

Additional paid in capital

The increased in additional paid in capital of P20.9 million or 1.9% was due to issuance of shares higher than par value during the year.

Retained earnings

The decreased in retained earnings of P760.7 million, or 29.1% was attributable to the net loss during the period and cash dividends.

Treasury stock

There is no movement in treasury stock during the year.

Income and Expenses

For the year ended December 31, 2016, the Company's EBITDA decreased by 51.7% or P620.3 million, from P1,200.8 million last year to P580.4 million this year. Net income decreased by 134.2% or P1,167.3 million, from P869.6 million last year to (P297.7 million) this year mainly due to expiration of IPLMA contract and loss on sale of assets.

Revenues

Total revenues decreased by P647.9 million or 38.9%, to P1,019.7 million for the year ended December 31, 2016 from P1,667.6 million registered last year. The decreased was due to expiration of IPLMA.

Salaries and Benefits

The decreased of P6.0 million or 5% was mainly due to the decreased in number of head counts.

Depreciation and Amortization

The increased of P10.3 million or 9.4% in depreciation and amortization was due to increase in acquisition of capital expenditure during the year.

Outsourced Services

The decreased in outsourced services of P11.3 million or 12.2% was due to shutdown of PeGS and BGI operations.

Rental

The increased of P2.1 million or 3.2% in rent was due to annual escalation of rental rate.

Utilities and Communications

The decreased in utilities and communications of P10.9 million or 15.9% was due to due to shutdown of PeGS and BGI operations.

Representation and Entertainment

Representation and entertainment decreased by P12.2 million or 26.4% was due to due to shutdown of PeGS and BGI operations.

Supplies

Supplies increased by P6.6 million or 30.3% due to higher supplies in BGI operation.

Impairment Losses

The increased in provision for impairment losses by P34.1 million or 44.7% was due to impairment of fixed assets and expired portion of excess input VAT.

Professional Fees

Professional fees decreased by P1.8 million or 19.6% mainly due lower consultancy fees.

Advertising and Promotion

Advertising and promotion slightly decreased by P0.1 million or 3.1%.

Taxes and Licenses

Taxes and licenses increased by P2.9 million or 14.1% due to payment of local business tax.

Miscellaneous

The increased of P12.4 million or 193.5% was mainly due to increase in other expenses of gaming operations.

Equity in Net Earnings of Associates

Equity in net losses of associates of P0.4 million mainly pertains to the share in net loss of investment in associates.

Loss on sale of assets

Loss on sale of assets amounting to P649.3 pertains to loss on disposal of investment in Acentic thru Host Union Limited of P547.0 million and loss of settlement of receivables of P102.3 million.

Interest Income

The decreased of P37.7 million or 72.8% was mainly due collection of notes receivables.

Interest Expense

The decreased of P16.5 million or 72.6% was due to payment of loans.

Performance for the Period Ended December 31, 2015

Cash and Cash Equivalents

The cash and cash equivalents decreased by P164.6 million or 44% versus last year. The Company operations generated cash amounting to P1,077.9 million, and used its cash mainly for payment of dividends of P703.6 million, payment of loan of P500.0 million and payment of CAPEX of P48.6 million.

Receivables (net)

The receivables decreased by P96.6 million or 32% versus last year, mainly due to collection of receivables.

Inventories

The decreased in inventories amounting to P106.3 million or 100% due to sale of gaming terminals of e-Magine Gaming Corporation.

Notes Receivable

The decreased in notes receivable of P126.0 million or 35% versus last year, was mainly due to collection of current receivables from the sale of investment in Acentic.

Prepayments and Other Current Assets

Prepayments and other current assets slightly decreased by P2.7 million or 3% versus last year mainly due to the decrease in other prepayments.

Investment in Associates

Investment in associates slightly decreased by P0.3 million or 2% due to equity in net losses from associates.

Noncurrent Receivables

Noncurrent receivables decreased by P72.9 million or 13% versus last year, due to reclassification of noncurrent receivables to current receivables in accordance with the payment terms of receivables from the sale of investment in Acentic.

Property and Equipment

The increased in property and equipment of P33.2 million or 15% represents the total acquisitions of P150.7 million less depreciation and amortization amounting to P117.5 million.

The acquisitions mainly pertain to the acquisition of gaming terminals, network and data communication equipment for PeGS and leasehold improvements for BGI operations.

Deferred Tax Assets

Deferred tax assets recognized amounting to P13.6 million represent the amounts of income taxes recoverable in future periods arising from deductible temporary differences.

Other Noncurrent Assets

Other noncurrent assets increased by P3.0 million or 6% mainly due to the increase in rental deposits as a result of business expansions.

Accounts Payable and Accrued Expenses

The increased in accounts payable and accrued expenses by P76.2 million or 33% was mainly due to increase in trade payable.

Income tax payable

Income tax payable pertains to the outstanding balance of provision for income tax during the year.

Notes Payable

Notes payable decreased by P500 million or 71% due to payment of loans.

Retirement Benefits Liability

The decreased in retirement benefits liability of P3.6 million or 20% represents additional provision for employees' retirement benefits and actuarial loss of P9.9 million less contribution to retirement fund of P13.5 million.

Operators' deposit

The increased of operators' deposit of P5.0 million or 10% represents the cash received from operators upon opening of PeGS that serves as a bond/security in case the operators defaults from payments.

Capital stock

The increased in capital stock of P1.0 million or 0.1% was due to issuance of shares during the year.

Additional paid in capital

The increased in additional paid in capital of P10.1 million or 0.9% was due to issuance of shares higher than par value during the year.

Retained earnings

The increased in retained earnings of P166.6 million, or 7% was attributable to the net income during the period, net of cash dividends.

Treasury stock

The increased in treasury stock of P269.4 million or 7% was due to acquisition of own shares of 12.8 million shares.

Income and Expenses

For the year ended December 31, 2015, the Company's EBITDA increased by 2.1% or P24.8 million, from P1,176.0 million last year to P1,200.8 million this year. Net income slightly decreased by 3.8% or P34.2 million, from P903.9 million last year to P869.6 million this year mainly due to increase in income tax expense by P39.1 million or 29%.

Revenues

Total revenues increased by P27.7 million or 1.7%, to P1,667.6 million for the year ended December 31, 2015 from P1,640.0 million registered last year. The increased was mainly contributed by the PeGS business. PeGS improvement was contributed by the increase in number of sites and gaming terminals.

Salaries and Benefits

The increased of P12.4 million or 11% was mainly due to the increased in number of head counts.

Depreciation and Amortization

The increased of P6.2 million or 6% in depreciation and amortization was due to increase in acquisition of capital expenditure during the year.

Outsourced Services

The increased in outsourced services of P2.9 million or 3% was primarily due to an increase in number of contracted employees and security personnel in BGI operations.

Rental

The decreased of P2.1 million or 3% in rent was due to lesser rental rate of the new office location.

Utilities and Communications

The decreased in utilities and communications of P19.4 million or 22% was due to decreased in connectivity cost as a result of transitioning of servers.

Representation and Entertainment

Representation and entertainment increased by P4.3 million or 10% as a result of the higher representation and entertainment expense in BGI operation.

Supplies

Supplies increased by P2.2 million or 12% due to higher supplies and inventory cost in BGI operation.

Operator Incentives and Commissions

The decreased of P1.3 million or 100% was mainly due to closure of the Asia-Pacific business operation.

Impairment Losses

The increased in provision for impairment losses by P31.9 million or 72% was due to impairment of e-Magine and increased in impairment of expired portion of excess input VAT.

Professional Fees

Professional fees increased by P0.6 million or 6% mainly due increased in consultancy fees.

Advertising and Promotion

Advertising and promotion slightly decreased by P0.2 million or 4% as result of closure of Asia-Pacific operation.

Taxes and Licenses

Taxes and licenses increased by P9.1 million or 80% due to payment of local business tax.

Miscellaneous

The decreased of P4.1 million or 39% was mainly due to decrease in other expenses of gaming operations and closure of Asia-Pacific operation.

Equity in Net Earnings of Associates

Equity in net losses of associates of P0.3 million mainly pertains to the share in net loss of investment in associates.

Interest Income

The decreased of P8.0 million or 13% was mainly due lower interest rate from notes receivables.

Interest Expense

The decreased of P26.8 million or 54% was due to payment of loans.

Performance for the Period Ended December 31, 2014

Cash and Cash Equivalents

The cash and cash equivalents increased by P33.0 million or 10% versus last year. The Company operations generated cash amounting to P1,052.3 million, and used its cash mainly for CAPEX P75.2 million, payments of dividends P468.9 million and payment of loan P500.0 million.

Receivables (net)

The receivables increased by P45.8 million or 18% versus last year, mainly due to increase in interest receivables.

Inventories

The increased in inventories amounting to P50.2 million or 90% due to the gaming terminal cost of e-Magine Gaming Corporation.

Notes Receivable

The increase in notes receivable of P47.3 million or 15% versus last year, was mainly due to reclassification of receivables from the sale of investment in Acentic.

Prepayments and Other Current Assets

Prepayments and other current assets decreased by P5.7 million or 6% versus last year mainly due to the decrease in input VAT.

Investment in Associates

Investment in associates slightly increased by P0.3 million or 2% due to equity in net earnings from associates.

Noncurrent Receivables

Noncurrent receivables decreased by P72.9 million or 11% versus last year, due to reclassification of current receivables in accordance with the amendment of payment terms of receivables from the sale of investment in Acentic.

Property and Equipment

The decreased in property and equipment of P28.2 million or 11% represents the total acquisitions of P75.2 million less depreciation amounting to P103.4 million.

The acquisitions mainly pertain to the network and data communication equipments for PeGS and BGI operations.

Deferred Tax Assets

Deferred tax assets recognized amounting to P14.7 million represent the amounts of income taxes recoverable in future periods arising from deductible temporary differences.

Other Noncurrent Assets

Other noncurrent assets increased by P5.4 million or 12% mainly due to the increase in rental deposits as a result of business expansions.

Accounts Payable and Accrued Expenses

The increased in accounts payable and accrued expenses by P16.7 million or 8% was mainly due to increase in trade payable.

Income tax payable

The increased in income tax payable by P124.9 million was mainly due to provision for income tax expense during the year.

Notes Payable

Notes payable decreased by P500 million or 42% due to payment of loans.

Retirement Benefits Liability

The decreased in retirement benefits liability of P9.5 million or 34% represents additional provision for employees' retirement benefits and actuarial loss of P5.5 million less contribution to retirement fund of P15 million.

Operators' deposit

The increased of operators' deposit of P1.3 million or 3% represents the cash received from operators upon opening of PeGS that serves as a bond/security in case the operators defaults from payments. This deposit is to be returned to the operators after termination of the contract.

Capital stock

No significant movement for capital stock in 2014.

Additional paid in capital

No significant movement for additional paid in capital in 2014.

Retained earnings

The increase in retained earnings of P435.1 million or 21% was attributable to the net income during the period, net of cash dividends.

Treasury stock

No movement for treasury stock in 2014.

Income and Expenses

For the year ended December 31, 2014, the Company posted net income of P903.9 million, that is 345% growth from last year. EBITDA also increased by 19%. Net income increased mainly due to higher revenue in PeGS and reduction of operating expenses in 2014.

Revenues

Total revenues increased by P146.3 million or 10%, to P1,640.0 million for year ended December 31, 2014 from P1,493.7 million registered last year. The increased was contributed by the PeGS business; however, it is slightly mitigated by the decreased in revenue from PhilWeb Asia-Pacific operation. PeGS improvement was contributed by the increase in number of sites, stations and higher amount of customer's deposits.

Salaries and Benefits

The decreased of P10.7 million or 8% was mainly due to the decreased in number of head counts.

Depreciation and Amortization

The decreased of P28.3 million or 21% in depreciation and amortization was due to lower capital expenditure and increased in fully depreciated asset this year.

Outsourced Services

The decreased in outsourced services of P5.0 million or 5% was primarily due to an decrease in number of contracted employees and security personnel in Asia-Pacific and BGI operations.

Rental

The decreased of P4.1 million or 6% in rent was due to lesser rental rate of the new office location.

Utilities and Communications

The increased in utilities and communications of P17.3 million or 24% was due to additional connectivity requirements for additional servers.

Representation and Entertainment

Representation and entertainment decreased by P14.8 million or 26% as a result of the lower travel and representation expense in Asia-Pacific operation.

Supplies

Supplies decreased by P7.0 million or 26% due to lower supplies and inventory cost in Asia-Pacific operation.

Operator Incentives and Commissions

The decreased of P8.6 million or 87% was mainly due to lower commissions provided to the distributors of scratch cards in the Asia-Pacific business operation.

Impairment Losses

The provision for impairment losses pertains to expired portion of excess input VAT and expired scratch card inventory.

Professional Fees

Professional fees decreased by P3.3 million or 27% mainly due decreased in consultant fees in Asia-Pacific operation.

Advertising and Promotion

Advertising and promotion decreased by P11.3 million or 72% as result of slowdown of Asia-Pacific operation.

Taxes and Licenses

Taxes and licenses decreased by P2.9 million or 20% due to lower documentary stamp tax as a result of payment of loans.

Miscellaneous

The increased of P1.7 million or 20% was mainly due to increase in other expenses of gaming operations.

Equity in Net Earnings of Associates

Equity in net earnings of associates of P0.3 million mainly pertains to share in net income of investment in Alphaforce Security Agency Inc.

Interest Income

The increased of P37.3 million or 166% was mainly due interest income from notes receivables from the sale of investment in Acentic.

Interest Expense

Interest expense increased by P27.5 million or 125% was due to availment of loans in last quarter of 2013.

The Company's Key Performance Indicators

For the year 2016, the Company's key performance indicators are the following:

- 1.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P580,444,055 or 51.7% lower compared last year.
- 2.) Revenues decreased in 2016 by 38.9% from P1,667,610,476 to P1,019,726,562.
- 3.) Operating Income margin was 33.7%. Operating Income of P343,412,878 divided by Net Revenues of P1,019,726,562.
- 4.) Current ratio was at 0.88:1.00. Current Assets of P317,921,025 divided by Current Liabilities of P359,639,162.
- 5.) Asset to equity ratio was at 2.64:1.00. Total Assets of P648,366,801 divided by Total Equity of P245,899,069 .
- 6.) Debt to equity ratio was at 1.64:1.00. Total Liabilities of P402,467,732 divided by Total Equity of P245,899,069 .

For the year 2015, the Company's key performance indicators are the following:

- 1.) The Company's Net Income margin for the aforementioned period was at 52%. Net Income of P869,626,033 divided by Net Revenues of P1,667,610,476.
- 2.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P1,200,758,970 or 2.1% higher compared last year.
- 3.) The increase in revenues in 2015 was 1.7%. It was computed by dividing the difference between 2015 and 2014 Revenue by 2014 Revenue.
- 4.) Operating Income margin was 61%. Operating Income of P1,017,262,743 divided by Net Revenues of P1,667,610,476.
- 5.) Current ratio was at 1.21:1.00. Current Assets of P737,544,824 divided by Current Liabilities of P610,798,305.
- 6.) Asset to equity ratio was at 1.76:1.00. Total Assets of P1,580,166,741 divided by Total Equity of P897,425,866.

- 7.) Debt to equity ratio was at 0.76:1.00. Total Liabilities of P682,740,875 divided by Total Equity of P897,425,866.
- 8.) The Return on Total Assets was 55%. Net Income of P869,626,033 divided by the Total Assets of P1,580,166,741.
- 9.) The Return on Equity was 97%. Net Income of P869,626,033 divided by the Total Equity of P897,425,866.

For the year 2014, the Company's key performance indicators are the following:

- 1.) The Company's Net Income margin for the aforementioned period was at 55%. Net Income of P903,875,688 divided by Net Revenues of P1,639,956,575.
- 2.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P1,176,003,787 or 19% higher compared last year.
- 3.) The increase in revenues in 2014 was 10%. It was computed by dividing the difference between 2014 and 2013 Revenue by 2013 Revenue.
- 4.) Operating Income margin was 63%. Operating Income of P1,032,105,775 divided by Net Revenues of P1,639,956,575.
- 5.) Current ratio was at 1.17:1.00. Current Assets of P1,233,786,008 divided by Current Liabilities of P1,053,823,031.
- 6.) Asset to equity ratio was at 2.14:1.00. Total Assets of P2,114,515,904 divided by Total Equity of P990,140,448.
- 7.) Debt to equity ratio was at 1.14:1.00. Total Liabilities of P1,124,375,456 divided by Total Equity of P990,140,448.
- 8.) The Return on Total Assets was 43%. Net Income of P903,875,688 divided by the Total Assets of P2,114,515,904.
- 9.) The Return on Equity was 91%. Net Income of P903,875,688 divided by the Total Equity of P990,140,448.

Key Variable and Other Qualitative and Quantitative Factors

There were no known trends, events or uncertainties that will have material impact on the Company's liquidity.

There were no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

The current capitalization of the Company, and expected future revenues from its various activities are projected to sufficiently meet the Company's operating cash requirements.

No extraordinary purchase of plant and equipment are expected beyond those in the regular course of the Company's operations.

There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the Company's revenues or continuing operations.

There are no significant elements of income that did not arise from the Company's continuing operations.

There were no known causes for any material changes from period to period of financial statements, which shall include vertical and horizontal analyses of any material item.

There are no seasonal aspects that have material effect on the Company's financial condition or results of operation.

Audit and Audit Related Fees

Audit fees in relation with the services rendered for the examination and preparation of the Company's financial statements. The following table sets out the aggregate fees billed for each of the last three years for professional services rendered by the independent public accountant.

	2016	2015	2014
Audit and Audit-Related Fees	P847,450	P1,262,150	P1,234,238
Tax Fees	None	none	none
Other Fees	none	none	none
Total	P847,450	P1,262,150	P1,234,238

The auditor of the Company conducted its audit in accordance with the auditing standards generally accepted in the Philippines with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole conforms with the accounting principles generally accepted in the Philippines. They performed tests of the accounting records and such other procedures, as they considered necessary in the circumstances to provide a reasonable basis for an opinion on the financial statements. They also assessed the accounting principles used and significant estimates made by the management and evaluated overall financial statements presentation.

The auditor also considered the Company's internal control in order to determine the nature, timing and extent of the audit procedures for the purpose of expressing an opinion on the financial statements. There were no additional fees related to this.

There were no products and services provided by the external auditor other than the services reported under the above items.

The Audit Committee approved the policies and procedures in relation to the services of the external auditor.

D. General Nature and Scope of Business

PhilWeb Corporation, the Company, was originally a mining and exploration company incorporated in August 20, 1969 under the name "South Seas Oil and Mineral Exploration Co. Inc." with an authorized capital stock of P50 million divided into five billion shares with a par value of P0.01 per share. On March 29, 1984, the stockholders authorized the change in the Company's name to "South Seas Natural Resources, Inc." which was approved by the SEC. The stockholders subsequently authorized on September 22, 1987 an increase in the Company's authorized capital stock to P200 million divided into 20 billion shares with a par value of P0.01 each share, 60% of which were classified as Class "A" shares which may be held only by Filipino citizens, and 40% of which were classified as Class "B" shares which may be held by non-Filipinos. The SEC approved the increase in capital and classification of shares of stock.

The Company became an Internet company in January 18, 2000 upon the stockholders' approval of a restructuring plan which involved changes in the Company's name, primary purpose, increase in capital stock, declassification of shares, increase in the number of directors, and adoption of new by-laws, among other matters. At the same meeting, the stockholders likewise authorized the Board of Directors to sell all or substantially all of the assets of the Company, and approved the sale of the mining properties and tangible mining assets.

On January 18, 2000, the Parent Company entered into a Deed of Assignment with All-Acacia Resources, Inc. whereby the Parent Company transferred all its rights over its mining claims located in the Provinces of Samar and Surigao and all of its mining assets, both tangible and intangible, used in the Parent Company's mining operations. In consideration therefore, All-Acacia agreed to assume all liabilities and obligations of the Parent Company, including those relating to the assignment of advances from stockholders and/or deposits on subscriptions in excess of P18 million which had been agreed to be converted to equity of the Parent Company, and arrange for the resignation, retirement or termination of all the Parent Company's personnel relating to the mining business and pay their corresponding separation or retirement pay, as well as hold the Parent Company free and harmless from any expense, liability or obligation arising from the operation of the Parent Company as of the date of the Agreement.

The change in the Company's corporate name to "PhilWeb.Com, Inc.", its primary purpose from a mining and oil exploration company to that of an Internet company, increase in the number of directors to 15, and adoption of new By-laws became effective upon their approval

by the SEC on February 8, 2000. The SEC subsequently approved the increase in the Company's authorized capital stock to P2.6 Billion and the declassification of its common shares to one class on March 6, 2000.

At the annual stockholders' meeting on May 31, 2002, the stockholders approved the change in corporate name from "PhilWeb.com, Inc." to "PhilWeb Corporation". The SEC approved these changes on November 5, 2002.

At the annual stockholders' meeting on May 29, 2003, the stockholders approved the amendment of the Company's Articles of Incorporation by changing the primary purpose to that of application service provider for gaming and including the current internet business activities as an additional secondary purpose of the Company. The SEC approved these amendments on November 10, 2005.

At the annual stockholders' meeting on May 28, 2009, the stockholders approved the amendment to the Company's Articles of Incorporation changing the par value of the Company's common stock from P0.01 per share to P1.00 per share, with the authorized capital stock unchanged at P2.6 Billion but with a concurrent decrease in the number of shares from 260 Billion shares to 2.6 Billion shares. On September 22, 2009, the Securities and Exchange Commission approved the said amendment.

1.1 PAGCOR e-Games cafés

e-Games was licensed by the Philippine Amusement and Gaming Corporation (PAGCOR) in 2003 to launch e-Games Stations, which are Internet cafés exclusively dedicated to casino games. With technology provided by PhilWeb, patrons can choose from more than 300 casino games, including baccarat, blackjack, various slot machine games, video poker and sports betting. Most e-Games cafés operate on a 24/7 basis.

There were 288 operating e-Games cafés across the country, majority of which are owned and operated by independent operators. These e-Games Operators handle day-to-day operations and get a commission based on the casino winnings of the café.

On August 11, 2016, PAGCOR decided not to renew the Intellectual Property License and Management Agreement (IPLMA) with PhilWeb.

Following the expiration of the said IPLMA with PAGCOR for the e-Games service, PhilWeb has been unable to provide services to the e-Games operators. During this time, PhilWeb continues to comply with PAGCOR instructions on the release of operator funds as well as player credits in their gaming accounts.

Note that all discussions relating to PhilWeb's operation of e-Games applies prior to the expiration of IPLMA with PAGCOR unless mentioned otherwise.

Operator Partnerships

The Platinum Partner Program for e-Games operators was launched in March 2015, with directions to strengthen the business and marketing support relationship to directly benefit site operations. By the end of 2015, 197 sites had signed up for the program. Benefits of the program include additional support for site-level customer acquisition and retention activities, e-Games brand-building as well as infrastructure support through access to an exclusive IPVPN service for robust data connectivity to the gaming servers. Platinum business partners also had access to a secondary casino server to ensure business continuity of gaming services.

Content and Services

2015 saw significant enhancements made to gaming content and player user interface. The first enhancement was the addition of new and exciting progressive slot machine games to the e-Games platform. For the first time, e-Games members were exposed to multi-level progressive jackpots, providing an experience parallel to the large integrated resort-casinos. High-jackpot games provided the single biggest jackpot payout in e-Games history, with a player winning a pot worth nearly P2.6 Million. Most of these new games were launched in a new virtual casino called Swinging Singapore, and were made exclusively available only to sites in the Platinum Partner Program. Apart from providing a new user experience, PhilWeb also worked with PAGCOR to revise the progressive seed contribution system, which ensures a fair apportioning of the cost of the jackpot contribution between the different stakeholders.

The second key enhancement was the increased security protocols added to the customers' gaming accounts, highlighted by the activation of a PIN type security code at the member's log-in at the start of their gaming session. The PIN code provides basic level security to prevent unauthorized use of the player's account. Enabling and nominating a personal identification number code also allows the customer to leave game credits in their account, and minimizes the need to transport physical cash to and from the e-Games venues.

Connected to this is the rollout of e-Games' closed -loop electronic wallet called e-SAFE in 2015. e-SAFE allows players to place bets to games using the wallet balance, and to receive payouts through their wallets, which they can keep or withdraw any time they want. An average of P3.4 million is kept by players in e-SAFE daily. 90% of players keep a balance in e-SAFE, and 95% of these balances range from P20 to P21,000.

The third key enhancement was the inclusion of Sports Betting content into the e-Games user experience, allowing players to place bets on their favorite sports from any of the e-Games terminals at all e-Games locations. Bets are withdrawn from the players' account and automatically credited back should the outcomes be in the player's favor. Previously limited to a single stand-alone kiosk, available only in less than a hundred e-Games sites, the inclusion of the sports betting service in the e-Games platform in November 2015 is attracting new visitors to the venues. Total PhilWeb share from Sports Betting revenues doubled in November and December 2015 due to the wider access. Recently, PhilWeb handled the largest sportsbetting payout to date, amounting to a little over P7.2 million.

Marketing

Continuing into 2015, the e-Games Club Platinum Program for SVIP customers continued to provide increasing value to the player experience. This concierge service allowed PhilWeb to strengthen its relationships with its key customers, despite increased competition from the larger Integrated Resort Casinos and various other competitors. Several non-gaming activities were conducted for this segment, highlights of which were an exclusive viewing of the Pacquiao-Mayweather fight in May 2015 and an advanced block screening of Star Wars: The Force Awakens in December 2015. Players were also provided with bespoke benefits for their continued patronage, including trips to the resort-island of Balesin.

A key program directly benefiting e-Games sites was Project Engage. Multiple teams worked in parallel to conduct player acquisition activities near e-Games venues weekly, for the whole year. At its conclusion, Project Engage reached more than 250 of the operating e-Games locations nationwide, resulting in more than 19,000 new member registrations. During Project Engage activities, brand ambassadors also took the opportunity to assist existing players to update their membership details in the player database.

Other notable marketing efforts in 2015 include the launch of the e-Games Membership App available for both iOS and Android mobile platforms. The app enables members to track their rewards points and convert these to the various available items. The app provides members with the locations of the nearest e-Games venue within a five kilometer radius of their current location. The app will also become the venue for enhanced communications between the PhilWeb Marketing and Customer Service teams and the Customer for any related news and concerns over the user experience. In addition to the membership app, marketing messages can now be pushed directly to the patron's gaming terminals when the player first logs into the system. This messaging feature was used to announce new content as well as updates to all ongoing promotions for the e-Games network.

Roll-Out and Expansion

The e-Games nationwide network grew by 20 new locations up to August 11, 2016, bringing the total operating e-Games to 288. Most of the e-Games are in the National Capitol Region and across Luzon, to include Batangas. These new sites, as well as expansion activities from existing operators, brought the total number of installed e-Games gaming terminals to 9,189 as of third quarter 2016, 8.8% increase from the same period last year. Also included in this expansion are e-Games terminals that have been installed in 13 PAGCOR-licensed Electronic Bingo Arcades.

1.2 BigGame, Inc.

BigGame's network of cafés functions as the Company's "R&D laboratory" where new games, strategies and other innovative ideas are first tested. Results, whether positive or negative, are reported to e-Games operators during the quarterly General Assemblies. If a new game or idea delivers positive results and is approved unanimously by the operators, the BigGame café in question becomes the standard by which all other BigGame and e-Games cafés will follow.

Because of this rigorous process, BigGame continues to bring in improved gaming configurations and upgrades for the Company's various services and amenities.

In 2016, BigGame added four locations to its network, bringing the total number of BigGame sites to 26. Total number of gaming terminals grew by 17.6% to 1,366 as of third quarter 2016. BigGame continued in its pioneering efforts, by obtaining regulatory approvals to establish e-Games in greenfield locations, namely in Tanauan City, Batangas Province and Alphaland's Balesin Island resort located in Quezon Province. BigGame also acquired the existing e-Games operations of two locations in Paranaque, NCR, and one each in Cebu Province and Camarines Norte. Apart from these new additions, BigGame, Inc. management proceeded with various improvements to the existing gaming sites, with the objective of enhancing the player experience. These were conducted in its Mindanao Avenue (Quezon City), Sucat (Parañaque), and Crossroads (Cebu City) branches. These sites have shown increases in gaming revenue since they were relaunched to the public.

BGI's revenue as of the third quarter 2016 decreased to P140.7 million, 9.4% lower compared to 2015 of the same period.

Following a brief period of non-operation due to the expiration of PhiWeb's IPLMA contract with PAGCOR, BigGame managed to re-open 10 of its key locations as of December 2016. It also took the opportunity to permanently close some locations that were affecting the company's profitability. As of the preparation of this report, 18 BGI sites are already back in operation.

Best Gaming Experience

BigGame continued in its objective to provide the Best Gaming Experience to its customers. A day-long food buffet was introduced at the BigGame locations during the 2015 Holiday Season and continues in selected locations in 2016. A Platinum Lounge was set-up within the premises of BigGame's Tomas Morato branch to provide further privacy to SVIP patrons and is supported by a day-long food service and enhanced beverage menu.

BigGame will continue its site expansion, renovation and refurbishment activities in 2016. In April 2016, Tanauan site was launched the first of its kind in Batangas. The year ahead will also see more innovations and improvements in player experience. Player acquisition efforts will also be a focus through activation activities in various entertainment establishments. BigGame remains committed to increasing customer service levels, as well as adding site amenities and creating an ambiance that extends the best gaming experience for our target market.

1.3 Corporate Services

Finance

The PhilWeb Finance Department continued to provide its unwavering support to the growth of the business in 2015 through the sound implementation of financial systems, processes and internal control policies that safeguard the Company assets and resources.

During the first quarter of the 2016, Finance developed the reporting process and reconciliations of progressive jackpot contributions and actual payouts for slot machine games. This paved the way for PAGCOR to approve the introduction of new games with large progressive payouts, such as Happy Golden Ox, Three Stooges and Rudolf's Revenge. The introduction and implementation of new games was successful not only in creating excitement for our players, but also in delivering additional revenue to all our stakeholders. In October, the highest single jackpot payout was 2.7 million pesos.

Another milestone for the year was the implementation of our closed-loop e-wallet which we branded "e-SAFE". The keys to the implementation of e-SAFE were the internal controls and security measures that we established to ensure that the client's money is safe and secure. Coupled with the introduction of new gaming platforms such as MSW, the e-SAFE will now allow players to place bets to these games using the wallet balance. This will also allow players to receive payouts through their wallets, which they can keep or withdraw any time they want.

Finance continues to ensure that all cash from the nationwide network of e-Games are collected on a timely and accurate manner. Through our company-proprietary POS system and 24/7 operation of our Cash Centers, we are able to monitor cash exposure and thereby enabling us to collect or replenish the cash needs of each site almost immediately. Our arrangements with banks, also allow us to replenish the operator and pay the player of the provincial sites on a real-time basis. The strict implementation of collection policies enables us to manage our cash with very minimal risk to the Company and to the operator.

Finance continuously provides financial reports, reconciliations in a timely manner to management and stakeholders to support key business decisions.

Legal

The Legal Department ensures that the interests of the Company as well as its subsidiaries and affiliates are fully protected. Likewise, it makes certain that the Company observes all laws, rules and regulations relevant to the operation of its business and that it complies with all the reportorial requirements of various government offices and agencies such as, but not limited to, the Securities and Exchange Commission, the Philippine Stock Exchange, the Board of Investments and the Philippine Economic Zone Authority. In the same manner, the Legal Department manages and oversees the Company's dealings with concerned local government units with respect to the issuances of permits and licenses.

The Legal Department is also responsible for the registration of trademarks, patents and copyrights that are aimed to protect the intellectual property rights of the Company. Moreover, it is in-charge of reviewing all the contracts that the Company enters into thereby guaranteeing that the terms of every agreement are beneficial to the interests of the Company. Further, the Legal Department handles all cases brought by or against the Company whether these cases involve civil, criminal or administrative matters. In all, the Legal Department serves as the legal adviser and consultant of the Company, ever vigilant and protective of the Company's rights and interests.

Customer Support

In our continued drive to provide fast and reliable support to all e-Games members, operators and site staff, as well as customers of MegaSportsWorld 365 days a year, 24 hours a day, several changes were introduced in the Customer Support department in 2015. New channels were opened from the traditional hotline and email, to include SMS and chat support through the Viber app. A new Customer Relationship Management system was likewise implemented giving the team and other key customer facing groups a real time, single source of client engagements and interactions. With such improvements in place, over 250,000 transactions were handled last year across all PhilWeb products and the different channels. Customer Support has maintained a 92% average answer rate for all inbound calls and written customer correspondences (email, SMS and chat) were responded to within 30 minutes. On top of all inbound transactions from various stakeholders, the group has carried out continuous outbound support for other departments: Marketing – for promo related activities; Information Technology – for maintenance advisories; and Finance – for cash collection and replenishment.

In 2016, the group aims to enrich and further improve customer experience by providing more options for individuals to communicate and interact with us, streamline processes to shorten resolution times, and targeted staff training to reinforce the culture of service in every member of the Customer Support team.

1.4 Information Technology

PhilWeb's Information Technology group is composed of four functional departments, namely: Infrastructure, Software Development, Service Delivery and Service Support. Each department's functions are aligned with PhilWeb's operational requirements as well as its corporate needs.

The Infrastructure Department's primary role is to provide all the components – hardware, software, network resources, facilities and services – needed to deliver IT services for PhilWeb's casino and corporate operations. The team is also responsible for the monitoring and maintenance of these components to ensure that operations are supported 24/7.

The Software Development Department is in charge of creating and implementing software vital to PhilWeb's casino operations. As of this writing, a number of home grown applications are in production which will allow PhilWeb to provide a better gaming experience to its customers through the management of their membership credentials, e-wallet and loyalty points. Internally, the group has also developed tools to provide the operational teams such as Customer Support, Finance Operations, and Casino Operations with the information they need for their day-to-day activities.

The Service Delivery Department is responsible for the implementation and management of quality IT services. Guided by industry best practices, the group manages delivery of services through the disciplines of Project Management and Service Management. In line to its vision to ensure quality, the team also has a Quality Assurance unit which conducts testing on home