securities	**178,482,842**	**-**	-	**178,482,842**
Deposits	**-**	**27,954,758**	-	**27,954,758**
Investments in stocks	**727,998,290**	**-**	-	**727,998,290**
Guarantee bonds	**35,000,000**	**-**	**-**	**35,000,000**
	P1,733,568,006	**P 172,976,608**	**P3,072,274**	**P1,909,616,888**

**Excluding advances to contractors and suppliers*

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

Equity Price Risk

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

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

Marketable Securities

March 31, 2018	
Increase (Decrease) in Equity Price	**Effect on Consolidated Net Income**
5%	**P10,022,000**
(5%)	**(10,022,000)**

December 31, 2017	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P8,924,142
(5%)	(8,924,142)

Investments in Stocks

March 31, 2018	
Increase (Decrease) in Equity Price	**Effect on Consolidated Comprehensive Income**
5%	**P32,546,731**
(5%)	**(32,546,731)**

December 31, 2017	
Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	**P36,399,915**
(5%)	**(36,399,915)**

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

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

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

	March 31, 2018				
	Less than 3 Months	**3 - 6 Months**	**6 - 12 Months**	**More than 12 Months**	**Total**
Trade and other current liabilities*	**P246,311,086**	**P -**	**P -**	**P121,445,297**	**P367,756,383**
Obligations under finance lease**	**12,840,449**	**6,459,180**	**6,537,091**	**35,374,474**	**61,211,194**
Installment payable**	**875,582**	**875,582**	**1,751,165**	**3,296,164**	**6,798,493**
	P260,027,117	**P7,334,762**	**P8,288,256**	**P160,115,935**	**P435,766,070**

** Excluding statutory liabilities amounting to P24.4 million.*
*** Inclusive of current portion*

	December 31, 2017				
	Less than 3 Months	**3 - 6 Months**	**6 - 12 Months**	**More than 12 Months**	**Total**
Trade and other current liabilities*	**P348,681,890**	**P -**	**P -**	**P121,445,297**	**P470,127,187**
Obligations under finance lease**	**13,860,420**	**17,051,056**	**8,577,034**	**35,374,474**	**74,862,984**
Installment payable**	**670,207**	**670,207**	**1,340,414**	**2,762,995**	**5,443,823**
	P363,212,517	**P17,721,263**	**P9,917,448**	**P159,582,765**	**P550,433,994**

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

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

As at March 31, 2018 and December 31, 2017, assets and liabilities denominated in US$ include cash in banks amounting to P20.9 million (US$0.4 million) and P34.9 million (US$0.7 million), and consultancy and software and license fees payable amounting to P37.7 million (US$0.7 million) and P55.7 million (US$1.0 million), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P52.21 and P49.92 to US$1, the Php to US$ exchange rates, as at March 31, 2018 and December 31, 2017, respectively.

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

Increase (Decrease) in US$ Exchange Rate		Effect on Income before Income Tax	Effect on Equity
March 31, 2018			
	5%	**(P836,802)**	**(P585,761)**
	(5%)	**836,802**	**585,761**
December 31, 2017			
	5%	(P754,779)	(P528,345)
	(5%)	754,779	528,345

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

Fair Value of Financial Instruments

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

	March 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash	**P508,174,989**	**P508,174,989**	P447,130,976	P447,130,976
Trade and other receivables - net	**499,609,049**	**499,609,049**	503,303,275	503,303,275
Marketable securities	**200,439,997**	**200,439,997**	178,482,842	178,482,842
Investments in stocks	**650,934,610**	**650,934,610**	727,998,290	727,998,290
Deposits	**28,520,778**	**28,520,778**	27,954,758	27,954,758
Guarantee bonds	**35,000,000**	**35,000,000**	35,000,000	35,000,000
	P1,922,679,423	**P1,922,679,423**	P1,919,870,141	P1,919,870,141
Financial Liabilities				
Trade and other current liabilities*	**P367,756,383**	**P367,756,383**	P470,127,187	P470,127,187
Obligations under finance lease (inclusive of current portion)	**61,211,194**	**61,211,194**	74,862,983	74,862,983
Installment payable (inclusive of current portion)	**6,680,744**	**6,680,744**	5,443,823	5,443,823
	P435,648,320	**P435,648,320**	P550,433,993	P550,433,993

** Excluding statutory liabilities amounting to P24.4 million and P22.8 in 2018 and 2017, respectively.*

The carrying amounts of cash, trade and other receivables, deposits and trade and other current liabilities approximate their fair values due to the short-term nature of the transactions.

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

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

	Level 1	Level 2	Level 3	Total
Marketable Securities				
Mar. 31, 2018	**P200,439,997**	**P -**	**P -**	**P200,439,997**
Dec. 31, 2017	178,482,842	-	-	178,482,842
Investments in Stocks				
Mar. 31, 2018	**650,934,610**	**-**	**-**	**650,934,610**
Dec. 31, 2017	727,998,290	-	-	727,998,290

There were no transfers between Levels in 2018 and 2017.

Other Required Disclosures

1. The attached interim financial reports were prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

   Early Adoption of a New Standard

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

   Adoption of New or Revised Standards, Amendments to Standards and Interpretations
   The Group has adopted the following amendments to standards starting January 1, 2017 and accordingly, change its accounting policies. The adoption of these amendments to standards did not have any significant imprint oon the Group's consolidated financial statements.

   - *Disclosure initiative (Amendments to PAS 7 Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

   - *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes).* The amendments clarify that:

     - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
     - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

     - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

     - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- *Annual Improvements to PFRSs 2014 - 2016 Cycle*. This cycle of improvements contains amendments to three standards. The following are the improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2017:

    - Clarification of the scope of the standard (Amendments to PFRS 12 *Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

<u>Standards Issued but Not Yet Adopted</u>
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective January 1, 2018

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

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt this new standard on revenue on the required effective date. The management assessed that PFRS 15 does not have a significant impact on the financial statements.

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

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Effective January 1, 2019

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

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

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 Income Taxes when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

Prepayment Features with Negative Compensation (Amendments to PFRS 9). The amendments cover the following areas:

- *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

2. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A"), there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.

3. There were no material changes in estimates of amounts reported in prior periods that have material effects in the current interim period.

4. Except as disclosed in the MD & A, there were no other issuance, repurchases and repayments of debt and equity securities.

5. There were no material events that occurred subsequent to March 31, 2018 and up to the date of this report that need disclosure herein.

6. Except as disclosed in the MD & A, there were no changes in the composition of the Group during the interim period such as business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, and discontinued operations.

7. There were no changes in contingent liabilities or contingent assets since December 31, 2017.

8. There exist no material contingencies and other material events or transactions affecting the current interim period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **PACIFIC ONLINE SYSTEMS CORPORATION**

WILLY N. OCIER
Chairman of the Board
and President

Date: April 19, 2018

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: April 19, 2018

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	March 31, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
Current Assets		
Cash	**P508,174,989**	P447,130,976
Marketable securities	**200,439,997**	178,482,842
Trade and other receivables – net	**499,609,049**	503,303,275
Other current assets	**133,289,561**	114,869,444
Total Current Assets	**1,341,513,596**	1,243,786,537
Noncurrent Assets		
Investments in stocks	**650,934,610**	727,998,290
Property and equipment – net	**387,501,589**	437,977,128
Goodwill	**127,980,262**	127,980,262
Deferred tax assets - net	**19,932,337**	15,439,685
Retirement benefits asset – net	**-**	1,357,273
Other noncurrent assets	**78,744,046**	79,307,903
Total Noncurrent Assets	**1,265,092,844**	1,390,060,541
TOTAL ASSETS	**P2,606,606,440**	P2,633,847,078
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	**P392,162,412**	P492,949,158
Current portion of obligations under finance lease	**25,836,720**	39,488,510
Withholding taxes payable	**6,638,019**	11,081,797
Income tax payable	**74,017,719**	29,434,444
Current portion of installment payable	**3,502,329**	2,680,828
Total Current Liabilities	**502,157,199**	575,634,737
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	**35,374,474**	35,374,474
Installment payable – net of current portion	**3,296,163**	2,762,995
Retirement benefits liability	**42,725**	-
Total Noncurrent Liabilities	**38,713,362**	38,137,469
TOTAL LIABILITIES	**540,870,561**	613,772,206
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**447,665,473**	P447,665,473
Additional paid-in capital	**257,250,677**	257,250,677
Treasury shares	**(278,805,666)**	(268,660,770)
Fair value reserve	**8,632,600**	116,829,810
Retirement benefits reserve	**(11,838,800)**	(11,838,800)
Retained earnings	**1,637,433,695**	1,474,292,424
	2,060,337,979	2,015,538,814
Non-controlling Interests	**5,397,900**	4,536,058
Total Equity	**2,065,735,879**	2,020,074,872
TOTAL LIABILITIES AND EQUITY	**P2,606,606,440**	P2,633,847,078

Attachment 2A

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)
For the three months ended March 31, 2018 and 2017

	Three Months Ended Mar 31		**This Quarter**	
	2018	**2017**	**2018**	**2017**
REVENUE				
Equipment rental	P439,854,459	P461,868,038	P439,854,459	P461,868,038
Commission and distribution income	119,940,397	78,221,594	119,940,397	78,221,594
	559,794,856	**540,089,632**	**559,794,856**	**540,089,632**
COSTS AND EXPENSES				
Personnel costs	97,016,471	64,303,009	97,016,471	64,303,009
Software and license fees	59,880,231	53,178,100	59,880,231	53,178,100
Operating supplies	45,947,197	42,324,589	45,947,197	42,324,589
Depreciation and amortization	52,314,596	46,276,726	52,314,596	46,276,726
Communications	32,119,297	26,448,792	32,119,297	26,448,792
Travel and accommodation	14,723,372	10,490,706	14,723,372	10,490,706
Consultancy fees	13,980,934	17,094,264	13,980,934	17,094,264
Rent and utilities	43,617,074	20,123,850	43,617,074	20,123,850
Management fees	16,872,632	20,476,726	16,872,632	20,476,726
Repairs and maintenance	22,441,238	27,296,353	22,441,238	27,296,353
Taxes and licenses	9,023,022	12,239,806	9,023,022	12,239,806
Entertainment, amusement and recreation	5,307,222	4,823,130	5,307,222	4,823,130
Professional fees	2,170,534	3,256,391	2,170,534	3,256,391
Advertising and promotion	426,440	328,416	426,440	328,416
Others	9,888,865	7,445,326	9,888,865	7,445,326
	425,729,125	356,106,184	425,729,125	356,106,184
OPERATING INCOME	**134,065,731**	**183,983,448**	**134,065,731**	**183,983,448**
OTHER INCOME (CHARGES)				
Dividend income	26,696,026	11,883,972	26,696,026	11,883,972
Interest income	200,474	117,796	200,474	117,796
Finance charges	(177,216)	(68,016)	(177,216)	(68,016)
Mark-to-market gain (loss) on marketable securities	32,082,020	3,847,626	32,082,020	3,847,626
Gain (loss) on sale of:				
Marketable securities	2,224,652	-	2,224,652	-
Property and equipment	176,999	10,000	176,999	10,000
Foreign exchange gain (loss)	(422,237)	(171,113)	(422,237)	(171,113)
Others – net	20,588,801	6,744,271	20,588,801	6,744,271
	81,369,519	22,364,536	81,369,519	22,364,536
INCOME BEFORE INCOME TAX	**215,435,250**	**206,347,984**	**215,435,250**	**206,347,984**
INCOME TAX				
Current	52,807,488	54,497,251	52,807,488	54,497,251
Deferred	(1,375,351)	(1,160,342)	(1,375,351)	(1,160,342)
	51,432,137	53,336,909	51,432,137	53,336,909
NET INCOME	**P164,003,113**	**P153,011,075**	**P164,003,113**	**P153,011,075**
Attributable to:				
Equity holders of the Parent Company	163,141,271	152,294,903	163,141,271	152,294,903
Non-controlling interests	861,842	716,172	861,842	716,172
	P164,003,113	**P153,011,075**	**P164,003,113**	**P153,011,075**
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**P0.3857**	**P0.3476**	**P0.3857**	**P0.3476**

Attachment 2B

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31, 2018 and 2017

	Three Months Ended Mar 31		This Quarter	
	2018	**2017**	**2018**	**2017**
NET INCOME	**P164,003,113**	**P153,011,075**	**P164,003,113**	**P153,011,075**
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	(108,197,210)	200,886,360	(108,197,210)	200,886,360
Remeasurements of retirement benefits, net of tax	-	-	-	-
	(108,197,210)	200,886,360	(108,197,210)	200,886,360
TOTAL COMPREHENSIVE INCOME (LOSS)	**P55,805,903**	**P353,897,435**	**P55,805,903**	**P353,897,435**
Attributable to:				
Equity holders of the Parent Company	54,944,061	353,181,263	54,944,061	353,181,263
Non-controlling interests	861,842	716,172	861,842	716,172
	P55,805,903	**P353,897,435**	**P55,805,903**	**P353,897,435**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2018 and 2017

	For the three months ended Mar. 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	215,435,250	206,347,984
Adjustments for:		
Depreciation and amortization	52,314,596	46,276,726
Mark-to-market loss (gain) on marketable securities	(32,082,020)	(3,847,626)
Dividend income	(26,696,026)	(11,883,972)
Finance charges	177,216	68,016
Retirement cost	2,400,000	5,400,000
(Gain) loss on sale of:		
Marketable securities	(2,224,652)	-
Property and equipment	(176,999)	(10,000)
Interest income	(200,474)	(117,796)
Unrealized foreign exchange loss (gain)	422,237	171,113
Operating income before working capital changes	209,369,128	242,404,445
Decrease (increase) in:		
Trade and other receivables	3,694,225	(38,272,765)
Other current assets	(18,420,116)	17,562,878
Increase (decrease) in:		
Trade and other current liabilities	(101,208,984)	(34,824,137)
Withholding taxes payable	(4,443,779)	2,650,256
Interest received	200,474	117,796
Income tax paid	(11,341,513)	(21,700,478)
Retirement contributions	(1,000,000)	(2,323,232)
Net cash flows provided by operating activities	76,849,435	165,614,763
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in stocks	(31,133,530)	(21,049,140)
Property and equipment	(1,839,057)	(12,611,034)
Marketable securities	-	(14,762,360)
Proceeds from sale of:		
Investment in stocks	-	169,755,120
Marketable securities	12,349,517	-
Property and equipment	176,999	10,000
Dividends received	26,696,026	11,883,972
Decrease (increase) in other noncurrent assets	563,854	(2,273,929)
Net cash flows used in investing activities	6,813,809	130,952,629
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(10,144,896)	(205,523,325)
Interest paid	(177,216)	(68,016)
Decrease (increase) in obligations under finance lease	(13,651,790)	(11,715,967)
Decrease (increase) in installment payable	1,354,671	-
Net cash flows used in financing activities	(22,619,231)	(217,307,308)
NET INCREASE (DECREASE) IN CASH	**61,044,013**	**79,260,084**
CASH AT BEGINNING OF YEAR	447,130,976	258,944,786
CASH AT END OF PERIOD	**P508,174,989**	**P338,204,870**

Attachment 4

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Unaudited)

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-Controlling Interest	Total Equity
January 1, 2017	P447,665,473	P257,250,677	(P56,819,178)	(P2,167,740)	(P13,087,762)	P1,322,465,903	P1,955,307,373	P5,323,531	P1,960,630,904
Change in fair value of investments in stocks	-	-	-	200,886,360	-	-	200,886,360	-	200,886,360
Remeasurements of retirement benefits, net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	200,886,360	-	-	200,886,360	-	200,886,360
Net income for the year	-	-	-	-	-	152,294,903	152,294,903	716,172	153,011,075
Total comprehensive income (loss) for the year	-	-	-	200,886,360	-	152,294,903	353,181,263	716,172	353,897,435
Cash dividends	-	-	-	-	-	-	-	-	-
Treasury shares acquired	-	-	(205,523,326)	-	-	-	(205,523,326)	-	(205,523,326)
Treasury shares sold	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(205,523,326)	-	-	-	(205,523,326)	-	(205,523,326)
March 31, 2017	**P447,665,473**	**P257,250,677**	**(P262,342,504)**	**(P198,718,620)**	**(P13,087,765)**	**P1,474,760,806**	**P2,102,965,309**	**P6,039,704**	**P2,109,005,013**

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-Controlling Interest	Total Equity
January 1, 2018	**P447,665,473**	**P257,250,677**	**(P268,660,770)**	**P116,829,810**	**(P11,838,800)**	**P1,474,292,424**	**P2,015,538,814**	**P4,536,058**	**P2,020,074,872**
Change in fair value of investments in stocks	-	-	-	(108,197,210)	-	-	(108,197,210)	-	(108,197,210)
Remeasurements of retirement benefits, net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	(108,197,210)	-	-	(108,197,210)	-	(108,197,210)
Net income for the year	-	-	-	-	-	163,141,271	163,141,271	861,842	164,003,113
Total comprehensive income (loss) for the year	-	-	-	(108,197,210)	-	163,141,271	54,944,061	861,842	55,805,903
Cash dividends	-	-	-	-	-	-	-	-	-
Treasury shares acquired	-	-	(10,144,896)	-	-	-	(10,144,896)	-	(10,144,896)
Treasury shares sold	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(10,144,896)	-	-	-	(10,144,896)	-	(10,144,896)
March 31, 2018	**P447,665,473**	**P257,250,677**	**(P278,805,666)**	**P8,632,600**	**(P11,838,800)**	**P1,637,433,695**	**P2,060,337,979**	**P5,397,900**	**P2,065,735,879**

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of March 31, 2018

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	**Impaired**	**Total**
a.) Trade receivables			
1.) PCSO – Equipment rentals	P210,805,997	P -	P210,805,997
2.) Trade receivables – others	258,987,080		258,987,080
	469,793,077	-	469,793,077
b.) Other Receivables			
1.) Advances to officers and employees	13,261,856	-	13,261,856
2.) Advances to contractors and suppliers	16,122,258	-	16,122,258
3.) Other receivables	431,858	-	431,858
	29,815,972	-	29,815,972
Total	**P 499,609,049**	**P -**	**P 499,609,049**

2.) Description of receivables

Types of Receivables	*Nature and Description*	*Collection / Liquidation Period*
1.) Advances to officers and employees	Company loan and other advances granted to officers and employees	Within one (1) year
2.) Advances to contractors and suppliers	Receivables from / advances to contractors and suppliers	Within one (1) year
3.) Other receivables	Other advances	Within one (1) year

3.) Normal operating cycle: 365 days

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Segment Information
For the period ended March 31, 2018

The Company is engaged in leasing lottery equipment and system to PCSO (leasing activities), distribution and retail sale of PCSO lottery products (distribution and retail activities).

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

	For the Three Months ended March 31, 2018			
	Leasing Activities	**Distribution and Retail Activities**	**Eliminations**	**Consolidated**
Revenue				
Equipment rental	P439,854,459	P -	P -	P439,854,459
Commission and distribution income	-	119,940,397	-	119,940,397
Total revenue	**P439,854,459**	**P119,940,397**	**P -**	**P559,794,856**
Segments Results				
Income before income tax	215,215,333	1,119,384	(899,467)	2,15,435,250
Income tax expense	48,174,376	3,257,761	-	51,432,137
Net income	**167,040,957**	**(2,138,377)**	**(899,467)**	**164,003,113**
Segment assets	P2,673,414,619	472,824,139	(P539,632,318)	2,606,606,440
Deferred tax assets - net	10,922,821	9,009,516	-	19,932,337
Segments assets (excluding deferred tax assets - net)	**2,662,491,798**	**463,814,623**	**(539,632,318)**	**2,586,674,103**
Segment liabilities	**518,421,336**	**139,610,723**	**(117,161,498)**	**540,870,561**
Other Information				
Capital expenditures	1,839,057	-	-	1,839,057
Depreciation and amortization	46,115,783	6,198,813	-	52,314,596

End of Report