

SEC Number 39121
File Number

PHILWEB CORPORATION

(Company's Full Name)

**41st Floor, One San Miguel Avenue Condominium,
San Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City**

(Company's Address)

236-5577

(Telephone Number)

December 31

(Fiscal Year Ending)
(month & day)

**Quarterly Report Pursuant to Section 17
of the Securities Regulation Code and SRC Rule 17
(2) (b) Thereunder**

Form Type

Amendment Designation (if applicable)

June 30, 2019

Period Ended Date

N/A

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2019
2. Commission identification number 39121
3. BIR Tax Identification No 000-141-527-000
4. Exact name of issuer as specified in its charter PhilWeb Corporation
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office 41st Floor, One San Miguel Avenue Condominium, San Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City
Postal Code 1605
8. Issuer's telephone number, including area code (632)236-5577
9. Former name, former address and former fiscal year, if changed since last report 6/F Adamson Centre, 121 L.P. Leviste Street, Salcedo Village, Makati City

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding (net of treasury shares of 81,380,938) |
|---------------------|--|
| Common P1 par value | 1,435,776,680* |

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange / Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

Part I - Financial Information

Item 1. Financial Statements See attached

The interim financial statements have been prepared in accordance with Philippine Financial Reporting Standard.

The same accounting policies and methods of computation are followed in the interim and annual financial statements.

There are no seasonal aspects that have an effect on the Company's results of operations.

There are no unusual items affecting Assets, Liabilities, Equity, Net income, or Cash Flows.

A restatements were made to prior financial period amounts in the unaudited quarterly financial statements.

There is no disclosure on segment information in the Company's annual financial statements.

There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements.

There are no major changes in the Company, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations, other than the following:

1. On July 10, 2012, ePLDT Inc. and the Company signed the Share Purchase Agreement covering 397,892,307 shares or 26.28% of the total outstanding capital of the Company. The sale of shares priced at P10.70 will be executed in four tranches to be completed by the end of 2013. Acquisition of shares in the first tranche was consummated on July 13, 2012.

On October 19, 2012, PhilWeb Casino Corporation (PCC) a wholly owned subsidiary, on behalf of the Company, accelerated the acquisition of the second tranche of shares from ePLDT which also comprise of 93,457,944 shares of the Company at the same price of Php10.70 per share.

On October 22, 2012, the Company and PCC entered into a Placement Agreement with UBS AG and Religare Capital Markets (Hong Kong) Limited acting as placement agents for the sale of 137.5 million shares of the Company to qualified buyers at a price of P15.00 per share or a total aggregate price of P2,062.5 million.

On June 13, 2013, PCC and ePLDT transacted the third tranche of Philweb shares totaling 93,457,944 shares. The total price paid for third tranche is P1,015 million or P10.86 per share.

On December 13, 2013, PCC and ePLDT transacted the fourth and last tranche of Philweb shares totaling 117,518,475 shares. The total price paid for last tranche is P1,297 million or P11.04 per share.

2. The Company's Intellectual Property License and Management Agreement (IPLMA) with PAGCOR expired on July 11, 2016. On July 8, 2016 PAGCOR extended the contract from July 11, 2016 until August 10, 2016.

3. The IPLMA expired on August 11, 2016. On December 22, 2016, the Company was notified by PAGCOR that it has to go thru the procurement process.
4. On March 8, 2017, the Company's Board of Directors approved the plan, thru its subsidiary BGI, to acquire 15 PAGCOR Gaming Stations from existing independent operators using a total of up to 7,500,000 Company shares it is currently holding in treasury as payment.
5. On August 18, 2017, the Company received a Provisional Certificate of Accreditation from the PAGCOR to be an accredited Electronic Gaming System (EGS) Service Provider. As an Accredited EGS Service Provider, the Company can offer its software and other services to the operators of PAGCOR-licensed gaming sites for electronic games. PAGCOR will conduct an inspection and testing of PhilWeb's servers and gaming facilities as required under the accreditation rules.

The testing and inspection was completed and on September 25, 2017 the Company received a letter from PAGCOR indicating that the Company passed the inspection and testing as required.

6. On October 30, 2017, the Company received a Certificate of Accreditation from PAGCOR. In compliance with the accreditation rules, the Company submitted the P25 million letter of credit as performance bond on November 2, 2017.
7. On December 1, 2017, the first 16 electronic gaming locations were allowed to operate under PhilWeb's Electronic Gaming System platform.
8. On February 20, 2018, PAGCOR allowed the Company to offer its services to an additional 21 electronic gaming location.
9. On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Company's electronic gaming system, thereby allowing the Company to fully resume its operations.
10. On May 31, 2019, the Company and Palmary Corporation signed a Cooperation Agreement to jointly develop their electronic bingo or e-bingo businesses. On the same date, Palmary Corporation also signed a Share Purchase Agreement to purchase 97,333,333 shares of the Company.

There are no contingent liabilities or contingent assets since the last annual balance sheet date.

There are no material contingencies and any other events or transactions not mentioned that are material to an understanding of the current interim period.

Earnings Per Share

Earnings per share is determined by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed as aforementioned and assuming further that all outstanding options are exercised at the beginning of the period.

The weighted average number of common shares used in determining basic and diluted earnings per share is shown below:

| | Basic* | Diluted* |
|---------------|---------------|---------------|
| June 30, 2019 | 1,278,732,577 | 1,278,732,577 |
| June 30, 2018 | 1,175,587,196 | 1,176,656,051 |

* Net of treasury shares directly held by PhilWeb and PCC. PCC is a wholly-owned subsidiary.

Financial Assets and Liabilities

Date of Recognition. The Company recognizes a financial asset or a financial liability in the 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 and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments 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 fair value through profit and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction 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 Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Company's business model and its contractual cash flow characteristics.

As at June 30, 2019, the Company does not have financial assets at FVPL and FVOCI and financial liabilities at FVPL.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at June 30, 2019, the Company's cash and cash equivalents, trade and other receivables and rental and other deposits presented under "Other noncurrent assets" are classified under this category.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle

the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at June 30, 2019, the Company's accounts payable and other current liabilities (excluding statutory payables), notes payable and other noncurrent liability are classified under this category.

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 Company adopted effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments*
- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*
- PFRS 15, *Revenue from Contracts with Customers*

To be Adopted on January 1, 2019

- PFRS 16, *Leases*
- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments*

Under prevailing circumstances, except for PFRS 16, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements.

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

The Company became an Internet Services 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 Company entered into a Deed of Assignment with All-Acacia Resources, Inc. whereby the 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 Company's mining operations. In consideration therefore, All-Acacia agreed to assume all liabilities and obligations of the Company, including those relating to the assignment of advances from stockholders and/or deposits on subscriptions in excess of ₱18 million which had been agreed to be converted to equity of the Company, and arrange for the resignation, retirement or termination of all the Company's personnel relating to the mining business and pay their corresponding separation or retirement pay, as well as hold the Company free and harmless from any expense, liability or obligation arising from the operation of the 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 Service company, increase in the number of directors to 15, and adoption of new By-laws became effective upon the 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 stockholders also approved the inclusion of the gaming business as an additional secondary purpose of the Company. The SEC approved these changes on November 5, 2002.

On November 28, 2002, the Company signed a Memorandum of Agreement with Philippine Amusement and Gaming Corporation (PAGCOR) for the Company to provide PAGCOR with technical consultancy and marketing services related to Internet Sports Betting. PAGCOR has launched its Internet Sports Betting website called BasketballJackpot.Net, with the objective of getting a slice of the US\$10 billion worldwide Sports Betting market. In April 2004, the Company launched its internet casino business.

At the annual stockholders' meeting on May 29, 2003, the stockholders approved the change in the primary purpose of the Company to develop, design, build, install, own, possess, use, operate, manage, market and maintain gaming systems, applications, programs, and operating platforms and facilities of every description, including but not limited to integrated and on-line computer systems, terminals, software, servers and routers together with interconnecting and interlinking telecommunications systems for voice data and multimedia transmission and interexchange for the transport, storage and processing of messages and data; to do any and all acts, activities and undertakings in relation to, arising out of and incidental to the development, design, building, installment, ownership, possession, usage, operation, management, marketing and maintenance of such gaming systems, applications, programs, and operating platforms and facilities, including but not limited to the sale and the leasing of such gaming systems, applications, programs, and operating platforms and facilities, and the supply and provision of management, operation, technical and marketing expertise and other advisory and consultation services in relation thereto, including but not limited to services to Philippine Amusement and Gaming Corporation (PAGCOR) and, as permitted by law, other gaming operators.

On June 1, 2006, the Parent Company entered into an Intellectual Property License and Management Agreement for Internet Casinos with PAGCOR, wherein the Parent Company has agreed to license to PAGCOR the former's intellectual property rights to the software system and to provide the collateral hardware and other requirements necessary for the operations of PAGCOR's Internet casino game offering. This supersedes the Memorandum of Agreement dated November 28, 2002, Supplemental Agreement No. 1 dated March 18, 2003 and a Supplemental Agreement No. 2 dated June 30, 2003.

On December 17, 2010, Parent Company entered into an Omnibus Amended Intellectual Property License and Management Agreement (IPLMA) for PAGCOR E-Games with PAGCOR wherein the Parent Company grants an exclusive intellectual property license to PAGCOR for the use of its proprietary software system and collateral hardware necessary for PAGCOR to operate the Internet Casino or PAGCOR e-Games. This supersedes the June 1, 2006 IPLMA. The IPLMA will expire on July 11, 2016.

On July 8, 2016, PAGCOR extended the IPLMA from July 11, 2016 until August 10, 2016.

IPLMA contract expired on August 11, 2016 and has not been renewed.

On August 18, 2017, the Company received a Provisional Accreditation from PAGCOR as an EGS Service Provider of PAGCOR-licensed Gaming Sites for Electronic Games. PAGCOR conducted an inspection and testing of company's servers and gaming facilities as required under the accreditation rules. On September 25, 2017, the Company received a letter from PAGCOR indicating the company's compliance in the inspection and testing requirements mentioned in the Provisional Accreditation. On October 30, 2017, the Company received a Certificate of Accreditation from the PAGCOR as an EGS Service Provider of PAGCOR-licensed Gaming Sites for Electronic Games.

On December 1, 2017, the first 16 electronic gaming locations were allowed to operate under PhilWeb's Electronic Gaming System platform. On February 20, 2018, PAGCOR then allowed the Company to offer its services to an additional 21 electronic gaming location.

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

2.1 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 that time, PhilWeb continued to comply with PAGCOR instructions on the release of operator funds as well as player credits in their gaming accounts.

On August 14, 2017, PAGCOR published guidelines for the Accreditation of Electronic Gaming System (EGS) Service Provider. PAGCOR issued its first EGS accreditation to PhilWeb on October 30, 2017. On December 1, 2017, the first 16 electronic gaming locations were allowed to operate under PhilWeb's Electronic Gaming System platform.

On February 20, 2018, PAGCOR then allowed the Company to offer its services to an additional 21 electronic gaming location. On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Company's electronic gaming system, thereby allowing the Company to fully resume its operations.

Operator Partnerships

As of the preparation of this report, there are 68 locations across the country that are operating under PhilWeb.

Content and Services

PhilWeb's Electronic Gaming System platform resumed with the Magic Macau suite of casino games. These games include wide-area progressive slots, video poker, and electronic table games such as Blackjack and Baccarat. The Company implemented two more gaming

softwares containing various games during the year. This gives more variety and options for the customers of eGaming locations.

Apart from these, PhilWeb also resumed support services being provided to Operators, such as accounting and reporting, jackpot fund management, remittance management, technical support, marketing and customer service.

Marketing

At the resumption of its Electronic Gaming service, PhilWeb launched a number of marketing initiatives to build awareness of the return of its platform. Operating sites were provided with support collaterals covering regulatory announcements, branded content and promotional activities. PhilWeb also provided financial and logistical support for relaunch activities under the new platform.

PhilWeb also conducted customer experience enhancement activities such as the daily "Power Hour" draw and the weekly "Platinum Customer" draw which rewarded customers for playing and staying loyal to the PhilWeb gaming platform.

2.2 BigGame, Inc.

From 10 operating locations at the start of 2017, BigGame is now operating 32 locations across the country as of preparation of this report. This was achieved partly through the acquisition of 19 electronic gaming sites in different parts of the country.

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.

Best Gaming Experience

BigGame continues to provide the Best Gaming Experience to its customers. Continuous daily food service has become a mainstay at the BigGame locations since its introduction in 2016.

BigGame continues its site expansion, renovation and refurbishment activities in 2018. 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.

2.3 e-Bingo

In an effort to expand and diversify operation, PhilWeb, thru Easy e-Bingo, Inc. (a wholly-owned subsidiary) acquired two electronic bingo sites located in the National Capital Region. This provides PhilWeb with valuable insights into another segment of the gaming industry.

Easy e-Bingo, Inc. is currently operating six e-Bingo locations.

2.4 Corporate Services

Finance

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

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.

Another milestone 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. The Company is looking of re-launching this wallet in the near future.

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. 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.

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.

2.5 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, providing level two support to ensure that operations are available 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 experience to its operators by providing a point-of-sales system through which they can record and track member transactions in the site. Members are provided a better gaming experience by providing members a facility to manage their membership information as well as 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 grown software prior to customer endorsement in order to ensure that business requirements are met.

The Service Support Department is in-charge of providing first level technical support and service monitoring to ensure that IT services are always available to both internal and external customers of the Company. There are two groups under this department: a) the Technical Support team, which monitors and performs first level troubleshooting on services pertaining

to PhilWeb's corporate & casino infrastructure and B) Field Support, which is tasked to provide first level troubleshooting for e-Games sites. Tickets reported by site personnel and operators are first escalated to this team for validation and resolution.

Information Security

PhilWeb transformed the Security and Compliance Group into the Information Security Group. The Group provides guidance on securing and protecting the privacy of information, and ensures that the institution maintains appropriate operational controls, standards, processes and Information security policies. The Information Security Group reports directly to the Office of the President.

After the establishment of the Information Security Group, IT network security was transferred from The Information Technology Group to Information Security in order to provide a better alignment and direction with regards to PhilWeb Security. The IT Network Security team focuses on PhilWeb's perimeter security, on the design and implementation of security appliances, and on ensuring a secured gaming environment.

Information Security Engineering was also established to provide application security, endpoint security and access control management for PhilWeb Corporation.

The Information Security Group is composed of two teams, namely the Information Security Engineering Team and IT Network Security.

2.6 Human Resources and Administration

Organization Structure

PhilWeb's Human Resources and Administration Departments were re-structured in January of 2016 and became one division, Human Resources and Administration. Merging the two departments was effective and cost efficient maximizing the combined competencies of the former 2 departments that gave more solid support for the Company.

The Human Resources Department (HR)

Recruitment & Selection

Recruitment and Selection in PhilWeb continued to follow stringent procedures to ensure that we are hiring only qualified and competent workforce.

New Hires Orientation covering the Company's Vision, Mission and Core Values, Culture and History of PhilWeb, the Organization Chart, Product Training, Policies and Procedures and Code of Conduct as well as explanation on their Employment Contract – comprise the outline of the Induction Program and is given prior to turnover to the requesting department. Technical orientation is handled by the respective department.

As of June 30, 2019, the Company has total of 182 employees.

Compensation and Benefits

The HR Department ensured timely delivery of compensation and benefits to the workforce and their professional and personal growth were charted through based Performance Evaluation/Appraisal.

Employee Engagement

In addition to workplace learning and development interventions as tool for workforce retention and engagement, regular general assemblies and other means of communication are undertaken to get the workforce pulse as regards the company's business developments.

Corporate Social Responsibility (CSR)

PhilWeb reaffirms its commitment and responsibility to its stakeholders through sound and efficient fiscal management of its business from top to departmental level. While this is foremost in our minds, the responsibility to our constituents and community and the environment we work in cannot be undermined.

PhilWeb continues to share our resources and propagates its advocacy to bring computer literacy and education to the less privileged of our society even to the farthest and remote areas. Consistent with the government's endeavor of inclusive growth, the donation does not only end in the delivery of the hardware but comes with related trainings and applications on the use of computers and applications.

The Administration Department

The Administration Team continued to place great effort in cost-effective measures to support the company's goal to achieve economy and efficiency in its operations without sacrificing the quality of support they render to PhilWeb.

The Administration Team continued to do their share in the timely delivery of their services, ensured that needs of the company were met and repairs and preventive maintenance on the equipment were planned and executed with the least downtime to the Company.

The Human Resources and Administration Division will continue to be a strategic partner of the different business units of PhilWeb and will continue to contribute to innovation for excellence in all our endeavors.

RESULTS OF OPERATION

| | For the Six Months Ended June 30, 2019 | For the Six Months Ended June 30, 2018 |
|--|--|--|
| Income Statement | | |
| Revenues | 246,120,845 | 196,454,814 |
| Costs and Expenses | 266,053,310 | 251,362,862 |
| Other Income (Expense) - Net | (8,936,457) | (4,944,782) |
| Income Tax Benefit | (6,580,219) | (14,221,976) |
| Net Loss After Tax | (22,288,703) | (45,630,854) |
| Retained Earnings at Beginning of Period | 1,485,794,383 | 1,563,374,351 |
| Retained Earnings at End of Period | 981,558,133 | 1,518,063,013 |
| Balance Sheet | | |
| Current Assets | 414,133,842 | 137,840,189 |
| Total Assets | 754,315,675 | 393,906,878 |
| Total Liabilities | 423,852,627 | 362,673,684 |
| Total Equity | 330,463,048 | 31,233,194 |

Total revenues increased by P49.7 million or 25.3%, to P246.1 million for the six months ended June 30, 2019 from P196.4 million registered the same period last year mainly due to increase in number of operating sites.

Cost and expenses increased by P14.7 million or 5.8% mainly due to expansion and increase in number of operating locations.

Overall, the Company's net loss decreased by P23.3 million or 51.2% from P45.6 million to P22.3 million, while EBITDA increased by 584.0% or P13.7 million, from P2.4 million to P16.1 million as of second quarter of 2019.

The Company's key performance indicators for the six months ended June 30, 2019 and 2018 are the following:

| Financial Ratios | June 30, 2019 | June 30, 2018 |
|--|----------------------|----------------------|
| Net Income Margin (Net Income / Net Revenues) | -9.1% | -23.2% |
| Operating Income Margin (Operating Income / Net Revenue) | -8.1% | -27.9% |
| Current Ratio (Current Assets/Current Liabilities) | 1.06:1.00 | 0.41:1.00 |
| Asset to Equity Ratio (Total Assets / Total Equity) | 2.28:1.00 | 12.61:1.00 |
| Debt to Equity Ratio (Total Liabilities / Total Equity) | 1.28:1.00 | 11.61:1.00 |
| Return on Total Assets (Net Income / Total Assets) | -3.0% | -11.6% |
| Return on Total Equity (Net Income / Total Equity) | -6.7% | -146.1% |
| Interest Rate Coverage Ratio (EBIT / Interest Expense) | -1.5:1.00 | -7.8:1.00 |

Performance for the Period January 1, 2019 to June 30, 2019
(Comparison of Balance Sheets as of June 30, 2019 and December 31, 2018)

Cash and Cash Equivalents

The cash and cash equivalents decreased by P29.9 million or 55.1% versus last year. The Company generated cash from operation of P18.8 million, collected subscription receivables of P44.9 million, availed loans, net of interest P41.2 million; and used P33.2 million to pay off aging payables and other working capital, and P101.6 million to acquire property and equipment and pay performance cash deposit to PAGCOR.

Receivables

The receivables increased by P307.5 million or 801.5% versus last year mainly due to reissuance of treasury shares and increase in trade receivables.

Prepayments and Other Current Assets

Prepayments and other current assets increased by P6.6 million or 17.7% versus last year mainly due to increase in prepaid taxes and input VAT under current assets.

Property and Equipment

The increased in property and equipment of P37.7 million or 38.1% represents the total acquisitions of P66.9 million less depreciation of P29.2 million.

Net Deferred Tax Assets

Net deferred tax assets increased by P6.6 million or 8.2% mainly due to recognition of income taxes recoverable in future periods arising from net operating losses.

Other Noncurrent Assets

Other noncurrent assets increased by P39.8 million or 51.9% mainly due to increase in performance cash deposit and goodwill arising from acquisition of assets.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities decreased by P8.8 million or 4.3% mainly due to payment of aging payables.

Notes Payable

Notes payable increased by P50.0 million or 34.2% due to availment of loan.

Net Retirement Liability

The increased in net retirement liability of P2.7 million or 18.0% represents additional provision for employees' retirement benefits.

Other Noncurrent Liability

Other noncurrent liability pertains to cash deposits upon opening of electronic gaming to PhilWeb's EGS.

Capital stock

The increased in capital stock of P11.2 million or 0.7% was due to collection of unpaid subscribed capital.

Additional paid in capital

Additional paid in capital decreased by P353.6 million or 35.0% mainly due to reissuance of treasury shares.

Retained earnings

The decreased in retained earnings of P504.2 million or 33.9% was attributable to the net loss during the period and reissuance of treasury shares.

Treasury stock

Treasury stock decreased by P1,171.0 million or 29.3% due to reissuance of shares during the period.

Quantitative and Qualitative Disclosures on Financial Instruments

The Company's principal financial instruments consist of cash and cash equivalents, receivables, and accounts payable and accrued expenses.

The main risks arising from the Company's financial instruments are liquidity risk, credit risk and market risk. The policies for managing each of these risks are provided below:

- a. Credit Risk is limited to the risk arising from inability of a debtor to make payments when receivables are due. The Company's internet gaming business is made on cash basis and internet gaming operators are covered by required security deposits. Other receivables arise from one of transactions and are due and demandable on a short-term basis. Due to this reasons, the Company has no significant exposures to credit risk as of June 30, 2019.

The carrying amount of receivables represents the Company's maximum exposure to credit risks in relation to financial assets.

- b. Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due. To effectively manage liquidity risk, the Company monitors its cash flows and ensures that credit facilities are available to meet its obligation when they fall due.
- c. Market risks is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Fair values

The fair values of the Company's financial instrument approximate their carrying amounts as of balance sheet date either because of their relatively short-term nature or the interest rates they carry approximate interest rates for comparable instruments in the market.

Key Performance Indicators of Subsidiaries for the six months ended June 30, 2019.

BGI is a wholly-owned subsidiary that started commercial operations in July 2005. BGI's total revenue for the six months ended June 30, 2019 was at P103.3 million, 23.4% higher as compared to 2018 total revenue of P83.7 million of the same period.

Part II - Other Information

There are no disclosures not reported under SEC Form 17-C.



SIGNATURES

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

PHILWEB CORPORATION

Registrant


JOSE O. EUSTAQUIO III 
Chief Finance Officer


DENNIS O. VALDES
President 

July 31, 2019

Quarterly Report – January 1, 2019 - June 30, 2019

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | June 30 2019 (Unaudited) | December 31 2018 (Audited) |
|--|--------------------------------|----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 24,377,277 | 54,304,294 |
| Receivables | 345,888,028 | 38,367,353 |
| Prepayments and other current assets | 43,868,537 | 37,275,733 |
| Total Current Assets | 414,133,842 | 129,947,380 |
| Noncurrent Assets | | |
| Property and equipment | 136,931,752 | 99,186,099 |
| Net deferred tax assets | 86,885,478 | 80,305,259 |
| Other noncurrent assets | 116,364,603 | 76,606,631 |
| Total Noncurrent Assets | 340,181,833 | 256,097,989 |
| | 754,315,675 | 386,045,369 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities | 194,082,955 | 202,834,562 |
| Notes payable | 196,175,000 | 146,171,875 |
| Total Current Liabilities | 390,257,955 | 349,006,437 |
| Noncurrent Liabilities | | |
| Net retirement liability | 17,789,672 | 15,074,600 |
| Other noncurrent liability | 15,805,000 | 15,805,000 |
| Total Noncurrent Liabilities | 33,594,672 | 30,879,600 |
| | 423,852,627 | 379,886,037 |
| Equity | | |
| Capital stock | 1,517,157,525 | 1,505,937,831 |
| Additional paid-in capital | 656,751,427 | 1,010,387,648 |
| Retained earnings | 981,558,133 | 1,485,794,383 |
| Accumulated remeasurement gain | 3,601,120 | 3,601,120 |
| Treasury stock | (2,826,256,293) | (3,997,212,786) |
| | 332,811,912 | 8,508,196 |
| Non-controlling interest | (2,348,864) | (2,348,864) |
| Total Equity | 330,463,048 | 6,159,332 |
| | 754,315,675 | 386,045,369 |

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | April - June 2019 (Unaudited) | April - June 2018 (Unaudited) | January - June 2019 (Unaudited) | January - June 2018 (Unaudited) |
|---|-------------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|
| REVENUES | | | | |
| Gaming application services | 64,450,475 | 63,772,520 | 129,396,001 | 106,629,986 |
| Commission income | 56,655,182 | 45,544,016 | 112,425,770 | 89,824,828 |
| Management fees | 4,299,074 | - | 4,299,074 | - |
| | 125,404,731 | 109,316,536 | 246,120,845 | 196,454,814 |
| COSTS AND EXPENSES | | | | |
| Operating and administrative expenses | 120,658,610 | 106,945,678 | 236,849,223 | 202,953,487 |
| Depreciation and amortization | 15,096,414 | 23,304,010 | 29,204,087 | 48,409,375 |
| | 135,755,024 | 130,249,688 | 266,053,310 | 251,362,862 |
| OPERATING LOSS | (10,350,293) | (20,933,152) | (19,932,465) | (54,908,048) |
| OTHER INCOME (CHARGES) - net | | | | |
| Interest income | 77,002 | 130,361 | 163,344 | 265,683 |
| Interest expense | (4,854,364) | (2,692,799) | (8,981,675) | (5,224,688) |
| Miscellaneous - net | (93,361) | 3,358 | (118,126) | 14,223 |
| | (4,870,723) | (2,559,080) | (8,936,457) | (4,944,782) |
| LOSS BEFORE INCOME TAX | (15,221,016) | (23,492,232) | (28,868,922) | (59,852,830) |
| Benefits from income tax | (3,526,066) | (7,048,184) | (6,580,219) | (14,221,976) |
| NET LOSS / TOTAL COMPREHENSIVE LOSS | (11,694,950) | (16,444,048) | (22,288,703) | (45,630,854) |
| NET LOSS / TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO: | | | | |
| Equity holders of the parent | (11,694,950) | (16,444,048) | (22,288,703) | (45,311,338) |
| Minority interest | - | - | - | (319,516) |
| | (11,694,950) | (16,444,048) | (22,288,703) | (45,630,854) |
| EARNINGS PER SHARE: | | | | |
| Basic | (0.0084) | (0.0140) | (0.0174) | (0.0386) |
| Diluted | (0.0084) | (0.0140) | (0.0174) | (0.0385) |
| EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION | | | | |
| | 8,120,188 | 6,792,542 | 16,088,352 | 2,352,203 |

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | June 30 2019 (Unaudited) | June 30 2018 (Unaudited) |
|--|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before income tax | (28,868,922) | (59,852,830) |
| Adjustments for: | | |
| Depreciation and amortization | 29,204,087 | 48,409,375 |
| Impairment losses | 6,934,856 | 8,836,653 |
| Retirement benefits cost | 2,715,072 | 2,267,629 |
| Interest income | (163,344) | (265,683) |
| Interest expense | 8,981,675 | 5,224,688 |
| Operating income before working capital changes | 18,803,424 | 4,619,832 |
| Increase in: | | |
| Receivables | (17,807,036) | (14,161,479) |
| Prepaid expenses and other current assets | (6,592,804) | (20,127,136) |
| Decrease in accounts payable and other current liabilities | (8,751,607) | (6,490,987) |
| Net cash used for operations | (14,348,023) | (36,159,770) |
| Interest received | 163,344 | 265,683 |
| Interest paid | (8,981,675) | (5,224,688) |
| Net cash used in operating activities | (23,166,354) | (41,118,775) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property and equipment | (54,949,740) | (4,719,365) |
| Increase in other noncurrent assets | (46,692,828) | (15,297,879) |
| Net cash used in investing activities | (101,642,568) | (20,017,244) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Availment (payment) of loans | 50,003,125 | (937,500) |
| Proceeds from subscriptions to and issuances of shares | 44,878,780 | 622,500 |
| Increase in other noncurrent liability | - | 3,800,000 |
| Net cash provided by financing activities | 94,881,905 | 3,485,000 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (29,927,017) | (57,651,019) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 54,304,294 | 112,005,505 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 24,377,277 | 54,354,486 |

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | June 30 | | | |
|--|---------------------|-----------------|---------------------|-----------------|
| | 2019 (Unaudited) | | 2018 (Unaudited) | |
| | Number of Shares | Amount | Number of Shares | Amount |
| CAPITAL STOCK | | | | |
| Authorized | | | | |
| Common shares - P1 par value | 2,600,000,000 | - | 2,600,000,000 | - |
| Issued and outstanding | | | | |
| Balance at beginning of year | 1,472,278,745 | 1,472,278,745 | 1,472,128,745 | 1,472,128,745 |
| Issuance during the period | - | - | 150,000 | 150,000 |
| Common shares | 1,472,278,745 | 1,472,278,745 | 1,472,278,745 | 1,472,278,745 |
| Subscribed | | | | |
| Balance at beginning of year | 44,878,780 | 33,659,086 | 44,878,780 | 26,219,696 |
| Collection of subscriptions receivable | - | 11,219,694 | - | - |
| Subscribed shares | 44,878,780 | 44,878,780 | 44,878,780 | 26,219,696 |
| | 1,517,157,525 | 1,517,157,525 | 1,517,157,525 | 1,498,498,441 |
| ADDITIONAL PAID-IN CAPITAL | | | | |
| Balance at beginning of year | | 1,010,387,648 | | 1,013,836,920 |
| Subscriptions for additional stock | | 33,659,086 | | 472,500 |
| Reduction as a result of reissuance of treasury shares | | (387,295,307) | | (2,200,317) |
| Balance at end of period | | 656,751,427 | | 1,012,109,103 |
| STOCK OPTIONS RESERVE | | | | |
| Balance at end of period | | - | | 1,182,328 |
| RETAINED EARNINGS | | | | |
| Balance at beginning of year | | 1,485,794,383 | | 1,563,374,351 |
| Reduction as a result of reissuance of treasury shares | | (481,947,547) | | - |
| Net loss for the period | | (22,288,703) | | (45,311,338) |
| Balance at end of period | | 981,558,133 | | 1,518,063,013 |
| ACTUARIAL LOSS ON PENSION OBLIGATION | | | | |
| Balance at end of period | | 3,601,120 | | 6,682,141 |
| TREASURY STOCK, At cost | | | | |
| Balance at beginning of year | (340,170,046) | (3,997,212,786) | 341,116,418 | (4,007,338,966) |
| Issuance during the year | 101,745,098 | 1,170,956,493 | 394,322 | 4,219,245 |
| Balance at end of period | (238,424,948) | (2,826,256,293) | 341,510,740 | (4,003,119,721) |
| NON-CONTROLLING INTEREST | | | | |
| Balance at beginning of year | | (2,348,864) | | (1,862,595) |
| Net loss for the period | | - | | (319,516) |
| Balance at end of period | | (2,348,864) | | (2,182,111) |
| | | 330,463,048 | | 31,233,194 |

PHILWEB CORPORATION AND SUBSIDIARIES**A Schedule Showing Financial Soundness Indicators in Two Comparative Period as Follows:**

| | January - June 2019 (Unaudited) | January - June 2018 (Unaudited) |
|--------------------------|---------------------------------------|---------------------------------------|
| Current assets (ca) | 414,133,842 | 137,840,189 |
| Total assets (ta) | 754,315,675 | 393,906,878 |
| Current liabilities (cl) | 390,257,955 | 336,708,609 |
| Total liabilities (tl) | 423,852,627 | 362,673,684 |
| Total equity (te) | 330,463,048 | 31,233,194 |
| Net income (ni) | (22,288,703) | (45,630,854) |
| EBIT | (13,470,372) | (40,671,849) |
| Interest income | 163,344 | 265,683 |
| interest expense (ie) | (8,981,675) | (5,224,688) |
| Interest - net | (8,818,331) | (4,959,005) |

| Ratios | January - June 2019 (Unaudited) | January - June 2018 (Unaudited) |
|--|---------------------------------------|---------------------------------------|
| current ratio (ca/cl) | 1.06 | 0.41 |
| debt to equity (tl/te) | 1.28 | 11.61 |
| debt to asset (tl/ta) | 0.56 | 0.92 |
| asset to equity (ta/te) | 2.28 | 12.61 |
| ROA (NI/TA) | -3.0% | -11.6% |
| ROE (NI/TE) | -6.7% | -146.1% |
| %coverage ratio (EBIT/ie) | (1.5) | (7.8) |
| Book value (te/outstanding sh: | 0.31 | 0.04 |
| Net Income Margin (Net Income / Net Revenues) | -9.1% | -23.2% |
| Operating Income Margin (Operating Income / Net Revenue) | -8.1% | -27.9% |

PHILWEB CORPORATION AND SUBSIDIARIES
Aging of Receivables Schedule
As of June 30, 2019

| <u>Accounts</u> | <u>TOTAL</u> | <u>Past Due</u> | | |
|---|--------------------|--------------------|-------------------|--------------------------|
| | | <u>1-30 Days</u> | <u>31-60 Days</u> | <u>More than 60 Days</u> |
| Various Trade and Non-Trade Receivables | 343,406,163 | 311,550,732 | 1,404,687 | 30,450,744 |
| Advances to Employees | 2,481,865 | 1,492,239 | 399,457 | 590,169 |
| Total | 345,888,028 | 313,042,971 | 1,804,144 | 31,040,913 |