

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Page No.

Financial Statements

Statement of Management's Responsibility for Financial Statements) See Attached FS
Report of Independent Public Auditors)
Statements of Financial Position as of December 31, 2017 and 2016)
Statements of Income)
for the years ended December 31, 2017, 2016 and 2015)
Statements of Comprehensive Income)
for the years ended December 31, 2017, 2016 and 2015)
Statements of Changes in Equity)
for the years ended December 31, 2017, 2016 and 2015)
Statements of Cash Flows)
for the years ended December 31, 2017, 2016 and 2015)
Notes to Financial Statements)

Supplementary Schedules

Report of Independent Auditors on Supplementary Information

Reconciliation of Retained Earnings Available for Dividend Declaration	SEE ATTACHED
Map of Conglomerate	SEE ATTACHED
Schedule of Philippine Financial Reporting Standards	SEE ATTACHED
Supplementary Schedules of Annex 68-E	SEE ATTACHED
A. Financial Assets	SEE ATTACHED
B. Amounts Receivable from Director's, Officers, Employees, Related Parties and Principal Stockholders (Other than Associates)	SEE ATTACHED
C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	SEE ATTACHED
D. Goodwill and Intangible Assets - Other Assets	SEE ATTACHED
E. Long-term Debt	SEE ATTACHED
F. Indebtedness to Related Parties	•
G. Guarantees of Securities of Other Issuers	•
H. Capital Stock	SEE ATTACHED
I. Key Financial Ratios	SEE ATTACHED

* These schedules, which are required by paragraph 4 (e) of SRC Rule 68, have been omitted because they are either required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management **Pacific Online Systems Corporation** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

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

Signature  _____
WILLY N. OCIER / Chairman of the Board

Signature  _____
WILLY N. OCIER / Chief Executive Officer

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

Signed this 22nd day of February 2018

SUBSCRIBED AND SWORN TO BEFORE ME, AT _____
THIS DAY OF **FEB 22 2018**, AFFIANT EXHIBITING TO ME
HIGHER COMPETENT EVIDENCE OF IDENTITY NO. _____
ISSUED AT _____ ON _____

PASIG CITY GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC

Cities of Pasig, San Juan and
In the Municipality of Pateros, Metro Manila
Until December 31, 2018
PTR No. A-3742916 / 01/03/2018 Tacuig City
IBP No. 019326 / 10/22/2017 RSM
ROLL No. 41989
MCLE Comp. V-0021481 / May 02, 2016
No. 11 Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 26

Doc. No. 450 :
Page No. 90 :
Book No. B :
Series of 7/18 :

COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	3	0	0	8	8	0	9
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COMPANY NAME

P	A	C	I	F	I	C		O	N	L	I	N	E		S	Y	S	T	E	M	S						
C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S

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

2	8	t	h		F	l	o	o	r	,		E	a	s	t		T	o	w	e	r									
P	S	E			C	e	n	t	r	e	,		E	x	c	h	a	n	g	e		R	o	a	d					
O	r	t	i	g	a	s				C	e	n	t	e	r	,		P	a	s	i	g		C	i	t	y			

Form Type

A	A	F	S
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Department requiring the report

--

Secondary License Type, If Applicable

--

COMPANY INFORMATION

Company's email Address

--

Company's Telephone Number/s

--

Mobile Number

--

No. of Stockholders

57

Annual Meeting (Month / Day)

--

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Ma. Virginia V. Abo-Hamda

Email Address

--

Telephone Number/s

584-1700

Mobile Number

--

CONTACT PERSON'S ADDRESS

--

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

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

**PACIFIC ONLINE SYSTEMS CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017, 2016 and 2015**

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Pacific Online Systems Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____

valid until March 15, 2020
Group A, valid until November 15, 2020
valid until August 26, 2020
category A, valid for 3-year audit period



Key Audit Matter

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

Impairment of Goodwill

Refer to Notes 5 and 13 to the consolidated financial statements.

The risk

As at December 31, 2017, the Group has goodwill amounting to P110.9 million relating to the acquisition of Falcon Resources, Inc.

Under PFRS, the Group is required to annually test goodwill for impairment. This assessment requires the exercise of significant judgment about future market conditions, including growth rates and discount rates, particularly those affecting the business of Falcon Resources, Inc. The key assumptions and uncertainties to the impairment test are disclosed in Notes 5 and 13 to the consolidated financial statements.

Goodwill would be impaired where its recoverable amount has fallen below its carrying value. We consider the impairment of goodwill to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.

Our response

Our audit procedures included, among others, obtaining the Group's discounted cash flow model that tests the carrying value of goodwill and mainly evaluating the reasonableness of key assumptions used by management in conducting the impairment review. These procedures included using our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rate; reviewing the cash flows used, with comparison to recent performance, trend analysis and market expectations, and by reference to prior year's forecast, where relevant, assessing whether the Group has achieved them.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

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

FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____



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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020
Tax Identification No. 912-365-765
BIR Accreditation No. 08-001987-30-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 6615134MD
Issued January 3, 2018 at Makati City

February 22, 2018
Makati City, Metro Manila

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*



R.G. Manabat & Co.
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Philippines 1226
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Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

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

Opinion

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In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRSs).

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FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____

id until March 15, 2020
up A, valid until November 15, 2020
id until August 26, 2020
egory A, valid for 3-year audit period



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Our response

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

FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____



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

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

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO

Partner

CPA License No. 0095177

SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-30-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 6615134MD

Issued January 3, 2018 at Makati City

February 22, 2018

Makati City, Metro Manila

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*



R.G. Manabat & Co.
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Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

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

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

We have audited the accompanying consolidated financial statements of Pacific Online Systems Corporation and its subsidiaries as at and for the year ended December 31, 2017, on which we have rendered our report dated February 22, 2018.

In compliance with Securities Regulations Code Rule 68, As Amended, we are stating that Pacific Online Systems Corporation has fifty-seven (57) stockholders owning one hundred (100) or more shares each.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020
Tax Identification No. 912-365-765
BIR Accreditation No. 08-001987-30-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 6615134MD
Issued January 3, 2018 at Makati City

February 22, 2018
Makati City, Metro Manila

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*

Group A, valid until March 15, 2020
Group A, valid until November 15, 2020
Group A, valid until August 26, 2020
Group A, valid for 3-year audit period

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

				December 31		
				Note	2017	2016
ASSETS						
Current Assets						
Cash	7	P447,130,976			P258,944,786	
Marketable securities	8	178,482,842			165,990,214	
Trade and other receivables - net	9	503,303,275			492,224,075	
Other current assets	10, 23	114,869,444			130,337,361	
Total Current Assets		1,243,786,537			1,047,496,436	
Noncurrent Assets						
Investments in stocks	11	727,998,290			713,731,620	
Property and equipment - net	12	437,977,128			478,896,065	
Goodwill	13	127,980,262			124,297,480	
Deferred tax assets - net	18	15,439,685			14,856,777	
Retirement benefits asset - net	21	1,357,273			323,232	
Other noncurrent assets	2, 23	79,307,903			47,598,615	
Total Noncurrent Assets		1,390,060,541			1,379,703,789	
					P2,633,847,078	P2,427,200,225
LIABILITIES AND EQUITY						
Current Liabilities						
Trade and other current liabilities	14	P492,949,158			P285,709,110	
Current portion of obligations under finance lease	19	39,488,510			47,698,388	
Withholding taxes payable		11,081,797			18,516,862	
Income tax payable		29,434,444			43,000,753	
Current portion of installment payable	23	2,680,828			-	
Total Current Liabilities		575,634,737			394,925,113	
Noncurrent Liabilities						
Obligations under finance lease - net of current portion	19	35,374,474			71,644,208	
Installment payable - net of current portion	23	2,762,995			-	
Total Noncurrent Liabilities		38,137,469			71,644,208	
Total Liabilities		613,772,206			466,569,321	

Forward

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>

		December 31	
	Note	2017	2016
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	15	P447,665,473	P447,665,473
Additional paid-in capital		257,250,677	257,250,677
Treasury shares	15	(268,660,770)	(56,819,178)
Fair value reserve	11	116,829,810	(2,167,740)
Retirement benefits reserve	21	(11,838,800)	(13,087,762)
Retained earnings	15	1,474,292,424	1,322,465,903
		2,015,538,814	1,955,307,373
Non-controlling Interests		4,536,058	5,323,531
Total Equity		2,020,074,872	1,960,630,904
		P2,633,847,078	P2,427,200,225

See Notes to the Consolidated Financial Statements.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	<i>Note</i>	2017	2016	2015
REVENUES				
Equipment rental	2, 6, 19	P1,840,520,991	P1,579,660,972	P1,459,236,737
Commission and distribution income	2, 6	479,472,385	308,438,496	259,080,819
		2,319,993,376	1,888,099,468	1,718,317,556
COSTS AND EXPENSES				
	17	1,652,402,460	1,290,550,859	1,212,796,078
OPERATING INCOME				
		667,590,916	597,548,609	505,521,478
OTHER INCOME (CHARGES)				
Dividend income	8, 11	20,628,055	22,074,912	27,496,750
Interest income	7	853,644	815,079	1,268,112
Finance charges	19	(10,859,855)	(12,748,505)	(10,883,017)
Mark-to-market gain (loss) on marketable securities	8	2,204,528	(37,137,005)	(43,463,789)
Foreign exchange loss		(1,887,440)	(1,620,150)	(854,809)
Gain (loss) on sale of:				
Property and equipment		155,142	29,997	(396,952)
Marketable securities		-	-	7,438,663
Others	20	43,061,372	14,498,940	25,801,186
		54,155,446	(14,086,732)	6,406,144
INCOME BEFORE INCOME TAX				
		721,746,362	583,461,877	511,927,622
INCOME TAX EXPENSE (BENEFIT)				
	18			
Current		230,041,358	154,821,775	170,704,239
Deferred		(1,160,984)	28,271,202	(3,841,884)
		228,880,374	183,092,977	166,862,355
NET INCOME				
		P492,865,988	P400,368,900	P345,065,267
Attributable to:				
Equity holders of the Parent Company	22	P490,101,221	P397,992,034	P343,170,821
Non-controlling interests		2,764,767	2,376,866	1,894,446
		P492,865,988	P400,368,900	P345,065,267
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company				
	22	P1.1466	P1.0785	P1.1721

See Notes to the Consolidated Financial Statements.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	<i>Note</i>	2017	2016	2015
NET INCOME		P492,865,988	P400,368,900	P345,065,267
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that will never be reclassified to profit or loss</i>				
Fair value gain (loss) on investments in stocks	11	118,997,550	208,807,005	(399,791,574)
Remeasurements of retirement benefits, net of tax		1,248,962	(1,501,100)	6,046,751
		120,246,512	207,305,905	(393,744,823)
TOTAL COMPREHENSIVE INCOME (LOSS)		P613,112,500	P607,674,805	(P48,679,556)
Attributable to:				
Equity holders of the Parent Company		610,347,733	P605,297,939	(P50,574,002)
Non-controlling interests		2,764,767	2,376,866	1,894,446
		P613,112,500	P607,674,805	(P48,679,556)

See Notes to the Consolidated Financial Statements.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P721,746,362	P583,461,877	P511,927,622
Adjustments for:				
Depreciation and amortization	12, 17	225,444,278	171,168,627	117,342,788
Impairment losses on trade and other receivables	9, 17	25,000,000	-	8,637,067
Dividend income	8, 11	(20,628,055)	(22,074,912)	(27,496,750)
Retirement cost	21	11,181,859	8,356,180	10,633,089
Finance charges	19	10,859,855	12,748,505	10,883,017
Unrealized foreign exchange loss (gain)		1,589,733	1,423,457	(473,260)
Interest income	7	(853,644)	(815,079)	(1,268,112)
Fair value loss (gain) on marketable securities	8	(2,204,528)	37,137,005	43,463,789
Loss (gain) on sale of:				
Property and equipment		(155,142)	(29,997)	396,952
Marketable securities		-	-	(7,438,663)
Operating income before working capital changes		971,980,718	791,375,663	666,607,539
Decrease (increase) in:				
Trade and other receivables		(114,098,994)	(129,842,895)	68,526,434
Other current assets		40,341,826	(12,900,671)	4,252,048
Increase (decrease) in:				
Trade and other current liabilities		41,212,426	4,043,858	(99,800,140)
Withholding taxes payable		(7,435,063)	6,799,403	1,164,520
Interest received		853,644	815,079	1,268,112
Income tax paid		(243,607,667)	(148,727,459)	(185,531,942)
Retirement contributions	21	(11,004,983)	(15,557,284)	(15,000,000)
Net cash flows provided by operating activities		678,241,907	496,005,694	441,486,571
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Marketable securities	8	(17,034,130)	(5,683,853)	(65,137,007)
Investments in stocks	11	(68,203,070)	(25,303,585)	(395,611,150)
Property and equipment	12	(156,774,695)	(111,940,173)	(312,639,207)
Proceeds from sale of:				
Marketable securities		6,746,030	29,303,324	65,180,574
Investments in stocks		172,933,950	-	-
Property and equipment		1,069,280	6,426,296	20,037,192
Cash received from acquisition of subsidiaries	13	76,694,703	-	-
Dividends received	8, 11	20,628,055	22,074,912	27,496,750
Decrease (increase) in other noncurrent assets		(9,583,987)	3,133,138	(5,529,560)
Net cash flows provided by (used in) investing activities		26,476,136	(81,989,941)	(666,202,408)

Forward

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

	Note	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid by Parent Company	15	(P253,492,705)	(P349,179,070)	(P175,534,638)
Cash dividends paid to non-controlling interests		(1,599,618)	-	-
Acquisitions of treasury shares	15	(211,841,592)	(56,819,178)	(26,616,980)
Proceeds from sale of treasury Shares	15	-	-	211,217,322
Finance charges paid		(10,859,855)	(12,748,505)	(10,883,017)
Decrease (increase) in obligations under finance lease		(44,479,612)	614,012	24,751,840
Increase in installment payable		5,443,823	-	-
Net cash flows provided by (used in) financing activities		(516,829,559)	(418,132,741)	22,934,527
NET INCREASE (DECREASE) IN CASH		187,888,484	(4,116,988)	(201,781,310)
CASH AT BEGINNING OF YEAR		258,944,786	262,865,081	463,318,322
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		297,706	196,693	1,328,069
CASH AT END OF YEAR		P447,130,976	P258,944,786	P262,865,081

See Notes to the Consolidated Financial Statements.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Note	Equity Attributable to Equity Holders of the Parent Company						Total	Non-controlling Interest	Total Equity
		Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings			
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	11	-	-	-	118,997,550	-	-	118,997,550	-	118,997,550
Remeasurements of retirement benefits, net of tax	21	-	-	-	-	1,248,962	-	1,248,962	-	1,248,962
Other comprehensive income		-	-	-	118,997,550	1,248,962	-	120,246,512	-	120,246,512
Net income for the year		-	-	-	-	-	490,101,221	490,101,221	2,764,767	492,865,988
Total comprehensive income for the year		-	-	-	118,997,550	1,248,962	490,101,221	610,347,733	2,764,767	613,112,500
Cash dividends	15	-	-	-	-	-	(338,274,700)	(338,274,700)	(3,552,240)	(341,826,940)
Treasury shares acquired	15	-	-	(211,841,592)	-	-	-	(211,841,592)	-	(211,841,592)
Total transactions with owners in their capacity as owners		-	-	(211,841,592)	-	-	(338,274,700)	(550,116,292)	(3,552,240)	(553,668,532)
December 31, 2017		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

Forward

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

	Equity Attributable to Equity Holders of the Parent Company							Total	Non-controlling Interest	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings			
January 1, 2016		P298,443,650	P257,250,677	P -	(P210,974,745)	(P11,586,662)	P1,422,874,762	P1,756,007,682	P2,946,665	P1,758,954,347
Change in fair value of investments in stocks	11	-	-	-	208,807,005	-	-	208,807,005	-	208,807,005
Remeasurements of retirement benefits, net of tax	21	-	-	-	-	(1,501,100)	-	(1,501,100)	-	(1,501,100)
Other comprehensive income (loss)		-	-	-	208,807,005	(1,501,100)	-	207,305,905	-	207,305,905
Net income for the year		-	-	-	-	-	397,992,034	397,992,034	2,376,866	400,368,900
Total comprehensive income (loss) for the year		-	-	-	208,807,005	(1,501,100)	397,992,034	605,297,939	2,376,866	607,674,805
Cash dividends	15	-	-	-	-	-	(349,179,070)	(349,179,070)	-	(349,179,070)
Stock dividends	15	149,221,823	-	-	-	-	(149,221,823)	-	-	-
Treasury shares acquired	15	-	-	(56,819,178)	-	-	-	(56,819,178)	-	(56,819,178)
Total transactions with owners in their capacity as owners		149,221,823	-	(56,819,178)	-	-	(498,400,893)	(405,998,248)	-	(405,998,248)
December 31, 2016		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

Forward

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

	Equity Attributable to Equity Holders of the Parent Company							Non-controlling Interest	Total Equity	
	Note	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings			Total
January 1, 2015		P298,443,650	P238,339,307	(P165,688,973)	P188,816,829	(P17,633,413)	P1,255,238,579	P1,797,515,979	P1,052,219	P1,798,568,198
Change in fair value of investments in stocks	11	-	-	-	(399,791,574)	-	-	(399,791,574)	-	(399,791,574)
Remeasurements of retirement benefits, net of tax	21	-	-	-	-	6,046,751	-	6,046,751	-	6,046,751
Other comprehensive income (loss)		-	-	-	(399,791,574)	6,046,751	-	(393,744,823)	-	(393,744,823)
Net income for the year		-	-	-	-	-	343,170,821	343,170,821	1,894,446	345,065,267
Total comprehensive income (loss) for the year		-	-	-	(399,791,574)	6,046,751	343,170,821	(50,574,002)	1,894,446	(48,679,556)
Cash dividends	15	-	-	-	-	-	(175,534,638)	(175,534,638)	-	(175,534,638)
Treasury shares acquired	15	-	-	(26,616,980)	-	-	-	(26,616,980)	-	(26,616,980)
Treasury shares sold	15	-	18,911,370	192,305,953	-	-	-	211,217,323	-	211,217,323
Total transactions with owners in their capacity as owners		-	18,911,370	165,688,973	-	-	(175,534,638)	9,065,705	-	9,065,705
December 31, 2015		P298,443,650	P257,250,677	P -	(P210,974,745)	(P11,586,662)	P1,422,874,762	P1,756,007,682	P2,946,665	P1,758,954,347

See Notes to the Consolidated Financial Statements.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

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

1. Reporting Entity

Corporate Information

Pacific Online Systems Corporation (“Pacific Online” or “Parent Company”) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company’s registered office address is at 28th Floor, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively referred to as the “Group”). The following subsidiaries are incorporated in the Philippines and registered with SEC:

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

* With indirect ownership through LotoPac

** Indirectly owned through TGTI

***Indirectly owned through LCC (collectively referred to as “Nine Entities”) starting July 1, 2017 (Note 13)

Pacific Online

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE) starting on April 12, 2007. The Parent Company is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. The Parent Company can also engage in any lawful arrangement for sharing profits, union of interest, unitization or formal agreement, reciprocal concession, or cooperation with any corporation, association, partnership, syndicate, entity, person or governmental, municipal or public authority, domestic or foreign.

TGTI

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

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Management Representation Letter. By: _____ date: _____*

LotoPac

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

LCC and Nine Entities

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

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

FRI

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

TGTI Services, Inc

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

2. Agreements with PCSO

PCSO is the “principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character.”

It generates funds for its programs by holding and conducting charity sweepstakes, races and lotteries.

Equipment Lease Agreement (ELA)

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

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

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

2015 Amended ELA. On July 15, 2015, the ELA was again amended to extend the term from August 1, 2015 to July 31, 2018. The amendment also required the Parent Company to deposit an additional P5.0 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. The additional cash bond is included under "Other noncurrent assets" in the consolidated statements of financial position.

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales of lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 4,205 and 4,157 as at December 31, 2017 and 2016, respectively. The Parent Company's equipment rental revenue amounted to P1,036.9 million, P931.8 million, and P937.1 million in 2017, 2016 and 2015, respectively (Note 19). The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P86.3 million and P88.3 million as at December 31, 2017 and 2016, respectively (Note 9).

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

The MOA requires a cash bond to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, subject to review by PCSO for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. The interest accrues to the Parent Company and is credited to a separate bank account. The P10.0 million cash bond is recognized under "Other noncurrent assets" account in the consolidated statements of financial position.

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

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PGEC agreed to assume the Parent Company's commitment to PCSO to solely shoulder the project cost for the Instant Scratch Ticket program, which consists of the costs of production, distribution, warehousing, printing, handling, software and hardware maintenance, advertising, marketing, selling and other related expenses. PGEC is entitled to all the revenues, sums and proceeds from the Instant Scratch Tickets beginning April 1, 2015, and shall be obligated to shoulder the pay-outs for all winnings from said tickets sold beginning April 1, 2015. In consideration for the OMOA, PGEC agreed to pay the Parent Company a guaranteed fixed monthly fee of P4.0 million starting April 2015. The fees included as part of "Commission and distribution income" under "Revenues" in the consolidated statements of income amounted to nil, P48.0 million and P36.0 million in 2017, 2016 and 2015, respectively.

The Parent Company shall continue to pay the share of PCSO and the cash bond pursuant to the MOA. However, PGEC agreed to guarantee payment of the share of PCSO to the Parent Company beginning April 2015. An existing consultancy agreement between the Parent Company and PGEC for the scratch ticket operations was immediately terminated upon execution of the OMOA.

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

TGTI Equipment Lease Agreement

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

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of the gross sales of the online keno terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher. The ELA may be extended and/or renewed upon the mutual consent of the parties.

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

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of the gross amount of ticket sales from all of the Company's online keno lottery operations, excluding value-added taxes (VAT) or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 2,184 and 1,995 as at December 31, 2017 and 2016, respectively. TGTI's equipment rental revenue amounted to P803.6 million, P647.9 million, and P522.2 million in 2017, 2016 and 2015, respectively (Note 19). The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P119.6 million and P64.9 million as at December 31, 2017 and 2016, respectively (Note 9).

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3. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations. The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on February 22, 2018.

Basis of Measurement

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

- marketable securities and investments in stocks are measured at fair value; and
- defined benefit asset which is measured as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso (P or Php), which is the Group's functional currency. All financial information are rounded off to the nearest peso, except when otherwise indicated.

Basis of Consolidation

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

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

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

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

Non-controlling interests represent the interests not held by the Parent Company in TGTI.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4. Significant Accounting Policies

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

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;

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____
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- 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 Yet Adopted

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.

<p><i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i></p>

- 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.

<p><i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i></p>

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.

Financial Instruments

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

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

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

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

- (a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
--

- (c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

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

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

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

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

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

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

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Financial Assets

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

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

The Group's investment in equity securities included under "Marketable securities" are classified under this category (Note 8).

Financial Assets at FVOCI. The Group measures a debt instrument as a financial asset at FVOCI if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group may make an irrevocable election at initial recognition to present subsequent changes in FVOCI for investments in equity instruments that are neither held for trading nor contingent consideration in a business combination.

Subsequent to initial recognition, financial assets at FVOCI are measured at fair value and changes therein, other than interest income using effective interest method, impairment losses and foreign currency differences on FVOCI debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. The effective yield component of debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding FVOCI equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual debt financial assets at FVOCI are derecognized, the related accumulated unrealized gains or losses previously reported in equity is reclassified from equity to profit or loss as a reclassification adjustment. Gains and losses on equity financial assets at FVOCI are never recalssified to profit or loss and no impairment is reconized in profit or loss.

The Group's investments in equity securities included under "Investments in stocks" account are classified under this category (Note 11).

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

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Cash includes cash on hand and in banks which are stated at face value.

Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reason for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

Reclassification of Financial Assets and Liabilities

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

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

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

Financial Liabilities

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Impairment of Financial Assets

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

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

- information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, compliance with covenants, quality of management, senior management changes.
- data from credit reference agencies, press articles, changes in external credit ratings.
- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- utilization of the granted credit limit.
- existing and forecast changes in the business, financial and economic conditions.

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

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

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

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

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Offsetting Financial Instruments

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

Spare Parts and Supplies

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

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

When major repairs and maintenance are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

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

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

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

*FS as approved by Those Charged with Governance together with
Management Representation Letter. By: _____ date: _____*

Impairment of Nonfinancial Assets Excluding Goodwill

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

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

Business Combinations

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

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

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Goodwill

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

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

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

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

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

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

Non-controlling Interests

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

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

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Provisions

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

Capital Stock

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

Treasury Shares

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

Fair Value Reserve

Fair value reserve represents the cumulative change in the fair value of investments in stocks until they are derecognized. Movements in the reserve are set out in the consolidated statements of changes in equity.

Retained Earnings

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

Operating Segments

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, trade and other receivables and property and equipment. Segment liabilities include all operating liabilities and consist principally of trade and other current liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

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

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Equipment Rental. Revenue is recognized based on a percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement, or a fixed annual rental per terminal in commercial operation, whichever is higher.

Commission and Distribution Income. Revenues from the distribution of lottery, sweepstakes and scratch tickets to customers, including retailers and sub-distributors, representing the Group's share from the sales, are recognized upon delivery of the tickets to the customers.

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

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

Service Income. Revenue is recognized when the services to the customer is performed.

Costs and Expenses

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d at the date of renewal or extension period for scenario b.

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

As a Lessee. Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term or based on the term of the lease agreements, as applicable.

Retirement Cost

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

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Remeasurements of the net defined benefits obligation or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest), if any, are recognized immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined benefit obligation or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit obligation or asset, taking into account any changes in the net defined benefit obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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

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

Foreign Currency Transactions

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

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax losses - Net Operating Loss Carry Over (NOLCO) and minimum corporate income tax (MCIT), to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except:

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

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

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

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

- Where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

Basic/Diluted Earning Per Share (EPS)

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

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

The Group does not have potential common shares or other instruments that may entitle the holder to common shares. Therefore, diluted EPS is the same as basic EPS.

Related Parties

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

Contingencies

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

Events After the Reporting Date

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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Judgments

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

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

Operating Lease - As a Lessor and As a Lessee

The Group entered into various lease agreements as a lessee for retail outlets, office spaces and warehouses and as a lessor for some lottery equipment. As the lessee, the Group determined that the lessor retains all significant risks and rewards of ownership of the assets. As the lessor, the Group determined that it retains substantially all the risks and rewards of ownership of the equipment. Therefore, the leases are classified as operating lease (Notes 2 and 19).

Finance Lease - As a Lessee

The Group also entered into various lease agreements as a lessee for some lottery equipment. The Group determined that it bears substantially all the risks and rewards incidental to ownership of the equipment. Therefore, the leases are classified as finance lease.

The carrying amount of lottery equipment under finance lease amounted to P103.7 million and P139.4 million as at December 31, 2017 and 2016, respectively (Note 19).

Estimates and Assumptions

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

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

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Allowance for impairment losses on trade and other receivables amounted to nil and P10.8 million as at December 31, 2017 and 2016, respectively. Trade and other receivables, net of allowance for impairment losses amounted to P503.3 million and P492.2 million as at December 31, 2017 and 2016, respectively (Note 9).

Estimated Useful Lives of Property and Equipment. The useful life of each of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded operating expenses and decrease noncurrent assets.

The carrying amount of property and equipment as at December 31, 2017 and 2016 amounted to P438.0 million and P478.9 million, respectively (Note 12).

Impairment of Non-financial Assets (except Goodwill) and Deferred Tax Asset. PFRS requires that an impairment review be performed on property and equipment and when certain impairment indicators are present. Determining the net recoverable amount of property and equipment and requires the estimation of future cash flows expected to be generated from the continued use and ultimate disposition of such assets or fair value less costs to sell, whichever is higher. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and resulting in impairment loss.

Management assessed that there are no impairment indicators affecting the Group's property and equipment as at December 31, 2017 and 2016.

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and to choose a suitable discount rate to calculate the present value of those cash flows. The key assumptions used in the impairment test of goodwill are discussed in Note 13 to the consolidated financial statements.

As at December 31, 2017 and 2016, there is no impairment loss on goodwill. The carrying amount of goodwill amounted to P128.0 million and P124.3 million as at December 31, 2017 and 2016, respectively (Note 13).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition based on their respective fair values.

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangibles assets and property and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

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

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liability. The present value of defined benefit obligation amounted to P84.6 million and P74.0 million as at December 31, 2017 and 2016, respectively (Note 21).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management expects future operations will generate sufficient taxable income that will allow all or part of the deferred tax assets to be utilized.

Deferred tax assets amounted to P15.4 million and P14.9 million as at December 31, 2017 and 2016, respectively (Note 18).

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsels handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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The Management is not expecting any substantial impact from the on-going litigation between Philippine Gaming Management Corporation (PGMC) and PCSO. Pacific Online's lotto operations in Luzon has only been contributing about 6% of the Company's online lottery revenues for the year. Thus, on the assumption that the case will be resolved in favor of PGMC which will have the effect of cancelling the existing terminals currently operating in Luzon, Pacific Online will be experiencing a slight reduction in its total revenues. It should be noted, however, that the contractual arrangement with PCSO will expire by the end of July 2018.

On September 5, 2012, a Writ of Preliminary Injunction (Injunction) was issued by Branch 143 of the Regional Trial Court (RTC) of Makati. The Injunction orders PCSO to refrain from 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the Pacific Online and PCSO 2) ordering or allowing the Pacific Online, or any third party, to install or operate any equipment, computer or terminal relating to online lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. Pacific Online filed a case with the Supreme Court to nullify the Injunction. PCSO also filed a case with the Court of Appeals likewise questioning the Injunction. On July 17, 2013, the Supreme Court decided that the case brought by Pacific Online be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making the Pacific Online a party to the case before the Court of Appeals.

Meanwhile, PGMC and PCSO entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the terminals already installed in Luzon by Pacific Online are concerned. In the same Interim Settlement, PGMC and PCSO also agreed to submit to arbitration before the International Court of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO's opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations. This matter was not resolved by the Court of Appeals.

On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC of Makati, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to said agreement, PCSO withdrew its Petition for Certiorari in the Court of Appeals, which was granted by virtue of the Resolution dated March 1, 2016. PCSO also prayed for the dismissal of the RTC case, but this was denied by the RTC Makati after PGMC opposed PCSO's motion to dismiss.

In the meantime, the Court of Appeals required the parties to file their respective Memoranda in the case. On September 13, 2017, Pacific Online filed its Memorandum. PCSO opted not to file its own Memorandum, but manifested instead that it was adopting the Memorandum of Pacific Online.

The case is now submitted for the resolution of the Court of Appeals. As of December 31, 2017, the Management is still waiting for the resolution.

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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The Group has an established control framework with respect to the measurement of fair values. The Chief Finance Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, if any. The CFO regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the CFO assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The methods and assumptions used to estimate fair values for financial assets and liabilities are discussed in Note 23.

The fair value of financial assets amounted to P1.9 billion and P1.7 billion as at December 31, 2017 and 2016, respectively. The fair value of financial liabilities amounted to P550.4 million and P386.1 million as at December 31, 2017 and 2016, respectively (Note 23).

6. Segment Information

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

The Group is engaged in the businesses of leasing lottery equipment to PCSO (leasing activities) and sale of lottery tickets like lotto, keno, sweepstakes and swatch tickets (distribution and retail activities), among others. Revenues generated from the leasing activities account for 79%, 84% and 85% of the Group's revenues in 2017, 2016 and 2015, respectively.

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

<i>FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____</i>
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Information regarding the results of each reportable segment is shown below:

	2017			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,840,520,991	P -	P -	P1,840,520,991
Commission and distribution income	-	479,472,385	-	479,472,385
Total revenue	P1,840,520,991	P479,472,385	P -	P2,319,993,376
Segments Results				
Income before income tax	P813,332,641	P109,764,385	(P201,350,664)	P721,746,362
Income tax expense	182,532,651	46,347,723	747,091	229,627,465
Net income	P630,799,990	P63,416,662	(P202,097,755)	P492,118,897
Segment asset-	P2,648,931,231	P501,684,102	(P516,768,255)	P2,633,847,078
Deferred tax assets - net	8,871,062	5,892,215	676,408	15,439,685
Segments assets (excluding deferred tax assets - net)	P2,640,060,169	P495,791,887	(P517,444,663)	P2,618,407,393
Segment liabilities	P552,781,694	P166,332,310	(P105,341,798)	P613,772,206
Other Information				
Capital expenditures	P139,620,836	P17,153,859	P -	P156,774,695
Depreciation and amortization	201,055,902	24,388,376	-	225,444,278
Finance charges	10,859,855	-	-	10,859,855
Interest income	632,797	220,847	-	853,644
	2016			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,579,660,972	P -	P -	P1,579,660,972
Commission and distribution income	-	308,438,496	-	308,438,496
Total revenue	P1,579,660,972	P308,438,496	P -	P1,888,099,468
Segments Results				
Income before income tax	P480,890,446	P150,771,229	(P48,199,798)	P583,461,877
Income tax expense	151,241,420	31,851,557	-	183,092,977
Net income	P329,649,026	P118,919,672	(P48,199,798)	P400,368,900
Segment assets	P2,509,316,408	P339,479,126	(P421,595,309)	P2,427,200,225
Deferred tax assets - net	9,592,859	5,263,918	-	14,856,777
Segments assets (excluding deferred tax assets - net)	P2,499,723,549	P334,215,208	(P421,595,309)	2,412,343,448
Segment liabilities	P462,343,803	P68,211,929	(P63,986,411)	P466,569,321
Other Information				
Capital expenditures	P95,557,229	P16,382,944	P -	P111,940,173
Depreciation and amortization	156,189,679	14,978,948	-	171,168,627
Finance charges	12,739,865	8,640	-	12,748,505
Interest income	665,036	150,043	-	815,079

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Management Representation Letter. By: _____ date: _____

	2015			Consolidated
	Leasing Activities	Distribution and Retail Activities	Eliminations	
Revenue				
Equipment rental	P1,459,236,737	P -	P -	P1,459,236,737
Commission and distribution income	-	259,080,819	-	259,080,819
Total revenue	P1,459,236,737	P259,080,819	P -	P1,718,317,556
Segments Results				
Income before income tax	P452,320,425	P59,607,197	P -	P511,927,622
Income tax expense	145,506,931	21,355,424	-	166,862,355
Net income	P306,813,494	P38,251,773	P -	P345,065,267
Segment assets	P2,007,524,498	P646,852,751	(P443,291,878)	P2,211,085,371
Deferred tax assets - net	18,464,806	24,019,843	-	42,484,649
Segments assets (excluding deferred tax assets - net)	P1,989,059,692	P622,832,908	(P443,291,878)	P2,168,600,722
Segment liabilities	P452,018,195	P141,815,361	(P141,702,532)	P452,131,024
Other Information				
Capital expenditures	P297,890,514	P14,748,693	P -	P312,639,207
Depreciation and amortization	98,413,081	18,929,707	-	117,342,788
Finance charges	10,836,296	46,721	-	10,883,017
Interest income	866,186	401,926	-	1,268,112

7. Cash

The Group has cash on hand and in banks amounting to P447.1 million and P258.9 million as at December 31, 2017 and 2016, respectively (Note 23).

Cash in banks earn interest at the respective bank deposit rates. Interest income from cash in banks amounted to P0.9 million, P0.8 million and P1.3 million in 2017, 2016 and 2015, respectively.

8. Marketable Securities

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

The movements in marketable securities are as follows:

	Note	2017	2016
Balance at beginning of year		P165,990,214	P226,746,690
Acquisitions		17,034,130	5,683,853
Disposals		(6,746,030)	(29,303,324)
Mark-to-market gain (loss)		2,204,528	(37,137,005)
Balance at end of year	23	P178,482,842	P165,990,214

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

The Group's dividend income on these investments amounted to P5.7 million, P11.2 million and P4.5 million in 2017, 2016 and 2015, respectively.

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

9. Trade and Other Receivables

	<i>Note</i>	2017	2016
Trade	2	P492,662,488	P446,523,063
Advances:			
Customers		-	46,849,859
Officers and employees		3,269,065	6,374,244
Contractors and suppliers		4,299,449	2,570,555
Others		3,072,273	712,804
		503,303,275	503,030,525
Less allowance for impairment losses		-	10,806,450
		P503,303,275	P492,224,075

Trade receivables are generally on a 30-to-60-day credit terms. The risks associated on this account are disclosed in Note 23.

The advances are settled within a year. Advances to customers represent cash advances made to companies which are engaged in similar activities as the Group. Receivables from these companies represent noninterest-bearing and unsecured advances for working capital purposes that are due within one year.

Trade receivables consist of the amounts related to scratch-it tickets which are due and demandable.

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

	<i>Note</i>	2017	2016
Balance at beginning of year		P10,806,450	P12,712,536
Impairment losses recognized during the year	17	25,000,000	-
Write-offs during the year		(35,806,450)	(1,906,086)
Balance at end of year		P -	P10,806,450

10. Other Current Assets

	<i>Note</i>	2017	2016
Spare parts and supplies at cost	2	P59,296,701	P58,609,664
Prepayments		47,995,664	55,022,142
Input VAT		7,577,079	9,481,527
Deposits	23	-	7,244,028
		114,869,444	130,337,361

Prepayments represent prepaid expenses and prepaid taxes of the Group.

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11. Investments in Stocks

The movements in the investments in stocks are as follows:

	Note	2017	2016
Balance at beginning of year		P713,731,620	P479,621,030
Acquisitions during the year		68,203,070	25,303,585
Disposals during the year		(172,933,950)	-
Fair value gain during the year		118,997,550	208,807,005
Balance at end of year	23	P727,998,290	P713,731,620

The Group's dividend income on these investments amounted to P14.9 million, P10.9 million and P23.0 million in 2017, 2016 and 2015, respectively.

12. Property and Equipment

The movements in the account are as follows:

	Note	Lottery Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2016		P1,319,588,929	P73,187,593	P178,483,353	P71,092,993	P1,642,352,868
Acquisitions		58,428,195	5,709,256	26,721,151	21,081,571	111,940,173
Disposals		(239,685,863)	-	(20,981,819)	(12,168,661)	(272,836,343)
December 31, 2016		1,138,331,261	78,896,849	184,222,685	80,005,903	1,481,456,698
Acquisitions		116,251,464	3,009,913	22,961,600	14,551,718	156,774,695
Acquisition of Nine Entities	13	-	4,357,896	24,306,888	-	28,664,784
Disposals		(49,649,164)	(238,440)	(32,936,131)	(13,747,473)	(96,571,208)
December 31, 2017		1,204,933,561	86,026,218	198,555,042	80,810,148	1,570,324,969
Accumulated Depreciation and Amortization						
January 1, 2016		858,476,473	54,192,474	139,337,127	45,825,976	1,097,832,050
Depreciation and amortization	17	132,143,015	7,669,668	19,920,487	11,435,457	171,168,627
Disposals		(234,744,009)	-	(20,980,749)	(10,715,286)	(266,440,044)
December 31, 2016		755,875,479	61,862,142	138,276,865	46,546,147	1,002,560,633
Depreciation and amortization	17	174,495,675	11,264,336	26,750,051	12,934,216	225,444,278
Disposals		(49,649,164)	(238,440)	(32,917,872)	(12,851,594)	(95,657,070)
December 31, 2017		880,721,990	72,888,038	132,109,044	46,628,769	1,132,347,841
Carrying Amount						
December 31, 2016		P382,455,782	P17,034,707	P45,945,820	P33,459,756	P478,896,065
December 31, 2017		P324,211,571	P13,138,180	P66,445,998	P34,181,379	P437,977,128

Some lottery equipment with carrying amount of P103.7 million and P139.4 million as at December 31, 2017 and 2016, respectively were acquired under finance lease (Note 19).

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Management Representation Letter. By: _____ date: _____

13. Goodwill

Goodwill represents the fair value of expected synergies from the acquisition of the following:

	2017	2016
FRI	P110,933,996	P110,933,996
LCC	13,363,484	13,363,484
Nine Entities	3,682,782	-
	P127,980,262	P124,297,480

Acquisition of Nine Entities

On July 1, 2017, LCC acquired 100% of the shares of stocks of Nine Entities. The purchase price is allocated based on provisional fair values of identifiable assets and liabilities as follows:

Total consideration	P94,863,141
Assets:	
Cash	76,694,703
Receivables - net	7,113,848
Prepaid income tax and others	24,873,909
Property and equipment - net	28,664,784
Deferred tax assets	1,466,821
Rent deposits	21,409,299
Liabilities:	
Trade and other payables	(69,043,005)
Total identifiable net assets at fair value	91,180,359
Goodwill	P3,682,782

These Nine Entities are engaged in the trading and selling of goods such as sweepstakes tickets on wholesale and retail basis. The acquisition is in line with the Group's business strategy of expanding its retail network.

The initial accounting for the acquisition of these entities has only been provisionally determined pending the finalization of necessary market valuations and determined based on management's best estimate of the likely values. As allowed under the relevant standard, the Group will recognize any adjustment to those provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date.

The goodwill represents the fair value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of receivables acquired amounted to P7.1 million. The gross amount of receivables is P13.9 million of which P6.8 million is expected to be uncollectible as at the acquisition date (Note 9).

The Group's consolidated revenue would have increased by P134.0 million and its income before tax would have decreased by P10.2 million, for the year ended December 31, 2017 had this acquisition taken place on January 1, 2017. Total revenue and income before tax of acquired entities included in the 2017 consolidated statement of comprehensive income amounted to P142.2 million and P10.1 million, respectively.

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Management Representation Letter. By: _____ date: _____

Goodwill

Goodwill acquired through business combinations has been allocated to distribution and retail activities, a cash-generating unit (CGU), which is also the reportable operating segment, for impairment testing.

The Group performs impairment testing annually or more frequently when there are indicators of impairment for goodwill.

Goodwill from Acquisition of FRI

The recoverable amount of goodwill from the acquisition of FRI by TGTI was determined based on a 5-year value-in-use calculation using actual past results and observable market data such as growth rates, operating margins, among others. The Group reviewed the valuation performed as part of the impairment testing of goodwill from FRI acquisition as at December 31, 2017.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable weighted average cost of capital (WACC). The discount rate applied to pretax cash flow projections is 10.2% and the terminal growth rate is 3.0%.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of the goodwill and cash generating unit to which goodwill relates to materially exceed its recoverable amount.

Goodwill from Acquisition of LCC

The recoverable amount of goodwill from the acquisition of LCC by LotoPac was determined based on a 5-year value-in-use calculation, using actual past results and observable market data.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable WACC. The discount rate applied to pretax cash flow projections was 10.2% and the terminal growth rate is 3.0%.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of the goodwill and cash generating unit to which goodwill relates to materially exceed its recoverable amount.

14. Trade and Other Current Liabilities

	2017	2016
Trade payable	P264,802,362	P173,150,323
Dividends payable	86,734,617	-
Consultancy, software and license fees payable	55,742,294	51,712,222
Accrued expenses		
Rental and utilities	26,478,737	3,544,667
Professional fees	24,266,500	23,288,000
Management fees	2,085,402	7,508,663
Communications	786,743	729,644
Output tax	21,031,186	18,129,999
Others	11,021,317	7,645,592
	P492,949,158	P285,709,110

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Management Representation Letter. By: _____ date: _____

Trade payable consists of the amounts related to scratch-it tickets which are due and demandable.

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

a. Consultancy Agreements

The Group hired the services of several consultants for its gaming operations. Consultancy fees are based on a certain percentage of the sales of certain variants of PCSO lottery. Consultancy fees amounted to P65.6 million, P58.2 million and P68.5 million in 2017, 2016 and 2015, respectively (Note 17).

b. Scientific Games

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

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

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

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

Software and license fees amounted to P52.9 million, P49.3 million and P59.1 million in 2017, 2016 and 2015, respectively (Note 17).

c. Intralot

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

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

On July 10, 2006, Intralot entered into an agreement with Intralot Inc. (Intralot USA), a subsidiary domiciled in Atlanta, Georgia, USA, wherein Intralot Greece assigned to Intralot USA the whole of its contract with the Parent Company, including all its rights and obligations arising from it.

On August 16, 2012, the Parent Company and Intralot further amended the contract for the latter to supply reconditioned or refurbished lotto terminals to the former.

The Parent Company has the option to order from Intralot brand new lotto terminals at a higher price per unit. The Parent Company will pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's online lottery operations or US\$110.00 per terminal whichever is higher.

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

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

Software and license fees amounted to P80.7 million, P100.0 million and P89.0 million in 2017, 2016 and 2015, respectively (Note 17).

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

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

Software and license fees amounted to P58.1 million, P37.3 million and P24.6 million in 2017, 2016 and 2015, respectively (Note 17).

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d. Management Agreement

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

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

Management fees amounted to P69.9 million, P64.6 million and P56.1 million in 2017, 2016 and 2015, respectively (Note 17).

15. Equity

a. Capital Stock

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK				
Authorized:				
Common shares - P1 par value	500,000,000	P500,000,000	500,000,000	P500,000,000
Issued:				
Balance at beginning and end of year	447,665,473	447,665,473	447,665,473	447,665,473
Treasury shares :				
Balance at beginning of year	4,983,946	56,819,178	-	-
Purchases during the year	18,771,546	211,841,592	4,983,946	56,819,178
	23,755,492	268,660,770	4,983,946	56,819,178
Outstanding shares	423,909,981	P179,004,703	442,681,527	P390,846,295

Pursuant to the registration statement rendered effective by the SEC on March 27, 2007 and permit to sell issued by the SEC dated March 27, 2007 - 39,800,000 common shares of the Parent Company were registered and may be offered for sale at an offer price of P8.88 per common share. As at December 31, 2017 and 2016, the Parent Company has a total of 447,665,473 issued shares and 57 stockholders. As at December 31, 2017 and 2016, the Group has a total of 23,755,492 and 4,983,946 treasury shares, respectively.

In 2017, the BOD, upon recommendation of management, declared the following cash dividends:

2017				
Declaration	Record Date	Payment	Per Share	Amount
May 2, 2017	May 17, 2017	May 31, 2017	P0.30	P126,984,494
May 2, 2017	August 11, 2017	August 31, 2017	0.30	126,508,211
December 6, 2017	January 5, 2018	January 31, 2018	0.20	84,781,996
				P338,274,701

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

In 2016, the BOD, upon recommendation of management, declared the following dividends:

Cash Dividends

		2016		
Declaration	Record Date	Payment	Per Share	Amount
January 26, 2016	February 10, 2016	March 7, 2016	P0.60	P179,066,190
October 20, 2016	November 8, 2016	December 5, 2016	0.38	170,112,880
				P349,179,070

Stock Dividends

		2016		
Declaration	Record Date	Payment	Per Share	Amount
May 24, 2016	June 14, 2016	July 8, 2016	50% stock	P149,221,823

In 2015, the BOD, upon recommendation of management, declared the following cash dividends:

		2015		
Declaration	Record Date	Payment	Per Share	Amount
May 20, 2015	June 19, 2015	July 15, 2015	P0.30	P86,001,543
May 20, 2015	September 21, 2015	October 15, 2015	0.30	89,533,095
				P175,534,638

b. Treasury Shares

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

The movements in treasury shares are as follows:

	December 31, 2017		December 31, 2016	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of the year	4,983,946	P56,819,178	P -	P -
Acquisitions	18,771,546	211,841,592	4,983,946	56,819,178
Balance at end of the year	23,755,492	P268,660,770	4,983,946	P56,819,178

c. Retained Earnings

	2017		2016
Unappropriated	P994,292,424		P1,312,465,903
Appropriated:			
Parent Company	<i>a</i>	250,000,000	-
TGTI	<i>b</i>	200,000,000	-
LCC	<i>c</i>	30,000,000	10,000,000
		480,000,000	10,000,000
		P1,474,292,424	P1,322,465,903

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

- a. On December 6, 2017, the BOD, upon recommendation of management, approved the appropriation of P250,000,000 out of the Parent Company's unappropriated retained earnings as reserved funds for future project as follows:
- (i.) system upgrades that will need to be undertaken to ensure that the online lottery system will continue to be functional during the entire period between the expiration of the current Equipment Lease Agreement with the Philippine Charity Sweepstakes Office (PCSO) and the time when a new lottery system has been bidden out and is operational; and
- (ii.) expenditures should the Company successfully bid for the Nationwide Online Lottery System of PCSO.

The Management expects to complete these projects in 2018 and 2019.

- b. On October 24, 2017, the BOD of TGTI, upon recommendation of management, approved the appropriation of P100,000,000 out of TGTI's unappropriated retained earnings for future expansion programs.
- c. On December 5, 2017 and, the BOD of LCC, upon recommendation of management, approved the appropriation of P30,000,000 out of LCC's unappropriated retained earnings for future business expansion.

16. Related Party Transactions

Category/ Transaction	Year	Note	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Advances to Related Parties	Advances from Related Parties		
TGTI							
▪ Advances	2017	a	P -	P7,659,982	P -	On demand, noninterest bearing	Unsecured
	2016	a	-	21,564,363	-	On demand, noninterest bearing	Unsecured
▪ Dividend Income Received	2017	b	192,826,383	-	-	On demand, noninterest bearing	Unsecured
▪ Dividend Income Paid	2017	c	6,711,147	-	-	On demand, noninterest bearing	Unsecured
▪ Other Income	2017	a	40,309,113	-	-	On demand, noninterest bearing	Unsecured
	2016	a	37,787,315	-	-	On demand, noninterest bearing	Unsecured
LCC							
▪ Advances	2017	d	-	-	-	On demand, noninterest bearing	Unsecured
	2016	d	-	1,122,007	-	On demand, noninterest bearing	Unsecured
Key Management Personnel							
▪ Short-term employee benefits	2017		20,244,231	-	-		
	2016		15,473,054	-	-		
FRI							
▪ Advances	2017	a	-	-	10,000,000	On demand, noninterest bearing	Unsecured
	2016	a	-	-	10,000,000	On demand, noninterest bearing	Unsecured
LOTO PAC							
▪ Advances	2017	a	-	-	730,033	On demand, noninterest bearing	Unsecured
	2016	a	-	-	-		
LCC & NINE ENTITIES							
▪ Advances	2017	d	-	-	33,593,423	On demand, noninterest bearing	Unsecured
	2016	d	-	-	-		
▪ Rental expense	2017	e	46,124,064	-	-		
	2016	e	21,814,222	-	-		
▪ Security deposits	2017		21,536,587	-	-		
	2016		5,599,652	-	-		
TOTAL	2017		P321,040,378	P7,659,982	P44,323,456		
TOTAL	2016		P87,385,390	P22,686,370	P10,000,000		

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Management Representation Letter. By: _____ date: _____

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

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

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

The Parent Company granted non-interest bearing cash advances to LotoPac, LCC and FRI for working capital requirements. The P10.0 million advances to FRI will be converted to equity in 2018.

- b. The Parent Company receives cash dividends from TGTI.
- c. TGTI purchased traded shares of the Parent Company through its stock brokers, thus, TGTI receives dividends for these shares. The cost of shares purchased by TGTI is included in the "Treasury Shares" account in the consolidated statements of financial position.
- d. The Parent Company, LCC and TGTI granted non-interest bearing cash advances to its subsidiaries for working capital requirements.
- e. LCC and Nine Entities have existing agreements with related parties under common ownership by SM Investment Corporation for the leased space of its outlets which are renewable every six months to one year at its option.

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

The total receivables and payables eliminated amounted to P71.9 million and P61.8 million, respectively.

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

	2017	2016	2015
	<i>(In Millions)</i>		
Short-term employee benefits	P20.24	P15.47	P18.45
Post-retirement benefits	2.60	1.98	13.03
	P22.84	P17.45	P31.48

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

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17. Costs and Expenses

	<i>Note</i>	2017	2016	2015
Personnel costs		P262,964,539	P211,112,424	P205,281,461
Depreciation and amortization	12, 13	225,444,278	171,168,627	117,342,788
Operating supplies	2	217,083,894	191,362,602	170,475,962
Software and license fees	14, 19	191,656,399	186,644,134	172,672,284
Rent and utilities	19	164,356,377	70,436,801	66,537,051
Communications		121,106,618	112,691,702	106,915,483
Advertising and promotion		71,317,276	13,290,372	15,427,971
Management fees	14	69,853,146	64,624,728	56,076,496
Travel and accommodation		68,941,903	69,957,735	78,187,834
Consultancy fees	14	65,571,479	58,176,673	68,456,595
Repairs and maintenance		55,210,127	52,358,157	47,259,275
Taxes and licenses		39,334,232	28,333,909	36,215,465
Provision for probable losses	9	25,000,000	-	8,637,067
Entertainment, amusement and representation		15,483,481	18,091,353	21,462,054
Professional fees		13,567,826	17,345,722	15,900,593
Others		45,510,885	24,955,920	25,947,699
		P1,652,402,460	P1,290,550,859	P1,212,796,078

Personnel costs are as follows:

	<i>Note</i>	2017	2016	2015
Salaries and wages		P214,117,350	P182,983,140	P181,728,880
Other short-term employee benefits		37,665,329	19,773,104	12,919,492
Post-employment benefits	21	11,181,860	8,356,180	10,633,089
		P262,964,539	P211,112,424	P205,281,461

18. Income Tax

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

	2017	2016	2015
Income before income tax	P721,746,362	P583,461,877	P511,927,622
Income tax expense at statutory income tax rate (30%)	P216,523,909	P175,035,563	P153,578,287
Additions to (reductions in) income tax:			
Mark-to-market loss (gain) on marketable securities	(147,361)	11,141,102	13,039,137
Nontaxable income	(6,087,628)	(6,925,534)	(6,974,025)
Nondeductible expenses	15,653,680	1,725,224	9,791,357
Income subjected to final tax	(215,749)	(227,209)	(344,517)
Gain on sale of marketable securities	-	-	(2,231,599)
Others	3,153,523	2,343,831	3,715
	P228,880,374	P183,092,977	P166,862,355

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The components of the Group's deferred tax recognized in comprehensive income are as follows:

	2017	2016	2015
Amount charged (credited) to profit or loss	(P1,160,984)	P28,271,202	(P3,841,884)
Amount charged (credited) to other comprehensive income	578,076	(643,330)	2,531,201
	P582,908	P27,627,872	(P1,310,683)

The components of deferred tax assets are as follows:

As at December 31, 2017

	Beginning	Movement	Ending
Items Recognized in Profit or Loss			
Accrued expenses	P2,387,472	P401,031	P2,788,503
Unamortized past service cost	8,897,303	(434,557)	8,462,746
Allowance for impairment losses on trade and other receivables	3,241,935	803,622	4,045,557
Retirement benefits asset	(5,706,011)	(815,266)	(6,521,277)
Unrealized foreign exchange losses	427,037	49,883	476,920
NOLCO	-	1,466,822	1,466,822
Prepayments	-	(310,551)	(310,551)
	9,247,736	1,160,984	10,408,720
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	5,609,041	(578,076)	5,030,965
	P14,856,777	P582,908	P15,439,685

As at December 31, 2016

	Beginning	Movement	Ending
Items Recognized in Profit or Loss			
Accrued expenses	P31,442,061	(P29,054,589)	P2,387,472
Unamortized past service cost	5,331,586	3,565,717	8,897,303
Allowance for impairment losses on trade and other receivables	3,241,935	-	3,241,935
Retirement benefits asset	(2,753,087)	(2,952,924)	(5,706,011)
Unrealized foreign exchange losses	256,443	170,594	427,037
	37,518,938	(28,271,202)	9,247,736
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	4,965,711	643,330	5,609,041
	P42,484,649	(P27,627,872)	P14,856,777

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Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of that date.

The TRAIN Law, which took effect on January 1, 2018, represents Package 1 of the comprehensive tax reform program of the current administration that aims to correct gaps in the present tax system, allowing it to be more effective and equitable. Below are the salient points of the TRAIN Law:

- a. Reduction in personal income taxes
- b. Changes in capital income taxes
 - Final withholding tax on interest from foreign-currency deposits increased to 15% (from 7.5%)
 - Capital gains tax on unlisted/untraded shares increased to 15% (from 5%/10%)
 - Stock transaction tax on listed/traded shares increased to 6/10 of 1% (from ½ of 1%)
- c. Amendments to other taxes
 - c.1 Value-added tax (VAT)
 - Certain VAT zero-rated transactions to become subject to 12% VAT upon implementation of VAT refund system
 - VAT exemption threshold for sale of goods and services increased to Php3M (from Php1.9M)
 - Included in VAT-exempt transactions, among others: Transfers of properties pursuant to a tax-free merger; Association dues, membership fees, and other assessments and charges collected by homeowners associations and condominium corporations
 - c.2 Increased documentary stamp taxes (DST) rates by 50% to 100%
 - c.3 Excise taxes
 - Revised excise taxes on cigars and cigarettes, manufactured oils and other fuels, petroleum products, automobiles, and minerals
 - Expanded scope of excise tax to include non-essential services and sweetened beverages

Although most of the changes will affect individuals, the TRAIN Law also introduced changes to income tax, VAT and excise taxes that may have an impact on the financial statements starting with the year ending December 31, 2018.

19. Lease Commitments

a. Finance Lease

Lottery Equipment. The contracts for the supply of online lottery system with Scientific Games and Intralot contain leases which are classified as finance lease. These are included as part of Lottery equipment under “Property and equipment” in the consolidated statements of financial position. The details as at December 31 are as follows:

	2017	2016
Lottery equipment under finance lease	P587,136,528	P589,890,993
Less accumulated depreciation	483,477,209	450,471,361
	P103,659,319	P139,419,632

The additions amounted to P35.7 million in 2017 and P62.4 million in 2016. The disposals amounted to P38.4 million and P166.2 million in 2017 and 2016.

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Future minimum lease payments under these finance leases together with the present value of the minimum lease payments as at December 31 are as follows:

	2017	2016
Within one year	P45,340,826	P58,312,747
After one year but not more than five years	38,944,375	80,957,984
Total future minimum lease payments	84,285,201	139,270,731
Less amount representing interest	9,422,217	19,928,135
Present value of lease payments	74,862,984	119,342,596
Less current portion of obligations under finance lease	39,488,510	47,698,388
Noncurrent portion of obligations under finance lease	P35,374,474	P71,644,208

The contracts of the Parent Company are until July 31, 2018 while the contract of TGTI with Intralot is until September 30, 2020, which are the expiration dates of the respective ELAs with PCSO. Payments are based on a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of lottery operations under the respective systems of Scientific Games and Intralot. These payments include the non-lease elements which are presented as "Software and license fees" under "Cost and expenses" in the consolidated statements of income (Notes 14 and 17).

b. Operating Lease

As Lessor

The Parent Company leases to PCSO online lotto equipment and accessories for a period of 2 years and 7 months until July 31, 2018 as provided in the 2015 Amended ELA. The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales of lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher (Note 2).

TGTI leases to PCSO online keno equipment and accessories for a period of 10 years from the time the ELA will run in commercial operations. Rental payment is based on certain percentage of gross amount of online keno games from the operation of all PCSO's terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher (Note 2).

Rental income amounted to P1,840.5 million in 2017, P1,579.7 million in 2016 and P1,459.2 million in 2015. Future minimum rental income for the remaining lease term are as follows:

	2017	2016
Within one year	P182,252,083	P226,295,000
After one year but not more than five years	141,400,000	307,072,083
	P323,652,083	P533,367,083

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As Lessee

- a. The Parent Company leases some office spaces for periods of one to three years up to 2019. The lease agreements provide for minimum rental commitments with annual rental escalation rate of 5% to 10%.
- b. LotoPac, LCC, Nine Entities and FRI lease some retail outlets and office spaces that are renewed annually at the option of both companies.
- c. TGTI leases office space for a period of five years with annual escalation rate of 5% to 10% and warehouses for a period of four to seven years with annual escalation rate of 8% effective on the third year.

The above operating leases have no restrictions and contingent rentals.

Rent expense amounted to P87.1 million in 2017, P52.6 million in 2016 and P47.3 million in 2015. Future minimum rental expense for the remaining lease terms are as follows:

	2017	2016
Within one year	P87,509,954	P14,263,568
After one year but not more than five years	42,407,810	10,751,584
	P129,917,764	P25,015,152

20. Other Income

“Others” under Other income consist of:

	2017	2016	2015
Excess input VAT	P28,754,377	P10,083,976	P23,630,566
Service income	11,835,830	-	-
Others	2,471,165	4,414,964	2,170,620
	P43,061,372	P14,498,940	P25,801,186

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

- a. The government or any of its political subdivisions, instrumentalities or agencies, including government-owned or controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or of services taxed at 12% VAT pursuant to Sections 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5% of the gross payment thereof; and
- b. The 5% final VAT withholding rate represents the net VAT payable of the seller. The remaining 7% effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs, in lieu of the actual input VAT. Should actual input VAT exceed 7% of gross payments, the excess may form part of the seller's expense or cost. On the other hand, if actual input VAT is less than 7% of gross payment, the difference must be closed to income.

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

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

21. Retirement Plan

The Parent Company, TGTI and LCC have funded, noncontributory defined benefit plans covering substantially all of its regular employees. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2017. Valuations are obtained on a periodic basis.

The Retirement Plans (Plan) of LCC and TGTI provide a retirement benefit equal to 22.5 days pay for every year of credited service, while the Plan of the Parent Company provides a retirement benefit equal to one-half month salary for every year of credited service.

The Plans meet the minimum retirement benefit specified under Republic Act 7641.

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

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	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Defined Benefits Liability		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Balance at beginning of year	P73,976,755	P60,193,176	P68,885,614	P74,299,987	P55,459,736	P51,147,047	(P323,232)	P4,733,440	P17,738,567
Acquisition of Nine Entities	716,002	-	-	-	-	-	716,002	-	-
Recognized in Profit or Loss									
Current service cost	11,438,381	8,379,592	10,777,150	-	-	-	11,438,381	8,379,592	10,777,150
Interest expense	3,980,142	2,943,446	3,147,222	-	-	-	3,980,142	2,943,446	3,147,222
Interest income	-	-	-	4,309,150	3,104,998	2,487,919	(4,309,150)	(3,104,998)	(2,487,919)
Interest on effect of asset ceiling	-	-	-	(72,487)	(138,140)	(27,878)	72,487	138,140	27,878
	15,418,523	11,323,038	13,924,372	4,236,663	2,966,858	2,460,041	11,181,860	8,356,180	11,464,331
Remeasurements Recognized in Other Comprehensive Income									
Actuarial (gains) losses arising from:									
Experience adjustments	(2,770,889)	6,218,556	(10,288,238)	-	-	-	(2,770,889)	6,218,556	(10,288,238)
Changes in financial assumptions	(2,655,817)	(5,296,547)	(3,284,933)	-	(250,996)	-	(2,655,817)	(5,045,551)	(3,284,933)
Changes in demographic assumptions	(102,310)	1,671,405	(265,776)	-	-	-	(102,310)	1,671,405	(265,776)
Return on plan asset excluding interest	-	-	-	(3,170,012)	(762,347)	(2,177,137)	3,170,012	762,347	2,177,137
Effect of asset ceiling	-	-	-	(432,084)	1,462,325	(2,192,352)	432,084	(1,462,325)	2,192,352
	(5,529,016)	2,593,414	(13,838,947)	(3,602,096)	448,982	(4,369,489)	(1,926,920)	2,144,432	(9,469,458)
Others									
Benefits paid	-	(132,873)	(8,777,863)	-	(132,873)	(8,777,863)	-	-	-
Contributions paid	-	-	-	11,004,983	15,557,284	15,000,000	(11,004,983)	(15,557,284)	(15,000,000)
	-	(132,873)	(8,777,863)	11,004,983	15,424,411	6,222,137	(11,004,983)	(15,557,284)	(15,000,000)
Balance at end of year	P84,582,264	P73,976,755	P60,193,176	P85,939,537	P74,299,987	P55,459,736	(P1,357,273)	(P323,232)	P4,733,440

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Management Representation Letter. By: _____ date: _____

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

	2017	2016
Balance at beginning of period	P1,500,768	P2,824,953
Remeasurement gain on the change in the effect of asset ceiling	432,084	(1,462,325)
Interest expense on effect of asset ceiling	72,487	138,140
Balance at end of period	P2,005,339	P1,500,768

The fair value of plan assets consist of the following:

	2017	2016
Cash and cash equivalents	P8,184,393	P14,981,586
Debt instruments - government bonds	36,250,630	35,867,915
Unit investment trust funds	2,813,184	18,945,018
Debt instruments - other bonds	33,469,715	1,770,524
Others	5,221,615	2,734,944
	P85,939,537	P74,299,987

All debt instruments and unit investment trust funds have quoted prices in active markets.

The Parent Company and TGTI expect to contribute P10.0 million benefit plan in 2017.

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

	2017		
	Parent Company	LCC	TGTI
Discount rate	5.60%	5.70%	5.70%
Future salary increase	8.00%	5.00%	10.00%

	2016		
	Parent Company	LCC	TGTI
Discount rate	5.58%	4.83%	5.38%
Future salary increase	8.00%	5.00%	10.00%

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

As at December 31, 2017, the weighted average duration of the retirement liability of the Group is 16.1 years to 24.6 years.

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Maturity analysis of total benefit payments of the Group:

Period	Expected Benefit Payments			
	Parent Company	LCC	TGTI	Total
2018	P4,912,624	P2,716,486	P5,885,471	P13,514,581
2019	4,928,126	332,780	2,162,038	7,422,944
2020	4,492,699	25,310	-	4,518,009
2021	-	39,993	286,454	326,447
2022	1,156,019	48,271	-	1,204,290
2023-2027	23,669,047	4,958,239	-	28,627,286

As at December 31, 2017, the reasonable possible changes to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below:

	1 Percent Increase	1 Percent Decrease
Discount rate	(P10,564,223)	P13,160,752
Future salary increase rate	11,861,140	(9,791,561)

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

Asset-liability Matching (ALM)

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

22. Earnings Per Share

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

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	P490,101,221	P397,992,034	P343,170,821
Weighted average number of shares outstanding during the year:			
Outstanding capital stock at beginning of year	442,681,527	298,443,650	288,156,910
Effect of stock dividends	-	71,953,537	-
Effect of purchase of treasury shares	(15,256,425)	(1,363,774)	(1,255,225)
Effect of sale of treasury shares	-	-	5,885,920
For basic and diluted EPS	427,425,102	369,033,413	292,787,605
Basic and Diluted EPS	P1.1466	P1.0785	P1.1721

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

Diluted EPS is calculated in the same manner as basic EPS in as much as there are no dilutive instruments issued in 2017, 2016 and 2015.

23. 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 and installment payable. The main purpose of these financial instruments is to provide financing for the Group's capital expenditures and operations. The Group has various other financial assets and liabilities such as trade and other receivables (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 December 31, 2017 and 2016 without taking into account any collateral and other credit enhancements:

	Note	2017	2016
Cash in banks	7	P441,177,172	P251,664,806
Trade and other receivables - net*	9	499,003,826	489,653,520
Marketable securities	8	178,482,842	165,990,214
Deposits **	10	27,954,758	7,224,028
Investments in stocks	11	727,998,290	713,731,620
Guarantee bonds**		35,000,000	35,000,000
Total credit risk exposure		P1,909,616,888	P1,663,264,188

* Excluding Advances to contractors and suppliers

** Included as part of "Other noncurrent assets and other current assets" in the consolidated statements of financial position

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Management Representation Letter. By: _____ date: _____

The table below shows the aging analysis of receivables as at December 31, 2017 and 2016:

	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

	2016		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P446,523,063	P -	P446,523,063
Advances:			
Customers	38,436,609	8,413,250	46,849,859
Officers and employees	3,981,044	2,393,200	6,374,244
Contractors and suppliers	2,570,555	-	2,570,555
Other receivables	712,804	-	712,804
Deposits	7,224,028	-	7,224,028
Guarantee bonds	35,000,000	-	35,000,000
	P534,448,103	P10,806,450	P545,254,553

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:

	2017			Total
	Grade A	Grade B	Grade C	
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

FS as approved by Those Charged with Governance together with Management Representation Letter. By: _____ date: _____

	2016			
	Grade A	Grade B	Grade C	Total
Cash in banks	P251,664,806	P -	P -	P251,664,806
Trade and other receivables*	164,204,498	324,736,218	712,804	489,653,520
Marketable securities	165,990,214	-	-	165,990,214
Deposits	-	7,224,028	-	7,224,028
Investments in stocks	713,731,620	-	-	713,731,620
Guarantee bonds	35,000,000	-	-	35,000,000
	P1,330,591,138	P331,960,246	P712,804	P1,663,264,188

*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

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

2016	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P8,299,511
(5%)	(8,299,511)

Investments in Stocks

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

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Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	P35,686,581
(5%)	(35,686,581)

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:

	2017				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
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

	2016				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
Trade and other current liabilities*	P263,158,120	P -	P -	P3,561,727	P266,719,847
Obligations under finance lease**	9,193,788	11,924,597	26,580,003	71,644,208	119,342,596
	P272,351,908	P11,924,597	P26,580,003	P75,205,935	P386,062,443

* Excluding statutory liabilities amounting to P19.0 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 December 31, 2017 and 2016, assets and liabilities denominated in US\$ include cash in banks amounting to P34.9 million (US\$0.7 million) and P30.7 million (US\$0.6 million), and consultancy and software and license fees payable amounting to P55.7 million (US\$1.0 million) and P51.7 million (US\$1.0 million), respectively.

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In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P49.92 and P49.77 to US\$1, the Php to US\$ exchange rates, as at December 31, 2017 and 2016, 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
2017		
5%	(P754,779)	(P528,345)
(5%)	754,779	528,345
2016		
5%	(920,229)	(644,160)
(5%)	920,229	644,160

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

Capital Management

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

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

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

The Group's current ratio, calculated as total current assets over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at December 31, 2017 and 2016 are as follows:

Current Ratio

	2017	2016
Current assets	P1,243,786,537	P1,047,496,436
Current liabilities	575,634,737	394,925,113
Current ratio	2.16:1.00	2.65:1.00

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Debt-to-Equity Ratio

	2017	2016
Total liabilities	P613,772,206	P466,569,321
Total equity	2,020,074,872	1,960,630,904
Debt-to-equity ratio	0.30:1.00	0.24:1.00

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at December 31, 2017 and 2016:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash	P447,130,976	P447,130,976	P258,944,786	P258,944,786
Trade and other receivables - net	503,303,275	503,303,275	492,224,075	492,224,075
Marketable securities	178,482,842	178,482,842	165,990,214	165,990,214
Investments in stocks	727,998,290	727,998,290	713,731,620	713,731,620
Deposits	27,954,758	27,954,758	7,224,028	7,224,028
Guarantee bonds	35,000,000	35,000,000	35,000,000	35,000,000
	P1,919,870,141	P1,919,870,141	P1,673,114,723	P1,673,114,723
Financial Liabilities				
Trade and other current liabilities*	P470,127,187	P470,127,187	P266,719,847	P266,719,847
Obligations under finance lease (inclusive of current portion)	74,862,983	74,862,983	119,342,596	119,342,596
Installment payable (inclusive of current portion)	5,443,823	5,443,823	-	-
	P550,433,993	P550,433,993	P386,062,443	P386,062,443

* Excluding statutory liabilities amounting to P22.8 million and P19.0 in 2017 and 2016, 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				
2017	P178,482,842	P -	P -	P178,482,842
2016	165,990,214	-	-	165,990,214
Investments in Stocks				
2017	727,998,290	-	-	727,998,290
2016	713,731,620	-	-	713,731,620

There were no transfers between Levels in 2017 and 2016.

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COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	3	0	0	8	8	0	9
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COMPANY NAME

P	A	C	I	F	I	C		O	N	L	I	N	E		S	Y	S	T	E	M	S							
C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S	

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

2	8	t	h		F	l	o	o	r	,		E	a	s	t		T	o	w	e	r							
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O	r	t	i	g	a	s		C	e	n	t	e	r	,		P	a	s	i	g		C	i	t	y			

Form Type A A F S	Department requiring the report <input style="width: 100%;" type="text"/>	Secondary License Type, If Applicable <input style="width: 100%;" type="text"/>
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COMPANY INFORMATION

Company's email Address <input style="width: 100%;" type="text"/>	Company's Telephone Number/s <input style="width: 100%;" type="text"/>	Mobile Number <input style="width: 100%;" type="text"/>
No. of Stockholders 57	Annual Meeting (Month / Day) <input style="width: 100%;" type="text"/>	Fiscal Year (Month / Day) December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person Ma. Virginia V. Abo-Hamda	Email Address <input style="width: 100%;" type="text"/>	Telephone Number/s 584-1700	Mobile Number <input style="width: 100%;" type="text"/>
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CONTACT PERSON'S ADDRESS

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

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

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