

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0 0 0 0 0 0 3 9 1 2 1

COMPANY NAME

P H I L W E B 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)T h e P e n t h o u s e , A l p h a l a n d S o u t h g a t e T o w e
r 2 2 5 8 C h i n o R o c e s A v e n u e c o r n e r E D S A ,
M a k a t i C i t y

Form Type

A A C F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

-

Company's Telephone Number/s

(02)845-4171

Mobile Number

-

No. of Stockholders

1,461

Annual Meeting (Month / Day)

Any day in May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATIONThe designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Atty. Raymund S. Aquino

Email Address

rsaquino@philweb.com.ph

Telephone Number/s

(02)845-4171

Mobile Number

-

CONTACT PERSON'S ADDRESS

6/F Adamson Centre, 121 L.P. Leviste Street, Salcedo Village, Makati City

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

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



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PhilWeb Corporation and Subsidiaries
The Penthouse, Alphaland Southgate Tower
2258 Chino Roces Avenue corner EDSA
Makati City

Opinion

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





Valuation of Property and Equipment

On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Parent Company's electronic gaming system. Prior to this, the Parent Company ceased to operate as a service provider to PAGCOR because of the expiration of its Intellectual Property Licensing and Management Agreement (IPLMA) on August 10, 2016. On October 30, 2017, PAGCOR issued a certificate of accreditation to the Parent Company as service provider to PAGCOR-licensed Electronic Gaming Sites (PeGS). PAGCOR allowed the Parent Company to handle initially 16 electronic gaming sites in December 2017 subject to inspection and testing prior to the issuance of the Notice to Proceed. During the intervening period, the Parent Company incurred significant losses from its operations. Consequently, the carrying value of property and equipment may be in excess of its recoverable amounts. Determining the recoverable amount of property and equipment requires a high degree of judgment and estimation and thus, was considered significant to our audit.

We reviewed management's impairment assessment by testing the assumptions used in the determination of the recoverable amount and if these are in accordance with Philippine Accounting Standards (PAS) 36, *Impairment of Assets*. We assessed if the inputs used are reasonable in the derivation of the recoverable amount, particularly, the value-in-use, and checked the mathematical accuracy of the said computation. We also reviewed the comparison made between the carrying amount of the property and equipment and its recoverable amount. Further disclosures are included in Note 7, *Property and Equipment*.

Accounting for the Acquisition of Electronic Gaming Sites

The Group has acquired electronic gaming sites in exchange for the Parent Company's treasury shares to expand its gaming operations. The series of acquisitions were treated as business combination and accounted for in accordance with PFRS 3, *Business Combination*. Accounting for these transactions requires judgment and estimation, particularly, on the determination of the fair value of the net assets acquired and the related goodwill. Hence, these are significant to our audit.

We reviewed the assessment made by management on the applicability of PFRS 3 by reviewing the share and purchase agreements and understanding the substance of these agreements. We also checked the determination of the fair value of the net assets acquired and assessed the reasonableness of the assumptions used. Further disclosures are included in Note 8, *Other Noncurrent Assets*.

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 these other information and we will not express any form of assurance conclusion thereon.

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

Other Matter

The consolidated financial statements of the Group as at December 31, 2016 and for the years ended December 31, 2016 and 2015 were audited by another auditor whose report dated April 13, 2017, expressed unmodified opinion on those statements.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, 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.
- 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 matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Michelle R. Mendoza-Cruz.

REYES TACANDONG & Co.


MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 1499-A Group A

Valid until August 31, 2018

BIR Accreditation No. 08-005144-012-2017

Valid until March 8, 2020

PTR No. 6607962

Issued January 3, 2018, Makati City

April 4, 2018

Makati City, Metro Manila



**CERTIFICATE ON THE COMPILATION SERVICES
FOR THE PREPARATION OF THE FINANCIAL STATEMENTS
AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **PHILWEB CORPORATION AND SUBSIDIARIES** for the period ended December 31, 2017.

In discharging this responsibility, I hereby declare that:

I am the Chief Finance Officer of **PHILWEB CORPORATION AND SUBSIDIARIES**.

Furthermore, in my compilation services for preparation of the Financial Statements and notes to the Financial Statements, I was not assisted by or did not avail of the services of REYES TACANDONG & CO. who/which is the external auditor who rendered the audit opinion for the said Financial Statements and notes to the Financial Statements

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.



ZALDY M. PRIETO

CPA License No. 0092825

Tax Identification No. 193-976-155-000

BOA Accreditation No. 1077, Valid until December 31, 2019

SUBSCRIBED AND SWORN to before me this APR 12 2018 day of , 2018, in Makati City affiant exhibiting to me his Driver License No. N26-00-040435 issued on January 3, 2018 in Quezon City.

Doc No. 76
Page No. 17
Book No. I
Series of 2018



RAYMUND NONATO S. AQUINO
Appointment No. M-365
Notary Public for Makati City
D.O. Expires: 12/31/2018

The Penitentiary Office, 10th Floor, 2258 Claret Street, Makati City

PTR No. 661537, Makati City
IBP No. 026105; January 4, 2018 ASM

MCLE Compliance No. V-0024943-3/9/17; PIN 167-317-782

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Management of **PhilWeb Corporation and Subsidiaries** (the Group) 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, 2016 and 2015**, 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 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.

The Board of Directors is responsible in overseeing the Group'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.

Reyes Tacandong and Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.



GREGORIO MA. ARANETA III
Chairman



DENNIS O. VALDES
President



ZALDY M. PRIETO
SVP & Chief Finance Officer

Signed this 4th day of April 2018

SUBSCRIBED AND SWORN to before me this _____ day of APR 12 2018,
2018, in Makati City, affiant exhibited to me the following TIN/SSS No.

Gregorio Ma. Araneta III
Dennis O. Valdes
Zaldy M. Prieto

TIN No. 136-998-184
SSS No. 03-79794979
SSS No. 33-2870178-7

Doc. No. 80 ;
Page No. 17 ;
Book No. I ;
Series of 2018.



RAYMUND RENATO S. AQUINO

Appointment No. M-365

Notary Public for Makati City

Until December 31, 2018

The Penthouse of Cardinal Southgate Tower,
2258 Chino Road, 1200 Edsa, Makati City

Roll No. 50343

PTR No. 6615319; January 4, 2018; Makati City

IBP No. 020105; January 4, 2018/RSM

MCLE Compliance No. V-0024943 - 3/9/17; TIN 167-317-782

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(With Comparative Figures for 2016)

| | Note | 2017 | 2016 |
|---|------|------------------------|-----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | ₱112,005,505 | ₱98,088,993 |
| Receivables | 5 | 22,678,968 | 192,228,971 |
| Prepayments and other current assets | 6 | 26,518,120 | 27,603,061 |
| Total Current Assets | | 161,202,593 | 317,921,025 |
| Noncurrent Assets | | | |
| Property and equipment | 7 | 143,867,379 | 196,931,230 |
| Net deferred tax assets | 18 | 64,381,608 | 26,457,678 |
| Other noncurrent assets | 8 | 68,805,582 | 107,056,868 |
| Total Noncurrent Assets | | 277,054,569 | 330,445,776 |
| | | ₱438,257,162 | ₱648,366,801 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and other current liabilities | 9 | ₱204,137,096 | ₱309,639,162 |
| Notes payable | 10 | 140,000,000 | 50,000,000 |
| Total Current Liabilities | | 344,137,096 | 359,639,162 |
| Noncurrent Liabilities | | | |
| Net retirement liability | 16 | 7,142,446 | 13,473,570 |
| Operators' refundable deposits | 11 | 12,755,000 | 29,355,000 |
| Total Noncurrent Liabilities | | 19,897,446 | 42,828,570 |
| Equity | | | |
| | 13 | | |
| Capital stock | | 1,498,348,441 | 1,483,173,441 |
| Additional paid-in capital | | 1,013,836,920 | 1,112,897,280 |
| Stock options reserve | | 1,182,328 | 4,273,021 |
| Retained earnings | | 1,563,374,351 | 1,856,644,010 |
| Accumulated remeasurement gain | | 6,682,141 | 756,155 |
| Treasury stock | | (4,007,338,966) | (4,211,137,736) |
| Equity attributable to equity holders of the Parent | | | |
| Company | | 76,085,215 | 246,606,171 |
| Non-controlling interest | | (1,862,595) | (707,102) |
| Total Equity | | 74,222,620 | 245,899,069 |
| | | ₱438,257,162 | ₱648,366,801 |

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

| | Note | 2017 | 2016 | 2015 |
|---|------|-----------------------|----------------|----------------|
| REVENUE | | | | |
| Commission income | | ₱148,839,343 | ₱187,260,000 | ₱240,019,102 |
| Internet application services | 1 | 9,113,428 | 832,466,562 | 1,427,591,374 |
| | | 157,952,771 | 1,019,726,562 | 1,667,610,476 |
| COSTS AND EXPENSES | | | | |
| | 14 | (495,900,766) | (676,313,684) | (650,347,733) |
| OTHER INCOME (CHARGES) - Net | | | | |
| | 17 | 3,059,204 | (635,154,886) | 26,303,885 |
| INCOME (LOSS) BEFORE INCOME TAX | | | | |
| | | (334,888,791) | (291,742,008) | 1,043,566,628 |
| PROVISION FOR (BENEFIT FROM) | | | | |
| INCOME TAX | | | | |
| | 18 | | | |
| Current | | – | 21,000,452 | 171,438,803 |
| Deferred | | (40,463,639) | (15,050,602) | 2,501,792 |
| | | (40,463,639) | 5,949,850 | 173,940,595 |
| NET INCOME (LOSS) | | | | |
| | | (₱294,425,152) | (₱297,691,858) | ₱869,626,033 |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Equity holders of the Parent Company | | (₱293,269,659) | (₱296,099,426) | ₱870,165,159 |
| Non-controlling interest | | (1,155,493) | (1,592,432) | (539,126) |
| | | (₱294,425,152) | (₱297,691,858) | ₱869,626,033 |
| BASIC EARNINGS (LOSS) PER SHARE | | | | |
| | 20 | (₱0.25) | (₱0.25) | ₱0.74 |
| DILUTED EARNINGS (LOSS) PER SHARE | | | | |
| | 20 | (₱0.25) | (₱0.25) | ₱0.74 |
| EARNINGS (LOSSES) BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) | | | | |
| | 25 | (₱152,478,187) | ₱580,444,055 | ₱1,200,758,970 |

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for 2016 and 2015)

| | Note | 2017 | 2016 | 2015 |
|--|------|-----------------------|----------------|--------------|
| NET INCOME (LOSS) | | (P294,425,152) | (P297,691,858) | P869,626,033 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| <i>Not to be reclassified to profit or loss</i> | | | | |
| Remeasurement gains (losses) on net retirement liability | 16 | 8,465,695 | 7,449,884 | (4,729,453) |
| Deferred tax effect on remeasurement gains(losses) on net retirement liability | 16 | (2,539,709) | (2,234,965) | 1,418,836 |
| <i>To be reclassified to profit or loss</i> | | | | |
| Foreign exchange translation adjustment | | - | (6,165,227) | 669,245 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | (P288,499,166) | (P298,642,166) | P866,984,661 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | | | |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the Parent Company | | (P287,343,673) | (P296,994,146) | P867,517,753 |
| Non-controlling interest | | (1,155,493) | (1,648,020) | (533,092) |
| | | (P288,499,166) | (P298,642,166) | P866,984,661 |

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for 2016 and 2015)

| | Note | 2017 | 2016 | 2015 |
|---|------|----------------------|----------------------|----------------------|
| CAPITAL STOCK - ₱1 par value | | | | |
| | 13 | | | |
| Authorized - 2,600,000,000 shares | | | | |
| Issued and subscribed (net of subscriptions receivable amounting to ₱18.7 million in 2017, ₱33.7 million in 2016 and ₱125.1 million in 2015): | | | | |
| Balance at beginning of year | | ₱1,483,173,441 | ₱1,389,874,997 | ₱1,388,916,731 |
| Collection of subscriptions receivable | | 15,000,000 | 91,421,344 | - |
| Issuance during the year | | 175,000 | 1,877,100 | 958,266 |
| Balance at end of year | | 1,498,348,441 | 1,483,173,441 | 1,389,874,997 |
| ADDITIONAL PAID-IN CAPITAL | | | | |
| | 13 | | | |
| Balance at beginning of year | | 1,112,897,280 | 1,091,982,096 | 1,081,882,866 |
| Reduction as a result of reissuance of treasury stock | | (102,702,303) | - | - |
| Stock options exercised and forfeited | | 3,090,693 | 2,484,939 | 1,007,182 |
| Subscriptions for additional stock | | 551,250 | 18,430,245 | 9,092,048 |
| Balance at end of year | | 1,013,836,920 | 1,112,897,280 | 1,091,982,096 |
| STOCK OPTIONS RESERVE | | | | |
| | 13 | | | |
| Balance at beginning of the year | | 4,273,021 | 6,757,960 | 4,604,050 |
| Stock options exercised and forfeited | | (3,090,693) | (2,484,939) | (1,007,182) |
| Cost of stock options awarded | | - | - | 3,161,092 |
| Balance at end of year | | 1,182,328 | 4,273,021 | 6,757,960 |
| RETAINED EARNINGS | | | | |
| | 13 | | | |
| Balance at beginning of year | | 1,856,644,010 | 2,617,356,756 | 2,450,743,551 |
| Net income (loss) | | (293,269,659) | (296,099,426) | 870,165,159 |
| Cash dividends | | - | (464,613,320) | (703,551,954) |
| Balance at end of year | | 1,563,374,351 | 1,856,644,010 | 2,617,356,756 |
| ACCUMULATED REMEASUREMENT GAIN (LOSS) ON NET RETIREMENT LIABILITY | | | | |
| | 16 | | | |
| Balance at beginning of year | | 756,155 | (4,458,764) | (1,148,147) |
| Remeasurement gain (loss), net of deferred tax | | 5,925,986 | 5,214,919 | (3,310,617) |
| Balance at end of year | | 6,682,141 | 756,155 | (4,458,764) |

(Forward)

| | Note | 2017 | 2016 | 2015 |
|--|------|------------------|------------------|------------------|
| TREASURY STOCK | | | | |
| | 13 | | | |
| Balance at beginning of year | | (P4,211,137,736) | (P4,211,137,736) | (P3,941,779,041) |
| Issuance | | 203,798,770 | - | - |
| Redemption | | - | - | (269,358,695) |
| Balance at end of year | | (4,007,338,966) | (4,211,137,736) | (4,211,137,736) |
| CUMULATIVE TRANSLATION ADJUSTMENT | | | | |
| Balance at beginning of year | | - | 6,165,227 | 5,495,982 |
| Foreign exchange translation adjustment | | - | (6,165,227) | 669,245 |
| Balance at end of year | | - | - | 6,165,227 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY | | | | |
| | | 76,085,215 | 246,606,171 | 896,540,536 |
| NON-CONTROLLING INTEREST | | | | |
| Balance at beginning of year | | (707,102) | 885,330 | 1,424,456 |
| Share in net loss | | (1,155,493) | (1,592,432) | (539,126) |
| Balance at end of year | | (1,862,595) | (707,102) | 885,330 |
| | | P74,222,620 | P245,899,069 | P897,425,866 |

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for 2016 and 2015)

| | Note | 2017 | 2016 | 2015 |
|---|------|-----------------------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income (loss) before income tax | | (P334,888,791) | (P291,742,008) | P1,043,566,628 |
| Adjustments for: | | | | |
| Depreciation and amortization | 7 | 108,549,479 | 119,997,016 | 109,649,183 |
| Impairment losses | 14 | 72,948,608 | 110,337,325 | 76,260,998 |
| Interest expense | 10 | 3,925,278 | 6,227,941 | 22,727,535 |
| Retirement expense | 16 | 2,134,571 | 6,035,884 | 5,134,907 |
| Loss (gain) on disposal of: | | | | |
| Investments in associates | 8 | (1,841,095) | - | - |
| Property and equipment | 7 | (1,272,850) | 64,806 | (370,000) |
| Interest income | 4 | (1,171,666) | (14,076,659) | (51,767,383) |
| Unrealized foreign exchange loss (gain) | | (6,389) | (6,243,678) | 651,363 |
| Loss on sale of assets | 5 | - | 649,285,056 | - |
| Equity in net loss of associates | 8 | - | 415,384 | 322,009 |
| Cost of stock option | | - | - | 3,161,092 |
| Operating income (loss) before working capital changes | | (151,622,855) | 580,301,067 | 1,209,336,332 |
| Decrease (increase) in: | | | | |
| Receivables | | (3,188,083) | 48,253,834 | 41,500,378 |
| Prepayments and other current assets | | 8,432,472 | 54,078,052 | (26,195,343) |
| Increase (decrease) in accounts payable and other current liabilities | | (70,775,671) | 8,376,158 | 76,222,188 |
| Net cash generated from (used for) operations | | (217,154,137) | 691,009,111 | 1,300,863,555 |
| Interest paid | | (4,400,000) | (8,856,409) | (22,763,407) |
| Interest received | | 1,171,666 | 25,843,653 | 3,938,981 |
| Income tax paid | | - | (127,907,285) | (190,649,844) |
| Contributions to retirement fund | | - | - | (13,474,215) |
| Net cash provided by (used in) operating activities | | (220,382,471) | 580,089,070 | 1,077,915,070 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Collection of loan receivable | 5 | 139,653,819 | - | - |
| Disposal of investments in associates | 8 | 16,193,931 | - | - |
| Disposal of property and equipment | | 1,372,800 | 864,600 | 370,000 |
| Increase in other noncurrent assets | | (6,613,877) | (61,970,003) | (5,235,144) |
| Additions to property and equipment | | (5,440,329) | (100,702,654) | (48,619,722) |
| Net cash provided by (used in) investing activities | | 145,166,344 | (161,808,057) | (53,484,866) |

(Forward)

| | Note | 2017 | 2016 | 2015 |
|---|------|---------------------|---------------|-----------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Availment of loans | 10 | ₱90,000,000 | ₱- | ₱- |
| Subscriptions to and issuances of common stock | | 15,726,250 | 111,728,689 | 10,050,314 |
| Increase (decrease) in operators' refundable deposits | | (16,600,000) | (27,700,000) | 5,000,000 |
| Cash dividends paid | | - | (464,613,320) | (703,551,954) |
| Payment of loans | 10 | - | (150,000,000) | (500,000,000) |
| Acquisition of treasury shares | | - | - | (582,162) |
| Net cash provided by (used in) financing activities | | 89,126,250 | (530,584,631) | (1,189,083,802) |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | |
| | | 6,389 | 78,452 | 17,882 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | | |
| | | 13,916,512 | (112,225,166) | (164,635,716) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | | |
| | | 98,088,993 | 210,314,159 | 374,949,875 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | | |
| | | ₱112,005,505 | ₱98,088,993 | ₱210,314,159 |
| NONCASH FINANCIAL INFORMATION – | | | | |
| Acquisition of e-Games sites in exchange for the Group's treasury shares | 8 | ₱67,389,413 | ₱- | ₱- |
| Extinguishment of a liability in exchange for the Group's treasury shares | 9 | 34,251,673 | - | - |

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Information for 2016 and 2015)

1. General Information

Corporate Information

PhilWeb Corporation (the Parent Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on August 20, 1969. The Parent Company's primary purpose is to develop, design, build, operate and manage gaming systems, applications and operating platforms and facilities, including but not limited to integrated and online computer systems, terminals, servers and routers together with interconnecting and interlinking telecommunications systems.

On September 27, 2017, during its annual stockholders' meeting, the stockholders approved amendment to the Articles of Incorporation of the Parent Company consisting of:

- Extension of the corporate life for another fifty (50) years from the expiration of its original term on August 19, 2019;
- Change of principal office from The Penthouse, Alphaland Southgate Tower, 2258 Roces Avenue corner EDSA, Makati City to 6th Floor, Adamson Centre, 121 LP Leviste Street, Salcedo Village, Makati City; and
- Change in the number of directors from fifteen (15) to eleven (11).

The Parent Company is 54.66% owned by Gregorio Araneta, Inc., a holding company incorporated in the Philippines. The Parent Company's shares are listed in the Philippine Stock Exchange (PSE) under the stock symbol "WEB".

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries (collectively known as "the Group"). The following are the subsidiaries and the respective percentages of ownership and registered principal activities together with the place of incorporation as at December 31, 2017:

| Subsidiaries | Principal Activities | Date and Place of Incorporation | Percentage of Ownership | |
|---------------------------------|---|---------------------------------|-------------------------|----------|
| | | | Direct | Indirect |
| PhilWeb Convergence Corporation | Internet access provider | September 6, 2000, PH | 100 | – |
| PhilWeb Cyberworld Corporation | Operates internet cafes and kiosks | July 6, 2000, PH | 100 | – |
| PhilWeb Software Corporation | Computer software programming and development services | April 3, 2000, PH | 100 | – |
| BigGame, Inc. (BGI) | Operates internet casino stations | February 11, 2005, PH | 100 | – |
| Premyo sa Resibo, Inc. | Develops and markets computer systems, applications, programs and operates gaming platforms | December 8, 2006, PH | 100 | – |

| Subsidiaries | Principal Activities | Date and Place of Incorporation | Percentage of Ownership | |
|--|---|---------------------------------|-------------------------|----------|
| | | | Direct | Indirect |
| PhilWeb Casino Corporation | Develops and maintains gaming systems and applications for all types of casino operations | December 22, 2006, PH | 100 | – |
| e-Magine Gaming Corporation | Develops technology for the gaming industry | May 8, 2007, PH | 90 | – |
| PhilWeb Leisure and Tourism Corporation | Operates and maintains leisure and tourism-oriented activities | June 6, 2007, PH | 100 | – |
| PhilWeb Tourism and Entertainment Corporation | Operates and maintains leisure and tourism-related activities | July 26, 2007, PH | 100 | – |
| PhilWeb International Gaming Corporation | Engages in international gaming ventures | November 18, 2009, PH | 100 | – |
| Easy e-Bingo, Inc. (EEI) | Operates internet bingo stations | October 23, 2009, PH | 100 | – |
| PhilWeb Mobile Lottery Corp. | Operates mobile-based lottery games and other related mobile games offerings | February 3, 2010, PH | 100 | – |
| PhilWeb Asia-Pacific Corp. (PAPC) | Engages in international gaming ventures | July 13, 2010, PH | – | 99 |
| Best Choice Holdings, Inc. (BCHI) | Engages to purchase, own, and hold stock of other corporations | September 11, 2012, PH | 100 | – |
| Major Games and Amusement Corporation (MAGCOR) | Establishes, operates and provides consultancy services with regard to amusement, recreational, gaming, and gaming equipment facilities | July 29, 2008, PH | 30 | – |
| Pure Corporation Investments Ltd. (PCIL) | Investment vehicle for foreign operations | N/A, Special Purpose Entity | 100 | – |

Except for BGI, EEI and MAGCOR, all subsidiaries are not in commercial operations as at December 31, 2017.

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2017, 2016 and 2015.

The registered address of the Parent Company is at The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces corner EDSA, Makati City.

The business address of the Parent Company is at 6/F, Adamson Centre, 121 LP Leviste Street, Salcedo Village, Makati City, Philippines.

Status of Operations

The Parent Company has an Intellectual Property License and Management Agreement (IPLMA) with the Philippine Amusement and Gaming Corporation (PAGCOR) to be the service provider of PAGCOR's Electronic Gaming Sites (PeGS). Under the agreement, the Group remits over ₱2.0 billion a year to PAGCOR.

On August 10, 2016, the Parent Company ceased to operate as a service provider to PAGCOR because of the expiration of its IPLMA.

On August 18, 2017, the Parent Company received a provisional certificate of accreditation from PAGCOR. After complying with the stringent requirements, on October 30, 2017, PAGCOR issued a certificate of accreditation to the Parent Company. Thereafter, in December 2017, PAGCOR allowed the Parent Company to offer its services to the first 16 PeGS, subject to inspection and testing by PAGCOR. Revenue from internet application services during the testing period amounted to ₱9.1 million. After passing the initial inspection and testing in February 2018, PAGCOR then allowed the Parent Company to offer its services to an additional 21 PeGS.

On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Parent Company's electronic gaming system, thereby allowing the Parent Company to fully resume its operations.

Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors (BOD) on April 4, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Measurement Bases

The consolidated financial statements are presented in Philippine Peso (Peso) which is the Group's functional and presentation currency. All values are rounded to the nearest Peso except as otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

Fair values of financial assets and liabilities are disclosed in Note 22.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.
- Amendment to PFRS 12, *Disclosures of Interests in Other Entities – Clarification of the Scope of the Standard* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and clarifies that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the foregoing new and amended PFRS did not have any material effect on the consolidated financial statements. Additional disclosures have been included in the notes to the consolidated financial statements, as applicable.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss (FVPL) that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

- Amendment to PFRS 15, *Clarification to PFRS 15* – The amendment provides clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendment also provides some transition relief for modified contracts and completed contracts.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at FVPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.
- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides requirements in addition to those set in PAS 12, by specifying how to determine the accounting tax position when there is uncertainty over tax treatments. It requires an entity to (a) determine whether uncertain tax positions are assessed separately or as a group, and (b) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. Otherwise, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

Deferred effectivity –

- Amendment to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, is now deferred indefinitely until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group except for PFRS 15 and 16. The Group anticipates that the application of PFRS 15 and 16 might have a significant effect on amounts reported in respect of the Group's revenue and leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Additional disclosures will be included in the consolidated financial statements, as applicable.

Business Combination and Goodwill

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 related share issuance costs. Acquisition-related costs incurred are expensed and included in costs and expenses.

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, including the separation of embedded derivatives in host contracts by the acquiree, if any.

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 PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled and accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedure used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then gain is recognized in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within CGU units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operations when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

If necessary information, such as fair value of assets and liabilities acquired, is not available by the end of the reporting period in which the business combination occurs, provisional amounts are used for a period not exceeding one year from the date of acquisition or measurement period. During this period, provisional amounts recognized for a business combination may be retrospectively adjusted if relevant information has been obtained or becomes available.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. Subsidiaries are entities controlled by the Parent Company. In assessing control, the Parent Company considers if it is exposed, or has right, to variable returns from its investment with the subsidiary and if it has the ability to affect those returns.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. The results of operations of the subsidiaries acquired or disposed of during the period are included in the consolidated statements of income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

All intragroup balances, transactions, income and expenses and unrealized gains and losses are eliminated in full.

Non-controlling interests pertain to the portion of profit or loss and the net assets in subsidiaries not held by the Parent Company and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position. The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

The Group has a Special Purpose Entity (SPE) for investment purposes. An SPE is consolidated when the substance of its relationship with the Group indicates that the SPE is controlled by the Group.

Financial Assets and Liabilities

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

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

“Day 1” Profit. When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” profit) in the consolidated statements of income, unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income 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.

Classification of Financial Instruments. The Group classifies its financial instruments into the following categories: financial assets and financial liabilities at FVPL, held-to-maturity (HTM) investments, AFS financial assets, loans and receivables and other financial liabilities at amortized cost. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group does not have financial assets and financial liabilities at FVPL, HTM investments and AFS financial assets as at December 31, 2017.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

This category includes cash and cash equivalents, receivables, and rental and other deposits under “other noncurrent assets”.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. 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 (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes accounts payable and other current liabilities (excluding statutory payables), notes payable and operators’ refundable deposits.

Derecognition of Financial Assets and Liabilities

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

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

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

When the Group has transferred its rights 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 or 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 assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the receivables. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

Offsetting of 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 legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Prepayments and Other Current Assets

Prepayments and other current assets consist of:

Input Value-added Tax (VAT). Input VAT represents tax imposed on the Group by its suppliers for the acquisition of goods and services required under the Philippine taxation laws and regulations. Input VAT is recognized as an asset and will be used to offset the Group's current VAT liability.

Creditable Withholding Taxes (CWTs). Creditable withholding tax is an amount that is withheld from income payments. This is deducted from income tax payable.

Prepayments. Prepayments include expenses already paid but not yet incurred. These are measured at cost less amortization.

Prepayments are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Investments in Associates

Investments in associates are accounted for using the equity method of accounting.

An associate is an entity in which the Group has significant influence but not control, over the financial and operating policies of the entity. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights of the entity. The Group's share of its associate's post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial statements of associates are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. Cost also includes any asset retirement obligation and interest on borrowed funds used.

The estimated useful lives of property and equipment are as follows:

| | <u>Number of Years</u> |
|--|---|
| Computer equipment | 3 - 5 |
| Computer software | 5 - 10 |
| Network and data communication equipment | 5 |
| Leasehold and site improvements | 5 or term of lease, whichever is shorter |
| Furniture, fixtures and office equipment | 3 - 5 |
| Transportation equipment | 3 |

The useful life of each of the 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 and experience with similar assets. The property and equipment's useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its property and equipment and other noncurrent assets (except rental and other deposits) may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and 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 assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss in those expense categories 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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued.

Additional Paid-in Capital. This includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration.

Other Comprehensive Income. Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year. Moreover, it pertains to accumulated remeasurement gains or losses on net retirement liability.

Treasury Stock. The Group's equity instruments which are acquired (treasury shares) or issued to a subsidiary are deducted from equity. Treasury stock is accounted for at cost and shown as a deduction in the equity section of the consolidated statements of financial position. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Revenue Recognition

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

Commission Income. Commission income from the operation of PeGS is recognized based on agreed percentage of casino winnings from PeGS' operations.

Internet Application Services. Internet application services refer to revenue earned from providing technical, marketing and cash management services for internet gaming operations of PAGCOR, particularly for sports betting and internet casino operations, and is based on agreed percentages of gross bets and net winnings from the sports betting and internet casino operations, respectively. For internet casino, net winnings are derived after deducting from gross winnings the marketing expenses, franchise taxes and software licensing fees.

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

Costs and Expenses Recognition

Costs and expenses are recognized in profit or loss upon consumption of the goods and/or utilization of the service or at the date they are incurred.

Share-based Transactions

The Parent Company has a stock option plan (the Plan) covering employees, officers and directors, whereby employees render services for shares or rights over shares ("equity-settled transaction"). The rights granted under the plan are not assignable and nontransferable. The cost of the equity-settled transaction is measured by reference to the fair value of the stock option on the date that it was granted. Fair value is determined using an option pricing model as discussed in Note 13 to the consolidated financial statements. Stock options reserve presented as part of "Equity" is measured at fair value of the share options as at reporting date.

Operating Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment 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 that 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 give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as Lessee. The Group has entered into a lease agreement as a lessee. Critical judgment was exercised by management to distinguish such lease agreement as an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Earnings Per Share

Basic earnings per share is computed based on weighted average number of issued and outstanding common shares during the year.

Diluted earnings per share is computed as if the potential common share or instrument that may entitle the holder to common share were exercised as of the beginning of the year.

Employee Benefits

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

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

Retirement Benefits. The Group has a funded, non-contributory defined benefit plan covering all qualified employees. The retirement benefits funded cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Current service costs pertain to the increase in the present value of the defined benefit obligation arising from employee services in the current period, which are recognized in profit or loss.

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

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

The retirement asset (liability) is the excess (deficiency) of fair value of plan assets on which the obligations are to be settled directly over the present value of the retirement obligation. The present value of the retirement obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. The asset ceiling is the present value of future economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan.

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 the reporting date.

Foreign Operations

The assets and liabilities of foreign operations are translated to Peso at exchange rates prevailing at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income (OCI), and presented as “cumulative translation adjustment” account in the consolidated statement of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in OCI, and presented in the “cumulative translation adjustment” account in the consolidated statement of changes in equity.

Related Party Relationships and Transactions

Related party relationships exist 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. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Parent Company; (2) associates; and (3) individuals owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the Parent Company and close members of the family of any such individual.

The key management personnel of the Group and post-employment benefit plan for the benefit of Group’s employees, if any, are also considered to be related parties.

Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

Income Taxes

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused NOLCO and carry-forward benefits of MCIT 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 profit will be available to allow all or part of the deferred tax asset 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 profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax law) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax 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.

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 pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a consolidated asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to 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 financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial statements when material. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Information

The Group determines and presents operating segments based on information that is internally provided to the President, who is the Group's chief operating decision maker. The Group's revenue-generating assets are located in the Philippines.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, accounting estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

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

Establishing Control Over Investment in Subsidiaries. The Group determines that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following are also considered:

- Rights arising from other contractual agreements; and
- The Group's voting rights and potential voting rights.

Classifying Financial Instruments. The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statement of financial position.

Classifying Leases. The Group has entered into lease agreements as a lessor and as a lessee. Critical judgment was exercised by the Group to distinguish such lease agreement as an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. The Group accounted for its lease agreements as operating lease.

Determining Operating Segments. The Group determined that its domestic and foreign operations may be classified as separate reportable operating segments, due to its different geographical locations.

Determining Functional Currency. The functional currency of the Group has been determined to be the Peso. Peso is the currency of the primary economic environment in which the Group operates.

Accounting Estimates and Assumptions

The key accounting estimates and assumptions concerning the future and other key sources of estimation of uncertainty at reporting date that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.