



111072018000650



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

Barcode Page

The following document has been received:

Receiving Officer/Encoder : Fernando T. Fernandez
Receiving Branch : SEC Head Office
Receipt Date and Time : November 07, 2018 12:57:42 PM
Received From : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No. AS93008809
Company Name PACIFIC ONLINE SYSTEMS CORP.
Industry Classification
Company Type Stock Corporation

Document Information

Document ID 111072018000650
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered September 30, 2018
No. of Days Late 0
Department CFD
Remarks

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

56
 Total No. of Stockholders

Total Amount of Borrowings
 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 **September 30, 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	422,433,981
	Amount of Debt Outstanding
	P40.0 Million

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 []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- a.) Consolidated Statements of Income for the nine (9) months ended, September 30, 2018 and September 30, 2017;
- b.) Consolidated Statements of Comprehensive Income for the nine (9) months, ended September 30, 2018 and September 30, 2017;
- c.) Consolidated Statements of Financial Position as of September 30, 2018 and Audited Statements of Financial Position as of December 31, 2017;
- d.) Consolidated Statements of Changes in Equity for the nine (9) months ended, September 30, 2018 and September 30, 2017; and
- e.) Consolidated Statements of Cash Flows for the nine (9) months ended, September 30, 2018 and September 30, 2017.

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

Results of Operations for the Period Ended September 30, 2018 vs. September 30, 2017

Revenues

For the first nine months of 2018, Pacific Online Systems Corporation (the "Company") combined with its subsidiaries (the "Group"), earned total revenues of P1.56 billion, which is P125 million, or 7%, lower than last year's revenues of P1.68 billion. The decrease in revenues was due mainly to contractual and regulatory changes. For the Lotto games, effective August this year the ELA rate went down by 1.7 percentage point. For both the Lotto and Keno games, the 20% documentary stamp tax (DST) was imposed resulting in the increase of the P20 Ticket price to P24, and the P10 Ticket price to P12. This has adversely affected the sales of the Lotto digit games and the Keno games in favor of the Small Town Lottery (STL) games. The collection of tax on winnings above P10,000 has also affected both the Keno and the Lotto games. The decrease in revenue so far to-date is estimated at around 15% for the Lotto digit games and 6% for the Keno games. The decline in online lottery revenues was, however, offset by the 19% increase in distribution revenues due to the acquisition of nine (9) entities engaged in retail distribution of PCSO products in July 2017.

Costs and Expenses

The Group incurred total operating expenses of P1.25 billion, which is 8% or P90.8 million higher than last year's P1.16 billion for the nine months of the year. The increase in costs and expenses is attributable to the following:

- Rent and utilities increased by P52.0 million (66%); Personnel costs increased by P56.6 million (24%); Travel and accommodation increased by P12.6 million (33%); and other expenses increased by P9.3 million (56%), mainly due to the acquisition of nine (9) companies by its retail distribution business unit (LCC) in July 2017;
- Depreciation and amortization charges increased by P10.7 million (8%) due to depreciation of new online lottery system equipment and other fixed assets acquired in 2017;
- Communication costs increased by P11.5 million (14%) due to additional communication links for new Keno installations; and

- Professional fees increased by P1.1 million (16%) due to higher recertification ISO audit fees incurred during the current period.

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

- Consultancy fees decreased by P19.3 million (39%) and Management fees decreased by P21.2 million (38%) due to the lower Lotto sales and earnings, which are the bases of the fees paid;
- Repairs and maintenance decreased by P24.8 million (27%) due to less repairs and maintenance works undertaken during the current period; and
- Advertising and promotion expense decreased by P0.9 million (14%) due to lower spending in Keno marketing activities.

Other Income (Charges)

Other income (net of other charges) of P110.0 million increased by P55.3 million (101%) for the period ended September 30, 2018 versus last year's P54.7 million. This change is mainly due to the P37.1 million royalty income for its instant ticket brand and trademarks, and the P9.3 million increase in dividend income from its stock investment holdings.

Operating Income, Net Income, Other Comprehensive Income and Total Comprehensive Income

The Group realized an operating income of P306.7 million, which is lower by P215.8 million (41%) from P522.5 million during the same period last year. This is due to a P125.0 million decrease in total revenues and a P90.8 million increase in costs and expenses. Together with an increase in other income by P55.3 million, less income taxes of P123.4 million, the Group achieved a net income of P293.3 million, which is lower by P116.8 million (28%), from last year's P410.1 million.

A net P273 million fair value loss on investment in stocks resulted to a comprehensive income of P20.3 million, or a P591.3 million (97%) decline from last year's P611.6 million.

Financial Condition as of September 30, 2018 vs. December 31, 2017

The Group's total assets of P2.27 billion as of September 30, 2018 decreased by P363.1 million or 14% from P2.63 billion as of December 31, 2017. The decrease in total assets is largely attributable to the following:

- Marketable securities decreased by P12.6 million (7%) due to the unrealized mark-to-market loss amounting to P2.5M million and disposal of some marketable securities;
- Trade and other receivables decreased by P60M (12%) due to collection of some past due receivables;
- Investments in stocks decreased by P238.6 million (33%) due to the fair value loss amounting to P273 million, net of about P34 million additional stocks purchased during the first half of 2018;
- Property and equipment decreased by P139.9 million (32%) due to a P153 million depreciation expense and only about P13 million in fixed assets acquisition during 2018; and

Retirement benefit asset decreased by P1.4M (100%) due to over funding last year the decreases above were offset by the increases in the following asset accounts:

- Cash increased by P82.2 million (18%) due to the acquisition of the nine (9) entities engaged in retail distribution by LCC;
- Other current assets increased by P30.8 million (27%) due to additional creditable income taxes
- Deferred tax asset increased by P5.2 million (34%) due to additional provision of deferred income tax for the period.

The Group's total liabilities at P499.4 million decreased by P114.3 million, or 18% from P613.8 million as of December 31, 2017. The decrease in total liabilities is explained as follows:

- Trade and other current liabilities decreased by P91.0 million (18%) mainly due to the P86.7 million cash dividends paid in January 2018;
- Obligations under capital lease decreased by P35.0 million (47%) due to amortization of obligations under capital lease for the current period; and
- Withholding taxes payable decreased by P5.1 million (46%) due to remittance of final taxes withheld in 2017

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

- Income tax payable increased by P10.4 million (35%) due to provision of income taxes for the period were based on prior year's revenue levels; and
- Installment payable increased by P3.3 million (124%) due to additional employee loans availed.

Total equity as of September 30, 2018 of P1.77 billion was lower by P248.8 million (12%) versus the P2.02 billion equity as of yearend 2017. The net decrease in total equity resulted from the P273.0 million fair value loss on investment in stocks, the P16.6 million additional treasury shares acquired in 2018 and by P252.5 million cash dividends paid in May and August 2018. This net equity decrease was partially offset by the P293.3 million net income earned for the period.

Cash Flows for the Nine Months Ended September 30, 2018 vs. September 30, 2017

The Group's cash balance as of September 30, 2018 of P529.3 million was higher by P529.3 million or by 18%, as compared to P447.13 million in 2017, due mainly to the consolidation of the nine (9) subsidiaries acquired by LCC in July 2017.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Company's existing lease agreement with PCSO for Lotto operations was extended from August 1, 2018 through July 31, 2019 at a rate lower by 1.7% points. 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 September 30, 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:

Liquidity & Financial Leverage Ratios	The manner by which the Company calculates the performance indicators	30 September 2018	31 December 2017
Current ratio	Current assets over current liabilities	2.74:1	2.16:1
Debt to equity ratio	Total liabilities over total equity	0.28:1	0.30:1
Asset-to-equity ratio	Total assets over total equity	1.28:1	1.30:1
Solvency ratio	Total assets over total liabilities	4.55:1	4.29:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	30 September 2018	30 September 2017
Operating income margin	Operating income over revenues	19.70%	31.08%
Net profit margin	Net income over revenues	18.85%	24.39%
Return on equity (annualized)	Net income over total equity	17.22%	20.76%
Return on assets (annualized)	Net income over total assets	22.08%	27.07%
Price/Earnings Ratio	Price per Share over EPS	15.83	11.71

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, 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 September 30, 2018 and December 31, 2017 without taking into account any collateral and other credit enhancements:

	Sep. 30, 2018	Dec. 31, 2017
Cash in banks	P523,890,187	P441,177,172
Trade and other receivables - net*	430,321,794	499,003,826
Marketable securities	165,834,877	178,482,842
Deposits **	28,935,618	27,954,758
Investments in stocks	489,438,870	727,998,290
Guarantee bonds**	35,000,000	35,000,000
Total credit risk exposure	P1,673,421,346	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 September 30, 2018 and December 31, 2017:

	September 30, 2018		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P413,396,710	P -	P413,396,710

Advances:			
Officers and employees	14,952,434	-	14,952,434
Contractors and suppliers	12,942,016	-	12,942,016
Other receivables	1,972,650	-	1,972,650
Deposits	28,935,618	-	28,935,618
Guarantee bonds	35,000,000	-	35,000,000
	P507,199,428	P -	P507,199,428

	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:

	September 30, 2018			
	Grade A	Grade B	Grade C	Total
Cash in banks	P523,890,187	P -	P -	P523,890,187
Trade and other receivables*	283,327,294	145,021,850	1,972,650	430,321,794
Marketable securities	165,834,877	-	-	165,834,877
Deposits	-	28,935,618	-	28,935,618
Investments in stocks	489,438,870	-	-	489,438,870
Guarantee bonds	35,000,000	-	-	35,000,000
	P1,497,491,227	P173,957,469	P1,972,650	P1,673,421,346

*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 within the guidelines set 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

September 30, 2018	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P8,291,744
(5%)	(8,291,744)

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

Investments in Stocks

September 30, 2018	
Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	P24,471,944
(5%)	(24,471,944)

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:

	September 30, 2018				
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P275,575,243	P -	P -	P121,413,297	P396,988,540
Obligations under finance lease**	3,882,847	3,882,847	7,765,694	35,374,474	39,871,622
Installment payable**	1,499,482	1,499,482	2,998,965	2,762,995	8,760,924
			P10,764,65		
	P280,957,572	P5,382,329	8	P148,516,526	P445,621,086

* Excluding statutory liabilities amounting to P5.0 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	P159,582,766	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 external providers which are denominated in U.S. dollar (US\$). The Group's financial instruments denominated in foreign currency are US\$ cash deposits maintained in reputable commercial banks to finance its obligations pertaining to software license fees, revenue share, consultancy fees and purchase of equipment overseas.

As at September 30, 2018 and December 31, 2017, assets and liabilities denominated in US\$ include cash in banks amounting to P10.9 million (US\$0.2 million) and P33.4 million (US\$0.6 million), and revenue share and software license fees payable amounting to P24.4 million (US\$0.5 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 P53.89 and P49.92 to US\$1, the Php to US\$ exchange rates, as at September 30, 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 than those already affecting profit or loss.

Increase (Decrease) in US\$ Exchange Rate		Effect on Income before Income Tax	Effect on Equity
September 30, 2018			
5%		(P675,259)	(P472,681)
(5%)		675,259	472,681
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 September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash	P529,342,862	P529,342,862	P447,130,976	P447,130,976
Trade and other receivables - net	443,263,810	443,263,810	503,303,275	503,303,275
Marketable securities	165,834,877	165,834,877	178,482,842	178,482,842
Investments in stocks	489,438,870	489,438,870	727,998,290	727,998,290
Deposits	28,935,618	28,935,618	27,954,758	27,954,758
Guarantee bonds	35,000,000	35,000,000	35,000,000	35,000,000
	P1,691,816,037	P1,691,816,037	P1,919,870,141	P1,919,870,141
Financial Liabilities				
Trade and other current liabilities*	P396,988,540	P396,988,540	P470,127,187	P470,127,187
Obligations under finance lease (inclusive of current portion)	39,871,622	39,871,622	74,862,983	74,862,983
Installment payable (inclusive of current portion)	9,010,070	9,010,070	5,443,823	5,443,823
	P445,870,232	P445,870,232	P550,433,993	P550,433,993

* Excluding statutory liabilities amounting to P5.0 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				
Sep. 30, 2018	P165,834,877	P -	P -	P165,834,877
Dec. 31, 2017	178,482,842	-	-	178,482,842
Investments in Stocks				
Sep. 30, 2018	489,438,870	-	-	489,438,870
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 on 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.

Standards Issued but Not Adopted
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.
- *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 Group does not plan to adopt these new standards as based on management assessment standard is not applicable to the Group's operations.

Standards Issued but Not Yet Adopted

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 September 30, 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 since September 30, 2018, 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 September 30, 2018.
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


M.A. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: November 7, 2018

Date: November 7, 2018

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	September 30, 2018	December 31, 2017
	Unaudited	Audited
ASSETS		
Current Assets		
Cash	P529,342,862	P447,130,976
Marketable securities	165,834,877	178,482,842
Trade and other receivables – net	443,263,810	503,303,275
Other current assets	145,695,573	114,869,444
Total Current Assets	1,284,137,122	1,243,786,537
Noncurrent Assets		
Investments in stocks	489,438,870	727,998,290
Property and equipment – net	298,074,180	437,977,128
Goodwill	127,980,262	127,980,262
Deferred tax assets - net	20,624,770	15,439,685
Retirement benefits asset – net	-	1,357,273
Other noncurrent assets	50,434,164	79,307,903
Total Noncurrent Assets	986,552,246	1,390,060,541
TOTAL ASSETS	P2,270,689,368	P2,633,847,078
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	P401,972,388	P492,949,158
Current portion of obligations under finance lease	15,531,388	39,488,510
Withholding taxes payable	5,967,345	11,081,797
Income tax payable	39,808,110	29,434,444
Current portion of installment payable	5,997,929	2,680,828
Total Current Liabilities	469,277,160	575,634,737
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	24,340,234	35,374,474
Installment payable – net of current portion	2,762,995	2,762,995
Retirement benefits liability	3,042,725	-
Total Noncurrent Liabilities	30,145,954	38,137,469
TOTAL LIABILITIES	499,423,114	613,772,206
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	447,665,473	P447,665,473
Additional paid-in capital	254,508,965	257,250,677
Treasury shares	(282,525,845)	(268,660,770)
Stock dividends payable	433,673,087	
Fair value reserve	(156,219,630)	116,829,810
Retirement benefits reserve	(11,838,800)	(11,838,800)
Retained earnings	1,080,333,246	1,474,292,424
	1,765,596,496	2,015,538,814
Non-controlling Interests	5,669,758	4,536,058
Total Equity	1,771,266,254	2,020,074,872
TOTAL LIABILITIES AND EQUITY	P2,270,689,368	P2,633,847,078

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)
For the nine months ended September 30, 2018 and 2017

	Nine Months Ended Sept 30		This Quarter	
	2018	2017	2018	2017
REVENUE				
Equipment rental	P1,179,957,892	P1,366,328,832	P324,705,411	P473,188,134
Commission and distribution income	376,472,210	315,116,121	133,845,213	156,355,342
	1,556,430,102	1,681,444,953	458,550,625	629,543,476
COSTS AND EXPENSES				
Personnel costs	290,613,096	234,052,010	93,802,969	97,488,545
Software and license fees	168,614,832	169,665,326	51,745,990	60,837,065
Operating supplies	142,574,364	139,063,748	34,349,049	49,790,430
Depreciation and amortization	152,882,974	142,205,488	48,522,246	48,683,625
Communications	95,069,920	83,570,408	29,207,775	29,501,506
Travel and accommodation	51,194,895	38,595,938	15,937,761	8,630,531
Consultancy fees	30,312,175	49,573,642	3,943,616	16,617,419
Rent and utilities	130,847,780	78,894,878	43,064,757	39,922,752
Management fees	34,280,626	55,467,889	10,908,148	19,497,566
Repairs and maintenance	65,703,135	90,472,405	20,052,616	32,016,081
Taxes and licenses	35,861,749	35,457,358	11,862,148	16,648,234
Entertainment, amusement and recreation	12,326,040	12,001,025	5,963,203	3,089,361
Professional fees	8,231,520	7,105,926	3,300,850	690,335
Advertising and promotion	5,234,567	6,115,879	509,603	1,041,745
Others	25,998,687	16,691,964	12,829,183	9,200,361
	1,249,746,360	1,158,933,883	385,999,913	433,655,555
OPERATING INCOME	306,683,742	522,511,069	72,550,712	195,887,921
OTHER INCOME (CHARGES)				
Dividend income	29,082,445	19,754,072	2,125,000	2,125,000
Interest income	742,751	367,110	307,297	131,884
Finance charges	(363,873)	(852,818)	(173,509)	(619,806)
Mark-to-market gain (loss) on marketable securities	(2,523,101)	11,308,362	(1,862,756)	(533,563)
Gain (loss) on sale of:				
Marketable securities	2,224,652	225,000	-	225,000
Property and equipment	506,997	59,999	60,000	20,000
Foreign exchange gain (loss)	(421,734)	(1,020,292)	(357,138)	1,596,512
Others - net	80,800,985	24,856,647	33,076,022	12,499,878
	110,049,122	54,698,080	33,174,916	15,444,903
INCOME BEFORE INCOME TAX	416,732,864	577,209,149	105,725,628	211,332,824
INCOME TAX				
Current	127,441,914	170,846,198	31,711,554	65,300,438
Deferred	(4,047,784)	(3,755,969)	(1,426,636)	(1,256,352)
	123,394,130	167,090,229	30,284,918	64,044,086
NET INCOME	P293,338,734	P410,118,920	P75,440,710	P147,288,738
Attributable to:				
Equity holders of the Parent Company	291,253,597	407,942,868	75,014,253	146,544,925
Non-controlling interests	2,085,137	2,176,052	426,457	743,813
	P293,338,734	P410,118,920	P75,440,710	P147,288,738
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company				
	P0.6887	P0.9518	P0.1772	P0.3358

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the nine months ended September 30, 2018 and 2017

	Nine Months Ended Sept 30		This Quarter	
	2018	2017	2018	2017
NET INCOME	P293,338,734	P410,118,920	P75,440,710	P147,288,738
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	(273,049,440)	201,477,250	(48,003,360)	17,344,100
Remeasurements of retirement benefits, net of tax	-	-	-	-
	(273,049,440)	201,477,250	(48,003,360)	17,344,100
TOTAL COMPREHENSIVE INCOME (LOSS)	P20,289,294	P611,596,170	P27,437,350	P164,632,838
Attributable to:				
Equity holders of the Parent Company	18,204,157	609,420,118	27,010,893	163,889,025
Non-controlling interests	2,085,137	2,176,052	426,457	743,813
	P20,289,294	P611,596,170	P27,437,350	P164,632,838

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2018 and 2017

	For the nine months ended Sept. 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	416,732,864	577,209,149
Adjustments for:		
Depreciation and amortization	152,882,974	142,205,488
Dividend income	(29,082,445)	(19,754,072)
Retirement cost	5,400,000	16,200,000
Finance charges	363,873	852,818
Unrealized foreign exchange loss (gain)	421,734	1,020,292
Interest income	(742,751)	(367,110)
Mark-to-market loss (gain) on marketable securities	2,523,101	(11,308,362)
(Gain) loss on sale of:		
Marketable securities	(2,224,652)	(225,000)
Property and equipment	(506,997)	(59,999)
Operating income before working capital changes	545,767,701	705,773,204
Decrease (increase) in:		
Trade and other receivables	60,039,466	(10,015,137)
Other current assets	(30,826,129)	(70,628,761)
Increase (decrease) in:		
Trade and other current liabilities	(91,398,504)	57,738,006
Withholding taxes payable	(5,114,452)	(6,458,156)
Interest received	742,751	367,110
Income tax paid	(118,205,550)	(168,029,985)
Retirement contributions	(1,000,000)	(7,004,983)
Net cash flows provided by operating activities	360,005,283	501,741,298
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Marketable securities	-	(17,034,130)
Investment in stocks	(34,490,020)	(68,203,070)
Property and equipment	(12,980,026)	(101,043,101)
Proceeds from sale of:		
Marketable securities	12,349,517	5,105,000
Investment in stocks	-	172,933,950
Property and equipment	506,997	59,999
Dividends received	29,082,445	19,754,072
Decrease (increase) in other noncurrent assets	28,873,739	(5,229,613)
Net cash flows used in investing activities	23,342,652	6,343,107
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend paid by Parent Company	(251,539,688)	(253,492,705)
Cash dividend paid to non-controlling interests	(951,441)	-
Acquisition of treasury shares	(171,642,417)	(211,841,592)
Proceeds from sale of treasury shares	155,035,630	-
Decrease (increase) in obligations under finance lease	(34,991,362)	(30,966,910)
Increase in installment payable	3,317,102	-
Interest paid	(363,873)	(852,818)
Net cash flows used in financing activities	(301,136,049)	(497,154,025)
NET INCREASE (DECREASE) IN CASH	82,211,886	10,930,380
CASH AT BEGINNING OF YEAR	447,130,976	258,944,786
CASH AT END OF PERIOD	P529,342,862	P269,875,166

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

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Stock Dividend Payable	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	-	-	-	-	201,477,250	-	-	201,477,250	-	201,477,250
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	201,477,250	-	-	201,477,250	-	201,477,250
Net income for the year	-	-	-	-	-	-	407,942,868	407,942,868	2,176,052	410,118,920
Total comprehensive income (loss) for the year	-	-	-	-	201,477,250	-	407,942,868	609,420,118	2,176,052	611,596,170
Cash dividends	-	-	-	-	-	-	(253,492,705)	(253,492,705)	-	(253,492,705)
Treasury shares acquired	-	-	(211,841,592)	-	-	-	-	(211,841,592)	-	(211,841,592)
Treasury shares sold	-	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(211,841,592)	-	-	-	(253,492,705)	(465,334,297)	-	(465,334,296)
September 30, 2017	P447,665,473	P257,250,677	(P268,660,770)	P-	P199,309,510	(P13,087,762)	P1,476,916,066	P2,099,393,194	P7,499,583	P2,106,892,777
January 1, 2018	P447,665,473	P257,250,677	(P268,660,770)	P-	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872
Change in fair value of investments in stocks	-	-	-	-	(273,049,440)	-	-	(273,049,440)	-	(273,049,440)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(273,049,440)	-	-	(273,049,440)	-	(273,049,440)
Net income for the year	-	-	-	-	-	-	291,253,597	291,253,597	2,085,137	293,338,734
Total comprehensive income (loss) for the year	-	-	-	-	(273,049,440)	-	291,253,597	18,204,157	2,085,137	20,289,294
Cash dividends	-	-	-	-	-	-	(251,539,688)	(251,539,688)	(951,437)	(252,491,125)
Stock dividends payable	-	-	-	433,673,087	-	-	(433,673,087)	-	-	-
Treasury shares acquired	-	-	(171,642,417)	-	-	-	-	(171,642,417)	-	(171,642,417)
Treasury shares sold	-	(2,741,712)	157,777,342	-	-	-	-	155,035,630	-	155,035,630
Total transactions with owners in their capacity as owners	-	(2,741,712)	(13,865,075)	433,673,087	-	-	(685,212,775)	(268,146,475)	(951,437)	(269,097,912)
September 30, 2018	P447,665,473	P254,508,965	(P282,525,845)	P433,673,087	(P156,219,630)	(P11,838,800)	P1,080,333,246	P1,765,596,496	P5,669,758	P1,771,266,254

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of September 30, 2018

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade receivables			
1.) PCSO – Equipment rentals	P225,406,585	P -	P225,406,585
2.) Trade receivables – others	187,990,125	-	187,990,125
	413,396,710	-	413,396,710
b.) Other Receivables			
1.) Advances to officers and employees	14,952,434	-	14,952,434
2.) Advances to contractors and suppliers	12,942,016	-	12,942,016
3.) Other receivables	1,972,650	-	1,972,650
	29,867,100	-	29,867,100
Total	P443,263,810	P -	P443,263,810

2.) Description of receivables

<i>Types of Receivables</i>	<i>Nature and Description</i>	<i>Collection / Liquidation Period</i>
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 September 30, 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 Nine Months ended September 30, 2018			
	Equipment Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,179,957,892	P -	P -	1,179,957,892
Commission and distribution income	-	376,472,210	-	376,472,210
Total revenue	P1,179,957,892	P376,472,210	P -	P1,556,430,102
Segments Results				
Income before income tax	530,576,035	29,178,585	(143,021,756)	416,732,864
Income tax expense	113,365,386	10,028,744	-	123,394,130
Net income	417,210,649	19,149,841	(143,021,756)	293,338,734
Segment assets	P2,514,239,924	P489,262,880	(P732,813,436)	2,270,689,368
Deferred tax assets - net	13,595,254	7,029,516	-	20,624,770
Segments assets (excluding deferred tax assets - net)	2,500,644,670	482,233,364	(732,813,438)	2,250,064,598
Segment liabilities	479,097,403	174,761,246	(154,435,535)	499,423,114
Other Information				
Capital expenditures	12,980,026	-	-	12,980,026
Depreciation and amortization	134,921,633	17,961,341	-	152,882,974

End of Report