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SECURITIES AND EXCHANGE COMMISSION

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Company Type Stock Corporation

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AS093-008809

SEC Registration Number

PACIFIC ONLINE SYSTEMS
CORPORATION AND SUBSIDIARIES

(Company's Full Name)

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

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

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

584-1700
(Company Telephone Number)

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56
Total No. of Stockholders

Total Amount of Borrowings
P75.6 million Domestic Foreign

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2016**

2. SEC Identification Number: **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**

4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**

5. **Metro Manila, Philippines** 6. _____ (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code
Incorporation or organization

7. **28/F, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City** **1605**
Address of principal office **Postal Code**

8. **632/636-5281**
Registrant's telephone number, including area code

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

10. Securities registered pursuant to Sections 4 and 8 of the RSA	
Title of Each Class	Number of Shares of Common Stock
Common Stock, ₱1.00 par value	Outstanding and Amount of Debt Outstanding
	447,665,473

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

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes No

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- a.) Unaudited Consolidated Statements of Income for the nine months ended September 30, 2016 and September 30, 2015;
- b.) Unaudited Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2016 and September 30, 2015;
- c.) Unaudited Consolidated Statements of Financial Position as of September 30, 2016 and Audited Statements of Financial Position as of December 31, 2015;
- d.) Unaudited Consolidated Statements of Changes in Equity for the nine months ended September 30, 2016 and September 30, 2015; and
- e.) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015.

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

Comparable Discussion on Material Changes in Results of Operations for the Nine Month-Period Ended September 30, 2016 vs. September 30, 2015

Revenues

Pacific Online Systems Corporation (the "Company") generated total revenues from operating sources for the nine months ended September 30, 2016, of about P1.39 billion, representing an increase of P115.3 million, or 9.1%, over total revenues of P1.27 billion during the same period in 2015. The increase was mainly due to higher Keno and instant ticket sales.

Costs and Expenses

The Company's total operating expenses, including depreciation and amortization, for the nine months ended September 30, 2016, amounting to P942.2 million, increased by P30.4 million or 3.3% over last year's P911.8 million for the same period. The increase is attributed to the following:

- Operating supplies increased by P6.8 million (6%), which consisted mostly of higher Keno consumables, resulting from higher Keno lottery sales;
- Depreciation and amortization charges increased by P39.2 million (46%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2015;
- Rent and utilities increased by P4.9 million (10%) due to additional facilities leased for Keno operations and rental rate escalation of existing leased premises;
- Management fees increased by P5.5 million (13%) due to the increase in earnings before tax of Keno operations.
- Taxes and licenses increased by P1.6 million (7%) due to higher business taxes paid;
- Advertising and promotion increased by P5.6 million (47%) due to more aggressive spending on marketing activities for Keno;

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

- Consultancy fees decreased by P11.9 million (22%) due to termination of one consultancy agreement;

- Entertainment, amusement and recreation expense decreased by P1.1 million (8%) due to reduced spending in business representation in 2016;

- Professional fees decreased by P4.6 million (30%) due to lower fees paid during the period;

- Impairment losses on receivables decreased by P2.4 million (49%) due to lower provision for some past-due accounts of customers.

- Other expenses decreased by P7.0 million (45%) mainly due to lower miscellaneous incidental business expenses.

Other Income (Charges)

Other income (net of other charges) increased to P21.7 million for the nine months period ended September 30, 2016 from net other income of P10.8 million in the same period in 2015, largely due to lower unrealized mark-to-market loss on marketable securities of (P11.6) million in 2016 as against the unrealized mark-to-market loss on marketable securities of (P39.4) million in 2015.

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

As a result of the above developments, the Company realized an operating income of P443.9 million for the nine months ended September 30, 2016, an increase of P84.9 million or 24 % from P359.0 million during the same period last year. Together with a higher other income, the Company's net income rose to P325.8 million for the nine months ended September 30, 2016, an increase of P70.5 million, or 28% ,from last year's P255.3 million net income.

Total comprehensive income of P463.0 million for the period ending September 30, 2016, grew by P508.1 million from last year's (P45.1) million total comprehensive loss, due to the change in the fair value gain on investment in stocks of P137.2 million for the period ending September 30, 2016 compared with a fair value loss of (P300.4) million for the same period in 2015.

Comparable Discussion on Material Changes in Financial Condition – September 30, 2016 vs. December 31, 2015

The Company's total assets of P2.40 billion as of September 30, 2016 grew by P192.0 million or 9% from P2.21 billion as of December 31, 2015. Increases in assets are attributable to the following:

- Cash and cash equivalents increased by P78.9 million (30%) due to higher operating income net of cash dividends paid during the first quarter;

- Trade and other receivables increased by P63.8 million (18%) due to higher sales of instant tickets in its distribution operations;

- Other current assets increased by P51.7 million (44%) due to higher inventories of instant tickets and lottery consumables of its distribution and keno operations;

- Investments in stocks increased by P162.5 million (34%) due to additional purchases of stocks and the fair value gain amounting to P137.2 million.

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

- Marketable securities decreased by P35.4 million (16%) due to sale of some marketable securities offset by the unrealized mark-to-market loss amounting to P11.6 million;

- Property and equipment decreased by P122.3 million (23%) due to higher depreciation expense for the period.

As of September 30, 2016, total liabilities at P415.6 million decreased by P36.6 million, or 8% from P452.1 million as of December 31, 2015. Decreases in liabilities are attributable to the following:

- Trade and other current liabilities decreased by P21.3 million (8%) due to payment of maturing payables;

- Obligations under capital lease decreased by P43.1 million (36%) due to amortization for the period and restatement of obligations under capital lease;

- Withholding taxes payable increased by P2.5 million (21%) due to higher operating expenses from which taxes were withheld.

These decreases in liabilities were offset by the following increases:

- Income tax payable increased by P25.1 million (68%) due to higher net taxable income for the period;

- Retirement benefits liability increased by P5.2 million (110%) due to required accrual of retirement expense for the period.

Total equity as of September 30, 2016 of P1.987 billion was higher by P228.5 million as compared to the yearend 2015 level of P1.758 billion. This is mainly due to the total comprehensive income of P463.0 million reduced by the payment of cash and stock dividends of P328.3 million.

Comparable Discussion on Material Changes in Cash Flows for the Nine Months Ended September 30, 2016 vs. September 30, 2015

The Company's cash and cash equivalents as of September 30, 2016 of P341.8 million was higher by P101.3 million, compared to P240.5 million as of September 30, 2015 mainly due to cashflows from operating and investing activities in 2016.

Discussion and Analysis of Material Events and Uncertainties Known to Management

As of September 30, 2016, except for what has been noted in the preceding part, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

1. Known trends, demands, commitments, events or uncertainties that would have a material impact on the Company;
2. Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;
3. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
4. Significant elements of income or loss that did not arise from the Company's continuing operations;
5. Seasonal aspects that had a material impact on the Company's results of operations;
6. Material changes in the financial statements of the Company for the periods ended December 31, 2015 to September 30, 2016, except those mentioned above;
7. Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

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

	The manner by which the Company calculates the performance indicators	30 Sept. 2016	31 December 2015
Current ratio	Current assets over current liabilities	3.38 : 1.00	2.74 : 1.00
Debt to equity ratio	Total liabilities over total equity	0.21 : 1.00	0.26 : 1.00
Asset-to-equity ratio	Total assets over total equity	1.21 : 1.00	1.26 : 1.00

	The manner by which the Company calculates the performance indicators	30 Sept. 2016	30 Sept. 2015
Return on equity	Net income over total equity	16.39%	14.51%
Return on assets	Net income over total assets	13.56%	11.54%
Interest coverage ratio	Income before interest & tax over interest expense	135.77 : 1.00	141.55 : 1.00
Solvency ratio	Net income plus depreciation over total liabilities	1.08 : 1.00	0.75 : 1.00

PART II - OTHER INFORMATION

Financial Risk Management Objectives and Policies

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

Credit Risk

The Company's trade receivable arises from its equipment lease agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO), its sole customer. Since the Company has significant concentration of credit risk on its receivable with PCSO, it is the Company's policy that all terms specified in the ELA with PCSO are complied with and ensure payment terms are met. With respect to other receivables, the Company manages credit risk by transacting only with recognized, credit worthy third parties. It is the Company's policy that the BOD approves major transactions with third parties. Receivable balances are monitored on an ongoing basis with the objective that the Company's exposure to bad debts does not become significant.

With respect to credit risk arising from the other financial assets, which are composed of cash and cash equivalents, trade and other receivables except advances to contractors and employees, marketable securities, investments in stocks, refundable deposits and guarantee bonds, the Company'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 Company's financial assets as at September 30, 2016 and December 31, 2015 without taking into account any collateral and other credit enhancements:

	Sep. 30, 2016	Dec. 31, 2015
Cash and cash equivalents*	P 337,079,063	P254,908,666
Trade and other receivables - net**	420,664,681	351,607,464
Marketable securities	191,315,199	226,746,690
Deposits	8,551,901	8,330,610
Investments in stocks	642,153,120	479,621,030
Guarantee bonds***	35,000,000	45,000,000
Total credit risk exposure	P 1,634,763,964	P1,366,214,460

*excludes Cash on hand

**excludes Advances to contractors and suppliers

***included as part of "Other noncurrent assets" in the consolidated statements of financial position

The table below shows the aging analysis of receivables as at September 30, 2016 and December 31, 2015:

	September 30, 2016		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P 363,957,317	P 4,442,437	P 368,399,754
Advances to:			
Customers	P 49,511,666	8,413,250	57,924,916
Officers and employees	P 5,527,539	2,393,200	7,920,739
Contractors and suppliers	5,500,135		5,500,135
Other receivables	1,668,158		1,668,158
Deposits	8,551,901		8,551,901
Guarantee bonds	35,000,000		35,000,000
	P 469,716,716	P 15,248,887	P 484,965,603

	December 31, 2015		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P273,216,432	P1,906,086	P275,122,518
Advances to:			
Customers	71,136,240	8,413,250	79,549,490
Officers and employees	5,254,112	2,393,200	7,647,312
Contractors and suppliers	10,773,716		10,773,716
Other receivables	2,000,680		2,000,680
Deposits	8,330,610		8,330,610
Guarantee bonds	45,000,000		45,000,000
	P415,711,790	P12,712,536	P428,424,326

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 Company's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties:

	September 30, 2016			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	P 337,079,063	P -	P -	P 337,079,063
Trade and other receivables*	369,484,857	49,511,666	1,668,158	420,664,681
Marketable securities	191,315,199			191,315,199
Deposits		8,551,901		8,551,901
Investments in stocks	642,153,120			642,153,120
Guarantee bonds	35,000,000			35,000,000
	P 1,575,032,238	P 58,063,567	P 1,668,158	P 1,634,763,964

*excluding Advances to contractors and suppliers

December 31, 2016					
		Grade A	Grade B	Grade C	Total
Cash and cash equivalents	P	254,908,666	P -	P -	P 254,908,666
Trade and other receivables*		284,022,883	66,459,884	1,124,697	351,607,464
Marketable securities		226,746,690	-	-	226,746,690
Deposits		-	8,330,610	-	8,330,610
Investments in stocks		479,621,030	-	-	479,621,030
Guarantee bonds		45,000,000	-	-	45,000,000
		P1,290,299,269	P74,790,494	P1,124,697	P1,366,214,460

*excluding Advances to contractors and suppliers

Grade A pertains to those cash and cash equivalents 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 Company to follow them up. Grade C pertains to receivables which are collected on their due dates provided that the Company made a persistent effort to collect them.

Equity Price Risk

Equity price risk is the risk that the fair value of quoted marketable securities and investments in stocks decreases as a result of changes in the value of individual stock. The Company's current exposure to equity price risk relates primarily to the Company's quoted marketable securities and investments in stocks. The Company 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 Company's consolidated income before income tax and equity:

Marketable Securities

September 30, 2016	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P 9,565,760
(5%)	(9,565,760)
December 31, 2015	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P11,337,335
(5%)	(11,337,335)

Investments in Stocks

September 30, 2016	
Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	P 32,107,656
(5%)	(32,107,656)
December 31, 2015	
Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	P23,981,051
(5%)	(23,981,051)

Liquidity Risk

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

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

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

September 30, 2016					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P 190,699,239	P -	P -	P 67,011,793	P257,711,031
Obligations under finance lease**	944,948	944,948	1,889,896	71,872,859	75,652,651
	P 191,644,187	P 944,948	P 1,889,896	P138,884,651	P 333,383,682

* Excluding other current liabilities representing statutory liabilities to the government

** Inclusive of current portion

December 31, 2015					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P211,304,182	P -	P21,707,915	P45,302,868	278,314,965
Obligations under finance lease**	9,190,033	9,008,386	18,016,772	116,025,163	152,240,354
	P220,494,215	P9,008,386	P39,724,687	P161,328,031	P430,555,319

* Excluding other current liabilities representing statutory liabilities to the government

** Inclusive of current portion

Foreign Currency Risk

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

As at September 30, 2016 and December 31, 2015, assets and liabilities denominated in US\$ include cash and cash equivalents amounting to P40.8 million (US\$840,786) and P45.1 million (US\$957,112), respectively; trade payables amounting to P9.7 million and P35.6 million, respectively; and consultancy and software and license fees payable amounting to P34.6 million (US\$996,636) and P52.8 million (US\$2,384,654), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P48.48 and P47.12 to US\$1, the Php to US\$ exchange rates as at September 30, 2016 and December 31, 2015, 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 Company's consolidated income before tax. There is no other impact on the Company's equity other than those already affecting profit or loss.

Increase (Decrease) in US\$ Exchange Rate	Effect on Income before Income Tax	Effect on Equity
September 30, 2016		
5%	(P377,782)	(P264,447)
(5%)	377,782	264,447
December 31, 2015		
5%	(P3,363,146)	(P2,354,202)
(5%)	3,363,146	2,354,202

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments as at September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P 341,779,874	P 341,779,874	P262,865,081	P262,865,081
Trade and other receivables - net	426,164,815	426,164,815	362,381,180	362,381,180
Deposits	8,551,901	8,551,901	8,330,610	8,330,610
Guarantee bonds	35,000,000	35,000,000	45,000,000	45,000,000
Marketable securities	191,315,199	191,315,199	226,746,690	226,746,690
Investments in stocks	642,153,120	642,153,120	479,621,030	479,621,030
	P 1,644,964,909	P 1,644,964,909	P1,384,944,591	P1,384,944,591
Financial Liabilities				
Trade and other current liabilities*	P 257,711,031	P 257,711,031	P278,314,965	P278,314,965
Obligations under finance lease (inclusive of current portion)	75,652,650	75,652,650	118,728,584	118,728,584
	P 333,363,681	P 333,363,681	P397,043,549	P397,043,549

* Excluding other current liabilities representing statutory payables and other liabilities to the government

The carrying amounts of cash and cash equivalents, 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 investment in stocks are based on quoted prices.

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

	Level 1	Level 2	Level 3	Total
Marketable Securities				
September 30, 2016	P 191,315,199	P -	P -	P 191,315,199
December 31, 2015	226,746,690	-	-	226,746,690
Investments in Stocks				
September 30, 2016	642,153,120	-	-	642,153,120
December 31, 2015	479,621,030	-	-	479,621,030

There were no transfers between Levels as at September 30, 2016 and December 31, 2015.

Other Required Disclosures

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

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

Early Adoption of a New Standard

- PFRS 9 Financial Instruments (2014)* is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted this standard early starting January 1, 2015. The impact of the adoption of the standard to the consolidated financial statements is presented and discussed in Note 11.

PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The basic principle in PFRS 9 is retrospective application in accordance with PAS 8, with exemptions from full retrospective application for the classification and measurement requirements and generally prospective application of the hedge accounting requirements. For the classification of financial assets, an entity is permitted but not required to restate prior periods when it adopts PFRS 9. If the entity does not restate prior periods, the difference between the new valuation and old valuation at the date of initial application is recognized in beginning retained earnings and transitional disclosure is required. The disclosure includes to the extent practicable, the effect of adopting PFRS 9 on each financial statement line item and on basic and diluted EPS, for the current period and each prior period presented.

Adoption of Improvements or Amendments to Standards

The Company adopted the following improvements or amendments to standards starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standards and amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. The following are the relevant improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:
 - *Disclosures on the aggregation of operating segments (Amendment to PFRS 8)*. PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
 - *Definition of 'related party' (Amendment to PAS 24)*. The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 – e.g. loans.

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. However, the Company has not applied the following relevant new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
 - Information should not be obscured by aggregating or by providing immaterial information.

- Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
- The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
- An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *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 IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *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 not permitted until the FRSC has adopted PFRS 15. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.


2. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A"), there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
3. There were no material changes in estimates of amounts reported in prior periods that have material effects in the current interim period.

4. Except as disclosed in the MD & A, there were no other issuance, repurchases and repayments of debt and equity securities.
5. There were no material events that occurred subsequent to September 30, 2016 and up to the date of this report that need disclosure herein.
6. Except as disclosed in the MD & A, there were no changes in the composition of the Company during the interim period such as business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, and discontinued operations.
7. There were no changes in contingent liabilities or contingent assets since December 31, 2015.
8. There exist no material contingencies and other material events or transactions affecting the current interim period.

SIGNATURES

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

Issuer: **PACIFIC ONLINE SYSTEMS CORPORATION**



WILLY N. GCIER
Chairman of the Board
and President

Date: November 4, 2016



MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: November 4, 2016

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	September 30, 2016	December 31, 2015
	Unaudited	Audited
ASSETS		
Current Assets		
Cash and cash equivalents	P 341,779,874	P262,865,081
Marketable securities	191,315,199	226,746,690
Trade and other receivables - net	426,164,815	362,381,180
Other current assets	169,139,671	117,436,690
Total Current Assets	1,128,399,559	969,429,641
Noncurrent Assets		
Investments in stocks	642,153,120	479,621,030
Property and equipment - net	422,193,891	544,520,818
Goodwill and intangible assets - net	124,297,480	124,297,480
Deferred tax assets	43,340,247	42,484,649
Other noncurrent assets	42,659,020	50,731,753
Total Noncurrent Assets	1,274,643,758	1,241,655,730
TOTAL ASSETS	P2,403,043,317	P2,211,085,371
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	P 258,745,403	P280,045,102
Current portion of obligations under finance lease	3,779,792	25,201,309
Withholding taxes payable	9,259,526	11,717,459
Income tax payable	61,973,245	36,906,439
Total Current Liabilities	333,757,966	353,870,309
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	71,872,859	93,527,275
Retirement benefits liability	9,933,440	4,733,440
Total Noncurrent Liabilities	81,806,299	98,260,715
TOTAL LIABILITIES	415,564,265	452,131,024
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	447,666,473	298,443,650
Additional paid-in capital	257,250,677	257,250,677
Treasury shares	(55,425,585)	-
Fair value reserve	(73,746,240)	(210,974,745)
Reserve for retirement benefits	(11,586,662)	(11,586,662)
Retained earnings	1,418,569,835	1,422,874,762
	1,982,727,498	1,756,007,682
Non-controlling Interests	4,751,554	2,946,665
Total Equity	1,987,479,052	1,758,954,347
TOTAL LIABILITIES AND EQUITY	P2,403,043,317	P2,211,085,371

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)
For the nine months ended September 30, 2016 and 2015

	Nine Months Ended Sep 30		This Quarter	
	2016	2015	2016	2015
REVENUE				
Equipment rental	1,151,330,612	1,076,186,584	400,062,670	372,060,938
Commission and distribution income	234,771,295	194,586,767	95,404,517	41,758,870
	1,386,101,907	1,270,773,351	495,467,187	413,819,809
COSTS AND EXPENSES				
Personnel costs	154,680,560	151,246,787	53,525,131	59,498,031
Software and license fees	103,360,752	106,298,493	14,278,696	36,295,674
Operating supplies	115,033,904	108,278,409	39,431,284	36,583,870
Depreciation and amortization	124,921,725	85,753,040	45,566,225	28,644,757
Communications	77,745,625	82,147,146	24,646,243	28,584,234
Travel and accommodation	51,776,532	53,683,464	18,615,353	17,172,070
Consultancy fees	41,827,567	53,694,889	14,639,592	14,877,755
Rent and utilities	55,858,030	50,981,913	19,251,386	17,537,312
Management fees	47,533,100	41,985,651	17,728,951	16,918,327
Repairs and maintenance	90,870,008	91,155,696	50,630,675	31,546,225
Taxes and licenses	25,743,943	24,089,381	8,768,107	10,174,364
Entertainment, amusement and recreation	13,626,216	14,752,963	2,160,344	5,394,902
Professional fees	10,769,275	15,413,805	3,356,980	4,494,464
Advertising and promotion	17,265,174	11,704,619	5,151,146	2,530,975
Impairment losses on receivables	2,531,652	4,940,087	939,835	1,759,709
Others	8,609,116	15,650,013	2,999,303	8,539,141
	942,153,179	911,776,356	321,689,251	320,551,811
OPERATING INCOME	443,948,728	358,996,994	173,777,936	93,267,997
OTHER INCOME (CHARGES)				
Interest income	460,927	885,370	191,422	336,005
Finance charges	(3,455,101)	(2,631,131)	2,142,198	(725,482)
Mark-to-market gain (loss) on marketable securities	(11,605,464)	(39,443,080)	(21,403,872)	(32,399,727)
Gain (loss) on sale of:				
Marketable securities	(186,956)	2,878,016	(5,202)	(317,544)
Property and equipment	(1,100)	69,996	(11,099)	29,999
Foreign exchange gain (loss)	(651,130)	(504,310)	1,290,681	(367,160)
Others - net	37,130,456	49,565,973	7,934,311	33,630,053
	21,691,632	10,820,834	(9,861,561)	186,143
INCOME BEFORE INCOME TAX	465,640,360	369,817,828	163,916,375	93,454,140
INCOME TAX				
Current	140,931,499	125,967,535	55,437,538	42,718,590
Deferred	(1,079,114)	(11,400,261)	(215,883)	(8,151,649)
	139,852,385	114,567,273	55,221,655	34,566,941
NET INCOME	P325,787,975	P255,250,555	P108,694,720	P58,887,199
Attributable to:				
Equity holders of the Parent Company	323,983,086	253,924,955	108,102,377	58,455,185
Non-controlling interests	1,804,889	1,325,600	592,343	432,014
	P325,787,975	P255,250,555	P108,694,720	P58,887,199
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company				
	P0.9436	P0.8736	P0.2434	P0.1964

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the nine months ended September 30, 2016 and 2015

	Nine Months Ended Sep 30		This Quarter	
	2016	2015	2016	2015
NET INCOME	P325,787,975	P255,250,555	P108,694,720	P58,887,199
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	137,228,505	(300,360,804)	(90,429,900)	(68,567,671)
Remeasurements of retirement benefits, net of tax	-	-	-	-
	137,228,505	(300,360,804)	(90,429,900)	(68,567,671)
TOTAL COMPREHENSIVE INCOME (LOSS)	P463,016,480	(P45,110,249)	P18,264,820	(P9,680,472)
Attributable to:				
Equity holders of the Parent Company	461,211,591	(46,435,849)	17,672,476	(10,112,486)
Non-controlling interests	1,804,889	1,325,600	592,343	432,014
	P463,016,480	(P45,110,249)	P18,264,820	(P9,680,472)

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2016 and 2015

	For the nine months ended September 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	465,640,360	369,817,829
Adjustments for:		
Depreciation and amortization	124,921,725	85,753,040
Mark-to-market loss (gain) on marketable securities	11,605,464	39,443,080
Dividend income	(21,548,129)	(27,265,001)
Finance charges	3,455,101	2,631,131
Retirement cost	7,200,000	12,718,950
Impairment losses on trade and other receivables	2,531,652	4,940,087
(Gain) loss on sale of:		
Marketable securities	186,956	(2,878,016)
Property and equipment	1,100	(69,996)
Interest income	(460,927)	(885,370)
Unrealized foreign exchange loss (gain)	651,130	504,310
Operating income before working capital changes	594,184,432	484,710,043
Decrease (increase) in:		
Trade and other receivables	(66,315,287)	75,050,451
Other current assets	(51,702,982)	41,794,791
Increase (decrease) in:		
Trade and other current liabilities	(21,950,829)	(125,623,143)
Withholding taxes payable	(2,457,933)	(4,028,553)
Interest received	460,927	549,365
Income tax paid	(115,641,177)	(93,531,675)
Retirement contributions	(2,000,000)	(4,000,000)
Net cash flows provided by operating activities	334,577,151	220,859,313
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in stocks	(25,303,585)	(227,990,950)
Property and equipment	(35,101,271)	(56,338,733)
Marketable securities	(5,607,642)	(19,228,263)
Proceeds from sale of:		
Marketable securities	29,246,714	25,527,710
Property and equipment	5,321,020	39,999
Dividends received	21,548,129	16,105,501
Decrease (increase) in other noncurrent assets	8,072,732	(17,107)
Net cash flows used in investing activities	(1,823,903)	(261,901,843)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(55,425,584)	(26,616,980)
Proceeds from sale of treasury shares		211,217,323
Cash dividends paid	(179,066,190)	(175,534,638)
Interest paid	(3,455,101)	(2,631,131)
Decrease (increase) in obligations under finance lease	(15,891,580)	29,302,079
Net cash flows used in financing activities	(253,838,455)	35,736,653
NET INCREASE IN CASH AND CASH EQUIVALENTS	78,914,793	(222,854,854)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	262,865,081	463,318,322
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P341,779,874	P240,463,468

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

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non- Controlling Interest	Total Equity
December 31, 2014	P298,443,650	P238,339,307	P165,688,973	P -	(P17,633,413)	P1,444,055,408	P1,797,515,979	P1,052,219	P1,798,568,198
Effect of early adoption of PFRS 9	-	-	-	188,816,829	-	(188,816,829)	-	-	-
Balance as at January 1, 2015, as restated	298,443,650	238,339,307	(165,688,973)	188,816,829	(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	-	-	-	(300,360,804)	-	-	(300,360,804)	-	(300,360,804)
Remeasurements of retirement benefits, net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	(300,360,804)	-	-	(300,360,804)	-	(300,360,804)
Net income for the year	-	-	-	-	-	253,924,955	253,924,955	1,325,600	255,250,555
Total comprehensive income (loss) for the year	-	-	-	(300,360,804)	-	253,924,955	(46,435,849)	1,325,600	(45,110,249)
Cash dividends	-	-	-	-	-	(86,001,543)	(86,001,543)	-	(86,001,543)
Treasury shares acquired	-	-	(26,616,980)	-	-	-	(26,616,980)	-	(26,616,980)
Treasury shares sold	-	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)	-	-	-	(112,618,523)	-	(112,618,523)
September 30, 2015	P298,443,650	P257,250,677	P -	(P111,543,974)	(P17,633,413)	P1,333,628,895	P1,760,145,834	P2,377,819	P1,762,523,654
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
Change in fair value of investments in stocks	-	-	-	137,228,505	-	-	137,228,505	-	137,228,505
Remeasurements of retirement benefits, net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	137,228,505	-	-	137,228,505	-	137,228,505
Net income for the year	-	-	-	-	-	323,983,086	323,983,086	1,804,889	325,787,975
Total comprehensive income (loss) for the year	-	-	-	137,228,505	-	323,983,086	461,211,591	1,804,889	463,016,480
Cash dividends	-	-	-	-	-	(179,066,190)	(179,066,190)	-	(179,066,190)
Stock dividends	149,221,823	-	-	-	-	(149,221,823)	-	-	-
Treasury shares acquired	-	-	(55,425,585)	-	-	-	(55,425,585)	-	(55,425,585)
Treasury shares sold	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(55,425,585)	-	-	(328,288,013)	(234,491,775)	-	(234,491,775)
September 30, 2016	P447,665,473	P257,250,677	(P55,425,585)	(P73,746,240)	(P11,586,662)	P1,418,569,835	P1,982,27,498	P4,751,554	P1,987,479,052

PACIFIC ONLINE SYSTEMS CORPORATION
 Attachments to Unaudited Financial Statements
 Schedule 1 – Trade and Other Receivables
 as of September 30, 2016

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Past Due but not Impaired	Total
a.) Trade receivables			
1.) PCSO – Equipment rentals	P139,866,652	P -	P139,866,652
2.) Trade receivables – others	224,090,665	-	224,090,665
	363,957,317	-	363,957,317
b.) Other Receivables			
1.) Advances to customers	49,511,666	-	49,511,666
2.) Advances to officers and employees	5,527,539	-	5,527,539
3.) Advances to contractors and suppliers	5,500,135	-	5,500,135
4.) Other receivables	1,668,158	-	1,668,158
	62,207,498	-	62,207,498
Total	P 426,164,815	P -	P 426,164,815

2.) Description of receivables

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

3.) Normal operating cycle: 365 days

Segment Information

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

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

	For the Nine Months ended September 30, 2016			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,151,330,612	P -	P -	P1,151,330,612
Commission and distribution income	-	234,771,295	-	234,771,295
Total revenue	P1,151,330,612	P234,771,295	P -	P1,386,101,907
Segments Results				
Income before income tax	435,955,594	79,170,238	(49,485,472)	465,640,360
Income tax expense	115,569,693	24,282,692	-	139,852,385
Net income	P 320,385,901	P64,887,546	(P 49,485,472)	P 325,787,975
Segment assets	2,422,090,042	378,004,188	(397,050,913))	2,403,043,317
Deferred tax assets - net	38,409,568	4,930,679	-	43,340,247
Segment assets (excluding deferred tax assets - net)	P2,383,680,474	P373,073,509	(P397,050,913)	2,359,703,070
Segment liabilities	P 359,208,830	P121,870,895	(P 65,515,460)	415,564,265
Other Information				
Capital expenditures	P 23,813,398	P 11,287,873	-	P 35,101,271
Depreciation and amortization	1,14,084,853	10,836,872	-	124,921,725