

*Estimating Allowance for Impairment of Receivables.* The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Allowance for doubtful accounts amounted to ₱151.6 million as at December 31, 2017 (₱118.5 million as at December 31, 2016). The carrying amount of receivables amounted to ₱22.7 million as at December 31, 2017 (₱192.2 million as at December 31, 2016) (see Note 5).

*Estimating Useful Lives of Property and Equipment.* The Group estimates the useful lives of and property and equipment based on the period over which they are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the investment properties and property and equipment. In addition, the estimation of the useful lives of investment property and property and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

There have been no changes in the useful lives of property and equipment in 2017. The carrying amount of property and equipment amounted to ₱143.9 million as at December 31, 2017 (₱196.9 million as at December 31, 2016) (see Note 7).

*Estimating Impairment of Nonfinancial Assets.* PFRS requires that an impairment review be performed when certain impairment indicators are present. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group recognized impairment losses on nonfinancial assets as follows:

	Note	2017	2016	2015
Input VAT (current and noncurrent)	6, 8	<b>₱39,864,341</b>	₱30,102,747	₱28,898,071
Property and equipment	7	–	34,243,251	7,870,000
Inventories		–	–	6,390,809

The carrying amounts of the nonfinancial assets as at December 31, 2017 and 2016 are as follows:

	Note	2017	2016
Prepayments and other current assets	6	<b>₱26,518,120</b>	₱27,603,061
Property and equipment	7	<b>143,867,379</b>	196,931,230

*Estimating Fair Values of Acquiree's Identifiable Assets and Liabilities and Impairment of Goodwill.* Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Group determines the fair value from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values.

The total provisional fair value of the identifiable net assets acquired from the operators amounted to ₱56.0 million (see Note 8). Goodwill arising from the excess of the consideration paid less the provisional fair value amounted to ₱11.4 million.

Moreover, the Group tests annually whether any impairment in goodwill is to be recognized, in accordance with related accounting policy in Note 3. The recoverable amounts of CGUs have been determined based on the higher of fair value less costs to sell and value in use calculations which require the use of estimates. Based on the impairment testing conducted, the recoverable amounts of the CGUs as at December 31, 2017, calculated based on value in use are greater than the corresponding carrying amounts (including goodwill) of the CGUs. The carrying amount of goodwill amounted to ₱11.4 million as at December 31, 2017. No impairment loss was recognized in 2017 (see Note 8).

*Estimating Net Retirement Liability.* The determination of the obligation and cost for provision for retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include among others, discount rates and expected rates of salary increase, are indicated in Note 16. Actual results that differ from the assumptions are accumulated and are recognized as part of equity. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement liability.

Net retirement liability amounted to ₱7.1 million as at December 31, 2017 (₱13.5 million as at December 31, 2016) (see Note 16).

*Assessing Recoverability of Deferred Tax Assets.* The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting periods. This forecast is based on the Group's past results and future expectations on revenue and expenses.

The Group's recognized deferred tax assets as at December 31, 2017 amounted to ₱67.2 million (₱26.8 million as at December 31, 2016) (see Note 18).

*Estimating Provisions and Contingencies.* The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings.

No provision has been recognized in 2017, 2016 and 2015.

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#### 4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	₱8,935,493	₱3,616,812
Cash in banks	48,070,012	94,472,181
Cash equivalents	55,000,000	—
	<b>₱112,005,505</b>	<b>₱98,088,993</b>

Cash in banks earn interest at prevailing bank deposit rates.

Cash equivalents pertain to special savings and time deposits, with terms of varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at prevailing special savings and time deposits rates.

Interest income is earned from the following:

	Note	2017	2016	2015
Cash and cash equivalents		<b>₱605,346</b>	₱606,887	₱2,560,083
Receivables	5	<b>566,320</b>	13,469,772	49,207,300
		<b>₱1,171,666</b>	₱14,076,659	₱51,767,383

## 5. Receivables

This account consists of:

	2017	2016
Trade	<b>₱85,379,268</b>	₱84,051,640
Receivables from non-affiliated entities	<b>34,072,306</b>	173,726,125
Advances to suppliers	<b>33,912,663</b>	28,754,660
Loans from PeGS operators	<b>10,751,892</b>	12,851,083
Claims from telecommunication companies	<b>8,090,049</b>	8,090,049
Interest receivable	–	2,722,772
Others	<b>2,087,790</b>	563,375
	<b>174,293,968</b>	310,759,704
Less allowance for doubtful accounts on:		
Trade	<b>82,507,006</b>	82,507,006
Receivables from non-affiliated entities	<b>34,072,306</b>	–
Advances to customers and suppliers	<b>26,945,639</b>	27,933,678
Claims from telecommunication companies	<b>8,090,049</b>	8,090,049
	<b>151,615,000</b>	118,530,733
	<b>₱22,678,968</b>	₱192,228,971

Movements in the allowance for doubtful accounts are shown below:

	Note	2017	2016	2015
Balance at beginning of year		<b>₱118,530,733</b>	₱120,110,736	₱105,013,709
Provision	14	<b>33,084,267</b>	45,991,327	33,102,118
Write-off		–	(47,571,330)	(18,005,091)
Balance at end of year		<b>₱151,615,000</b>	₱118,530,733	₱120,110,736

### Trade Receivables

Trade receivables pertain to uncollected grosshold (cash) from PeGS operators. These are collected and deposited in the Parent Company's bank account on the banking day following the reporting date. It also includes receivables from PhilWeb Lorosae, Lda. and Gold Scratch n' Win Co., Ltd (GSW) which are fully provided with allowance for doubtful accounts of ₱82.5 million as at December 31, 2017.

### **Receivables from Non-affiliated Entities**

Receivables from non-affiliated entities pertain mainly to the following:

- Receivable from a third party amounting to ₱34.1 million as at December 31, 2017 pertains to the Parent Company's share in foreign exchange losses/gains on a note receivable. The Parent Company made a formal demand on February 12, 2018 for the collection of the balance. The Group recognized an impairment loss on the remaining carrying amount of ₱34.1 million in 2017.
- Receivable from the disposal of the Group's investment in Acentic GmbH thru Host Union International Limited (Host Union) and loan receivable from a third party resulting from the sale of the Parent Company's notes receivable from another party for a total consideration of ₱139.7 million in 2016. The total amount was collected in full in 2017, resulting to a loss on disposal of ₱649.3 million in 2016 (see Note 17).

### **Advances to Suppliers**

Advances to suppliers pertain to advance payments on services to be incurred or goods to be received in connection with the Group's operations which can be refunded or collected under the terms of agreement.

### **Loans to PeGS Operators**

Loans to PeGS operators pertain to short-term, unsecured interest-bearing loans from 8% to 12% per annum extended to the operators amounting to ₱10.8 million as at December 31, 2017 (₱12.9 million as at December 31, 2016). These loans are short-term in nature and bear interest ranging from 8% to 12% per annum.

### **Claims from Telecommunication Companies**

Claims from telecommunication companies represent the amounts collectible for the Premyo sa Resibo's share in the value of the text entries of customers.

Interest income earned from receivables amounted to ₱0.6 million in 2017 (₱13.5 million in 2016 and ₱49.2 million in 2015) (see Note 4).

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## **6. Prepayments and Other Current Assets**

This account consists of:

	Note	2017	2016
Input VAT - net of allowance for impairment		<b>₱18,714,384</b>	₱22,108,708
CWTs		<b>1,391,092</b>	1,314,542
Prepayments for:			
Outsourced services		<b>3,844,229</b>	3,515,361
Taxes and licenses		<b>1,205,371</b>	159,595
Rent	19	<b>1,277,379</b>	251,336
Insurance		<b>85,665</b>	253,519
		<b>₱26,518,120</b>	₱27,603,061

Movements in the allowance for impairment losses on input VAT are shown below:

	Note	2017	2016	2015
Balance at beginning of year		<b>₱89,227,992</b>	₱80,904,622	₱52,006,551
Provision	14	<b>10,325,775</b>	8,323,370	28,898,071
Balance at end of year		<b>₱99,553,767</b>	₱89,227,992	₱80,904,622

## 7. Property and Equipment

Movements in this account are as follows:

2017 (In Thousands)							
	Note	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
<b>Cost</b>							
Balance at beginning of year		₱515,530	₱260,057	₱275,144	₱113,874	₱28,434	₱1,193,039
Effect of business combination	8	4,162	70	44,260	2,199	–	50,691
Additions		484	162	4,243	6	–	4,895
Disposals		–	–	–	–	(3,951)	(3,951)
Balance at end of year		520,176	260,289	323,647	116,079	24,483	1,244,674
<b>Accumulated Depreciation and Amortization</b>							
Balance at beginning of year		404,742	188,549	245,317	98,245	25,012	961,865
Depreciation and amortization		48,592	29,252	26,444	2,932	1,330	108,550
Disposals		–	–	–	–	(3,851)	(3,851)
Balance at end of year		453,334	217,801	271,761	101,177	22,491	1,066,564
<b>Accumulated Impairment Losses</b>							
Balance at beginning and end of year		27,621	174	5,814	634	–	34,243
<b>Net Book Value</b>		<b>₱39,221</b>	<b>₱42,314</b>	<b>₱46,072</b>	<b>₱14,268</b>	<b>₱1,992</b>	<b>₱143,867</b>

2016 (In Thousands)							
	Note	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
<b>Cost</b>							
Balance at beginning of year		₱509,287	₱195,778	₱248,506	₱110,379	₱34,264	₱1,098,214
Additions		6,291	64,279	26,638	3,495	–	100,703
Disposals		(48)	–	–	–	(5,830)	(5,878)
Balance at end of year		515,530	260,057	275,144	113,874	28,434	1,193,039
<b>Accumulated Depreciation and Amortization</b>							
Balance at beginning of year		348,928	164,234	212,494	93,546	27,614	846,816
Depreciation and amortization		55,846	24,315	32,823	4,699	2,314	119,997
Disposals		(32)	–	–	–	(4,916)	(4,948)
Balance at end of year		404,742	188,549	245,317	98,245	25,012	961,865
<b>Accumulated Impairment Losses</b>							
Balance at beginning of year		–	–	–	–	–	–
Impairment loss	14	27,621	174	5,814	634	–	34,243
Balance at end of year		27,621	174	5,814	634	–	34,243
<b>Net Book Value</b>		<b>₱83,167</b>	<b>₱71,334</b>	<b>₱24,013</b>	<b>₱14,995</b>	<b>₱3,422</b>	<b>₱196,931</b>

Fully-depreciated property and equipment still being used in operations amounted to ₱703.8 million as at December 31, 2017.

The Group disposed of property and equipment with a carrying amount of ₱99,950 in 2017 (₱0.1 million in 2016). Gain on disposal of property and equipment amounted to ₱1.3 million in 2017 (loss on disposal of ₱64,806 in 2016) (see Note 17).

As at December 31, 2017, the recoverable amount of the Group's property and equipment calculated through value in use exceeded its carrying amount. The value in use was derived using cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are assigned a terminal value computed at a 9.46% growth rate. Discount rate applied to the cash flow projections in determining recoverable amounts is 6.41% in 2017.

The calculations of value in use are most sensitive to the following estimates and assumptions:

- a. Cash flow estimates – Value in use is primarily dependent on the cash flow estimates used in the computation. When developing cash flow estimates, management used as basis historical financial performance of e-games sites being operated at similar or comparable locations.
- b. Discount rates – Discount rates were derived from the Group's weighted average cost of capital and reflect management's estimate of the risks within the CGU. This is the benchmark used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to various market information, including but not limited to, the five-year government bond yield, bank lending rates and market risk premium and country risk premium.
- c. Growth rate estimates – The long-term rate used to estimate the terminal value excludes expansions and possible acquisitions in the future. Management considers expectations from the industry and possible government interventions, among others, in estimating a reasonable growth rate.

## 8. Other Noncurrent Assets

This account consists of:

	Note	2017	2016
Noncurrent input VAT		<b>₱188,417,128</b>	₱181,473,674
Rental and other deposits	19	<b>35,095,476</b>	47,750,160
Goodwill		<b>11,351,346</b>	–
Advances for projects		<b>5,378,199</b>	5,378,199
Investments in associates		–	14,352,836
		<b>240,242,149</b>	248,954,869
Less allowance for impairment losses on:			
Noncurrent input VAT		<b>163,800,368</b>	134,261,802
Advances for projects		<b>5,378,199</b>	5,378,199
Rental and other deposits		<b>2,258,000</b>	2,258,000
		<b>171,436,567</b>	141,898,001
		<b>₱68,805,582</b>	₱107,056,868

### **Noncurrent Input VAT**

This account pertains to input VAT of the Parent Company which is not expected to be collected within one year. Movements in the allowance for impairment losses on noncurrent input VAT are shown below:

	Note	2017	2016
Balance at beginning of year		<b>₱134,261,802</b>	₱112,482,425
Provision	14	<b>29,538,566</b>	21,779,377
Balance at end of year		<b>₱163,800,368</b>	₱134,261,802

### **Goodwill**

On March 8, 2017, the Board approved the Group's plan to acquire PeGS and e-bingo sites from existing independent PeGS and e-bingo operators using a total of 7.7 million treasury shares as payment as follows:

	Note	Amount
Fair value of consideration – 7,713,870 treasury shares		₱67,389,413
Less fair value of assets acquired:		
Leasehold and site improvements	7	44,259,668
Rental and other deposits		5,348,199
Computer equipment and software	7	4,161,595
Office furniture and fixtures	7	2,198,605
Network and data communication equipment	7	70,000
Goodwill recognized from the business combination		<b>₱11,351,346</b>

The Group determined the fair value of the assets acquired from observable markets and historical experience.

The results of operations of the acquired PeGS and e-bingo sites (the acquirees) were consolidated in the Group's books from their respective dates of acquisition. Had all acquirees been acquired at January 1, 2017, the Group would have recognized additional revenue of ₱44.5 million and additional net income of ₱5.7 million in 2017.

Management assessed that the recoverable amount of the acquirees, the CGU to which the goodwill was allocated, exceeds its carrying amount. In estimating the related value in use, management used a cash flow projection based on past experience with its existing PeGS covering a five-year period at a discount rate of 6.41% in 2017. Cash flows beyond that five-year period have been extrapolated using the CGU's average historical growth rate.

### **Advances for Projects**

Advances for projects include receivables and related assets from the Group's internet service provider business which was discontinued when the Group focused operations on the internet gaming business. The Group has provided full allowance for impairment on these assets.

**Investments in Associates**

Investments in associates accounted for under the equity method represents shares of stock of Choice Insurance Brokerage, Inc. (CIBI) and Alphaforce Security Agency Inc. (ASAI). The percentage of ownership of the Parent Company is 30% in CIBI and 40% in ASAI as at December 31, 2016. In December 22, 2017, the Parent Company sold its investments in CIBI and ASAI for ₱16.2 million. Gain on the disposal of shares amounted to ₱1.8 million (see Note 17).

Movements in this account before the sale are as follows:

	2016		
	CIBI	ASAI	Total
<b>Acquisition Cost</b>			
Balance at beginning and end of year	₱6,951,510	₱7,999,900	₱14,951,410
<b>Accumulated Equity in Net Income (Loss)</b>			
Balance at beginning of year	(1,892,080)	1,708,890	(183,190)
Equity in net loss	(24,392)	(390,992)	(415,384)
Balance at end of year	(1,916,472)	1,317,898	(598,574)
	<b>₱5,035,038</b>	<b>₱9,317,798</b>	<b>₱14,352,836</b>

Financial information of the associate before the sale are as follows:

	2016	
	CIBI	ASAI
Current assets	₱954,088	₱41,321,750
Noncurrent assets	23,070,280	4,676,881
Current liabilities	7,240,907	22,704,137
Revenue	3,613,471	9,833,189
Net loss and comprehensive loss	(81,307)	(977,481)

**9. Accounts Payable and Other Current Liabilities**

This account consists of:

	2017	2016
Accounts payable	<b>₱165,376,990</b>	₱269,571,057
Accruals for:		
Contractors	<b>22,281,503</b>	19,116,496
Manpower services	<b>7,000,640</b>	6,084,302
Utilities and communications	<b>5,546,017</b>	5,164,960
Professional fee	<b>877,925</b>	1,419,619
Ads and promo	<b>260,429</b>	174,347
Travel expenses	<b>82,430</b>	90,087
Interest	–	66,667
Others	<b>82,269</b>	351,188
Statutory payables	<b>2,628,893</b>	7,600,439
	<b>₱204,137,096</b>	₱309,639,162

Accounts payable pertain mostly to payables to suppliers, PeGS operators and PAGCOR.

The Parent Company settled its liability to a supplier of its casino software amounting to ₱34.3 million in exchange for 5.8 million treasury shares (see Note 13).

The average credit period for payables to suppliers and PeGS operators are 30-60 days and 15 days, respectively. Payables to PAGCOR are remitted on the following business day.

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#### 10. Notes Payable

The Parent Company has peso-denominated short-term notes payable from a local bank amounting to ₱140.0 million as at December 31, 2017 (₱50.0 million as at December 31, 2016) and bear annual interest at an average rate of 6.6% in 2017 (6.0% in 2016). As at December 31, 2017, the outstanding loan of ₱140.0 million is secured by the following: (a) assignment of Parent Company shares at 300% cover based on prevailing market price; and (b) assignment of the Parent Company or third party deposits at 100% loan value.

Movements in notes payable are as follows:

	2017	2016
Balance at beginning of year	₱50,000,000	₱200,000,000
Availments	90,000,000	-
Payments	-	(150,000,000)
Balance at end of year	₱140,000,000	₱50,000,000

The Group recognized interest expense amounting to ₱3.9 million in 2017 (₱6.2 million in 2016 and ₱22.7 million in 2015) (see Note 17).

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#### 11. Operators' Refundable Deposits

This account consists of cash received from operators upon opening of PeGS. This serves as a bond/security in case an operator defaults from payments. These deposits shall be returned to the operator after the termination of the contract. The carrying amount of operators' refundable deposits approximate amortized cost as the impact of discounting is not material.

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#### 12. Related Party Transactions

In the normal course of business, the Group has transactions with related parties as follows:

##### **The Parent Company as a Lessee**

The Parent Company and Alphaland Corporation (Alphaland) are formerly entities under common control. The Parent Company billed Alphaland for its share in common expenses which included common personnel cost and rental expense. Common personnel cost billed amounted to ₱14.7 million in 2016 and ₱19.3 million in 2015 while common rental expense billed amounted to ₱4.9 million in 2016 and ₱5.2 million in 2015.

### Compensation of Key Management Personnel

Compensation and short-term employee benefits of key management personnel of the Group amounted to ₱43.2 million in 2017 (₱45.8 million in 2016 and ₱47.9 million in 2015). The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to ₱2.8 million in 2017 (₱2.5 million in 2016 and ₱3.5 million in 2015).

## 13. Equity

### Capital Stock

Movements in the number of issued and outstanding shares of capital stock are as follows:

	Number of Shares		Amount	
	2017	2016	2017	2016
<b>Issued shares:</b>				
Balance at beginning of year	1,353,453,745	1,351,576,645	₱1,353,453,745	₱1,351,576,645
Issuance during the year	118,675,000	1,877,100	118,675,000	1,877,100
	<b>1,472,128,745</b>	1,353,453,745	<b>1,472,128,745</b>	1,353,453,745
<b>Subscribed shares:</b>				
Balance at beginning and end of year	163,378,780	163,378,780	163,378,780	163,378,780
Issuance during the year	(118,500,000)	—	(118,500,000)	—
Balance at end of year	44,878,780	163,378,780	44,878,780	163,378,780
Less subscriptions receivable:				
Balance at beginning of year	—	—	(33,659,084)	(125,080,428)
Collection of subscriptions	—	—	15,000,000	91,421,344
Balance at end of year	—	—	(18,659,084)	(33,659,084)
	44,878,780	163,378,780	26,219,696	129,719,696
<b>Issued and subscribed at end of year</b>	<b>1,517,007,525</b>	1,516,832,525	<b>₱1,498,348,441</b>	₱1,483,173,441
<b>Treasury shares:</b>				
Balance at beginning of year	(354,621,621)	(354,621,621)		
Reissued shares	13,505,203	—		
Balance at end of year	(341,116,418)	(354,621,621)		
<b>Outstanding shares at end of year</b>	<b>1,175,891,107</b>	1,162,210,904		

### Additional Paid-In Capital and Stock Options Reserve

Movements in additional paid-in capital and stock options reserve are as follows:

	Additional Paid-In Capital		Stock Options Reserve	
	2017	2016	2017	2016
Balance at beginning of year	₱1,112,897,280	₱1,091,982,096	₱4,273,021	₱6,757,960
Reduction as a result of reissuance of treasury shares	(102,702,303)	—	—	—
Stock options exercised and forfeited	3,090,693	2,484,939	(3,090,693)	(2,484,939)
Subscriptions for additional stock	551,250	18,430,245	—	—
Balance at end of year	<b>₱1,013,836,920</b>	₱1,112,897,280	<b>₱1,182,328</b>	₱4,273,021

### **Stock Option Plan**

The Group has a stock option plan (the "Plan") covering all employees, officers and directors of the Parent Company, and its subsidiaries and affiliates, as well as such other qualified persons determined as eligible by the BOD. The aggregate number of shares that may be purchased under the Plan shall not be more than five percent (5%) of the total number of shares of the outstanding capital stock of the Parent Company, at a price not less than eighty percent (80%) of the fair market value of the shares on the date the option is granted. Effectivity date is one (1) year after an option is awarded to the participant. One-third (1/3) of the total number of options covered by the grant shall vest upon effectivity date; 1/3 shall vest one year after effectivity date and 1/3 shall vest two years after the effectivity date.

The fair value of the stock options are estimated using the Black-Scholes option pricing method, which considered annual stock volatility, risk-free interest rate, expected life of option and exercise price.

The inputs to the model used to measure the fair value of the shares are as follows:

	<b>2017</b>	2016
Expected volatility	<b>33.18%</b>	33.18%
Risk-free interest rate	<b>3.09%</b>	3.09%
Expected life of option	<b>3 years</b>	3 years

Expected volatility is estimated by considering average share price volatility.

Movements in the number of exercisable stock options outstanding are as follows:

	<b>2017</b>	2016
Balance at beginning of year	<b>2,170,367</b>	5,104,900
Exercised and forfeited	<b>(951,512)</b>	(2,934,533)
Balance at end of year	<b>1,218,855</b>	2,170,367

Stock option cost recognized in profit or loss is included under "salaries and benefits" account amounted to nil in 2017 (nil in 2016 and ₱3.2 million in 2015) (see Note 15).

### **Retained Earnings**

The Parent Company did not declare dividends in 2017. Details of cash dividends declared by the Parent Company from retained earnings in 2016 and 2015 follow:

<u>Date Approved</u>	<u>Per share</u>	<u>Total Amount</u>	<u>Stockholders of Record Date</u>	<u>Date Paid/Issued</u>
January 27, 2015	0.15	₱175,833,601	January 20, 2015	February 16, 2015
May 4, 2015	0.15	175,833,601	May 7, 2015	May 21, 2015
August 11, 2015	0.15	175,936,376	August 14, 2015	August 28, 2015
November 9, 2015	0.15	175,948,376	November 12, 2015	November 26, 2015
February 4, 2016	0.20	232,171,150	February 19, 2016	March 4, 2016
May 31, 2016	0.20	232,442,170	June 14, 2016	June 14, 2016

### **Treasury Stock**

The movements in the number of treasury shares are as follows:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	354,621,621	₱4,211,137,736	354,621,621	₱4,211,137,736
Issuance during the year	(13,505,203)	(203,798,770)	–	–
Balance at end of year	<b>341,116,418</b>	<b>₱4,007,338,966</b>	354,621,621	₱4,211,137,736

- On December 15, 2015, PCIL received from Lucktime 12.8 million shares of the Parent Company's common shares at a total cost of ₱269.4 million as collection of portion of notes receivable. This was accounted for as treasury shares in the consolidated financial statements.
- On March 8, 2017, the BOD approved the Group's plan to acquire PeGS from existing independent Pegs operators using a total of 7.7 million treasury shares as payment. The transactions were accounted as a business combination in accordance with PFRS 3 (see Note 8).
- On August 25, 2017, the Parent Company settled its payable to to the supplier of its casino software amounting to ₱34.3 million in exchange for 5.8 million treasury shares (see Note 9).

### **14. Costs and Expenses**

This account consists of:

	Note	2017	2016	2015
Depreciation and amortization	7	₱108,549,479	₱119,997,016	₱109,649,183
Salaries and benefits	15	92,595,451	124,437,130	130,451,283
Impairment losses		72,948,608	110,337,325	76,260,998
Rental	19	60,119,389	66,652,418	64,594,145
Outsourced services		50,664,367	80,803,579	92,069,605
Utilities and communications		35,758,491	57,718,220	68,634,432
Representation and entertainment		31,073,235	34,182,102	46,424,335
Taxes and licenses		14,403,775	23,421,304	20,524,765
Supplies		12,914,885	28,219,512	21,656,858
Professional fees		4,374,135	7,564,686	9,408,037
Advertising and promotion		4,010,114	4,112,723	4,245,089
Miscellaneous		8,488,837	18,867,669	6,429,003
		<b>₱495,900,766</b>	<b>₱676,313,684</b>	<b>₱650,347,733</b>

Impairment losses were recognized from the following:

	Note	2017	2016	2015
Input VAT (current and noncurrent)	6, 8	₱39,864,341	₱30,102,747	₱28,898,071
Receivables	5	33,084,267	45,991,327	33,102,118
Property and equipment	7	–	34,243,251	7,870,000
Inventories		–	–	6,390,809
		<b>₱72,948,608</b>	<b>₱110,337,325</b>	<b>₱76,260,998</b>

## 15. Salaries and Benefits

This account consists of:

	Note	2017	2016	2015
Salaries and wages		<b>₱90,460,880</b>	₱118,401,246	₱122,155,284
Retirement expense	16	<b>2,134,571</b>	6,035,884	5,134,907
Cost of stock options awarded		–	–	3,161,092
		<b>₱92,595,451</b>	₱124,437,130	₱130,451,283

## 16. Retirement Benefits

The Group has a funded, noncontributory, defined benefit plan (the “Plan”) covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the Plan. The Plan is administered by a local bank appointed as a trustee. Annual cost is determined using the projected unit credit method. The Group’s latest actuarial valuation was dated December 31, 2017.

The Group’s retirement plan is registered with the Bureau of Internal Revenue, and is based on the minimum retirement benefits required under RA No. 7641, otherwise known as the Retirement Pay Law.

Retirement benefits recognized as part of the “Salaries and benefits” account under costs and expenses in the consolidated statement of income are as follows (see Note 15):

	2017	2016	2015
Current service cost	<b>₱4,444,077</b>	₱5,213,308	₱4,598,315
Settlement gain	<b>(3,202,652)</b>	–	–
Net interest cost	<b>893,146</b>	822,576	536,592
	<b>₱2,134,571</b>	₱6,035,884	₱5,134,907

Movements in net retirement liability of the Group recognized in the consolidated statement of financial position are as follows:

	2017	2016
Balance at beginning of year	<b>₱13,473,570</b>	₱14,887,570
Current service cost	<b>4,444,077</b>	5,213,308
Settlement gain	<b>(3,202,652)</b>	–
Net interest cost	<b>893,146</b>	822,576
Net remeasurement gain	<b>(8,465,695)</b>	(7,449,884)
Balance at end of year	<b>₱7,142,446</b>	₱13,473,570

The funded status of the Plan recognized in the consolidated statement of financial position as at December 31 is as follows:

	2017	2016
Present value of retirement obligation	<b>₱26,925,283</b>	₱37,236,353
Fair value of plan assets	<b>(19,782,837)</b>	(23,762,783)
	<b>₱7,142,446</b>	₱13,473,570

The changes in the present value of retirement obligation are as follows:

	2017	2016
Balance at beginning of year	<b>₱37,236,353</b>	₱42,475,188
Current service cost	<b>4,444,077</b>	5,213,308
Settlement gain	<b>(3,202,652)</b>	-
Interest cost	<b>2,003,316</b>	2,077,037
Remeasurement gain	<b>(7,300,497)</b>	(8,661,160)
Benefits paid	<b>(6,255,314)</b>	(3,868,020)
Balance at end of year	<b>₱26,925,283</b>	₱37,236,353

The changes in the fair value of the plan assets are as follows:

	2017	2016
Balance at beginning of year	<b>₱23,762,783</b>	₱27,587,618
Interest income	<b>1,110,170</b>	1,254,461
Benefits paid	<b>(6,255,314)</b>	(3,868,020)
Remeasurement gain	<b>1,165,198</b>	(1,211,276)
Balance at end of year	<b>₱19,782,837</b>	₱23,762,783

The cumulative remeasurement gain recognized in other comprehensive income as at December 31 is as follows:

	Accumulated Actuarial Gain (Loss)	Deferred Tax (Note 18)	Net
Balance as at January 1, 2017	<b>₱1,080,221</b>	<b>(₱324,066)</b>	<b>₱756,155</b>
Net remeasurement gain	<b>8,465,695</b>	<b>(2,539,709)</b>	<b>5,925,986</b>
Balance as at December 31, 2017	<b>₱9,545,916</b>	<b>(₱2,863,775)</b>	<b>₱6,682,141</b>

	Accumulated Actuarial Gain (Loss)	Deferred Tax (Note 18)	Net
Balance as at January 1, 2016	(₱6,369,663)	₱1,910,899	(₱4,458,764)
Net remeasurement gain	7,449,884	(2,234,965)	5,214,919
Balance as at December 31, 2016	₱1,080,221	(₱324,066)	₱756,155

Principal actuarial assumptions used to determine retirement benefits are as follows:

	Valuation at	
	2017	2016
Discount rates	5.70%	5.38%
Expected rates of salary increase	5.00%	5.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2017 is as follows:

	Change in Assumption	Effect on Net Retirement Liability
Discount rate	+100 basis points	(P847,424)
	-100 basis points	914,000
	Change in Assumption	Effect on Net Retirement Liability
Salary Rate	+100 basis points	P696,424
	-100 basis points	(658,771)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the retirement liability was expressed as a percentage change from the base retirement liability.

The changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed more responsible.

Weighted average duration of the defined benefit liability is 25 years as at December 31, 2017.

As at December 31, 2017, the expected future benefit payments are as follows:

	Amount
2018	P4,839,717
2019	4,694,800
2020	7,713,918
2021	3,506,954
2022-2027	16,505,415

## 17. Other Income (Charges) - Net

This account consists of:

	Note	2017	2016	2015
Interest expense	10	<b>(P3,925,278)</b>	(P6,227,941)	(P22,727,535)
Foreign exchange gain (loss) - net		<b>1,745,380</b>	6,184,430	28,611
Gain on sale of investments in associates	8	<b>1,841,095</b>	-	-
Gain (loss) on sale of property and equipment	7	<b>1,272,850</b>	(64,806)	370,000
Interest income	4	<b>1,171,666</b>	14,076,659	51,767,383
Loss on disposal of assets	5	-	(649,285,056)	-
Bank charges		-	(33,664)	(2,847,315)
Equity in net loss of associates	8	-	(415,384)	(322,009)
Miscellaneous - net		<b>953,491</b>	610,876	34,750
		<b>P3,059,204</b>	(P635,154,886)	P26,303,885

## 18. Income Taxes

### a) Board of Investments (BOI) Registered Activity

On February 13, 2014, the Parent Company was registered with the BOI as a New Creative Industries/Knowledge-Based Services Provider (Software Development) on a non-pioneer status for its software development project in Pasig City. This entitles the Parent Company to an income tax holiday (ITH) for four (4) years for all income to be generated from the registered project in the said location. Revenue and expenses related to the registered activity in 2017 amounted to P5.6 million and P85.7 million, respectively.

### b) Income Tax Computation

The composition of provision for (benefit from) income tax is as follows:

	2017	2016	2015
Current tax expense	<b>P-</b>	P21,000,452	P171,438,803
Deferred tax expense (benefit)	<b>(40,463,639)</b>	(15,050,602)	2,501,792
	<b>(P40,463,639)</b>	P5,949,850	P173,940,595

The reconciliation of the income tax expense computed at statutory tax rate to actual income tax expense (benefit) as presented in the consolidated statement of income is summarized as follows:

	2017	2016	2015
Income tax expense (benefit) at statutory tax rate	(P100,466,637)	(P87,522,602)	P313,069,988
Adjustment resulting from:			
ITH on BOI – registered activity	24,020,762	(78,625,279)	(153,930,681)
Change in unrecognized deferred tax assets	29,319,043	3,849,883	9,379,625
Add (deduct) tax effects of:			
Equity in net (earnings) losses of associates	–	124,615	96,603
Interest and other income already subjected to final tax	(1,129,302)	(182,066)	(12,287,018)
Non-deductible expenses	7,792,495	168,305,299	17,612,078
	(P40,463,639)	P5,949,850	P173,940,595

The components of the recognized net deferred tax assets of the Group are as follows:

	2017	2016
Items recognized in profit or loss:		
NOLCO	P62,238,874	P13,713,838
Net retirement liability	5,006,509	4,366,136
Allowance for impairment losses	–	8,701,770
	67,245,383	26,781,744
Item recognized directly in OCI –		
Remeasurement losses on defined benefit liability	(2,863,775)	(324,066)
	(2,863,775)	(324,066)
	P64,381,608	P26,457,678

The Group did not recognize the following deferred tax assets because management believes that these may not be realized because future taxable income may not be sufficient against which the tax benefits can be claimed or deducted:

	2017	2016
Allowance for impairment losses	P77,297,911	P41,075,915
NOLCO	8,042,075	14,945,028
	P85,339,986	P56,020,943

As at December 31, 2017, the Group has NOLCO that can be carried forward and claimed as deduction against the regular taxable income as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2014	2017	P21,429,874	P–	P21,429,874	P–
2015	2018	25,962,369	–	–	25,962,369
2016	2019	48,137,309	–	–	48,137,309
2017	2020	160,170,159	–	–	160,170,159
Total		P255,699,711	P–	P21,429,874	P234,269,837

## 19. Leases

### The Group as a Lessee

The Group leases its head office and other offices under various operating lease arrangements with terms ranging from three to five years. Such leases are renewable at the end of the lease term upon mutual consent of the parties.

Prepaid rent by the Group amounted to ₱1.3 million as at December 31, 2017 (₱0.3 million as at December 31, 2016) (see Note 6). The Group has rental and other deposits amounting to ₱35.1 million as at December 31, 2017 (₱47.8 million as at December 31, 2016) (see Note 8).

Rent expense amounted to ₱60.1 million in 2017 (₱66.7 million in 2016 and ₱64.6 million in 2015) (see Note 14). The lease has a term of one year subject to renewal under mutual agreement of both parties.

Future annual minimum lease payments over the remaining term of the leases as at December 31, 2017 follow:

	Amount
Not later than one year	₱36,717,604
Later than one year but not later than five years	56,067,798
	<u>₱92,785,402</u>

## 20. Earnings (Loss) Per Share

Basic/diluted earnings (loss) per share is computed as follows:

	2017	2016	2015
Net loss attributable to equity holders of the Parent Company	<b>(₱293,269,659)</b>	(₱296,099,426)	(₱870,165,159)
Weighted average no. of shares outstanding	<b>1,175,819,504</b>	1,161,599,028	1,172,561,122
Dilutive shares arising from stock options	-	-	5,104,900
Adjusted weighted average no. of shares outstanding	<b>1,166,173,779</b>	1,161,599,028	1,177,666,022
Basic earnings per share	<b>(₱0.25)</b>	(₱0.25)	₱0.74
Diluted earnings per share	<b>(₱0.25)</b>	(₱0.25)	₱0.74

## 21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are comprised of cash in banks, cash equivalents, receivables, rental and other deposits under "other noncurrent assets", accounts payable and other current liabilities (excluding statutory payables), notes payable and operators' refundable deposits. The main risks arising from the Group's financial instruments are credit and liquidity risks.

### Credit Risk

Credit risk is the risk that a party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Group's credit risk is primarily attributable to its trade and other receivables. The Group has adopted stringent procedure in extending credit terms to clients and manages its credit risk by setting up exposure limits by each counterparty or group of counterparties. The Group transacts only with a recognized and creditworthy customers with whom it has already firmly established good business relationship.

It is the Group's policy that all customers who wish to contract on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to the bad debt is not significant.

With respect to credit risk arising from cash of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has assessed the credit quality of cash as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

The aging analysis of the Group's financial assets is as follows:

	2017				Total
	Neither Past Due nor Impaired	Past Due but not Impaired		Impaired	
		30 Days	More than 60 Days		
Cash in banks and cash equivalents	P103,070,012	P-	P-	P-	P103,070,012
Accounts receivable	9,760,896	3,855,705	9,062,367	151,615,000	174,293,968
Rental and other deposits	32,837,476	-	-	2,258,000	35,095,476
	<b>P145,668,384</b>	<b>P3,855,705</b>	<b>P9,062,367</b>	<b>P153,873,000</b>	<b>P312,459,456</b>

	2016				Total
	Neither Past Due nor Impaired	Past Due but not Impaired		Impaired	
		30 Days	More than 60 Days		
Cash in banks	P94,472,181	P-	P-	P-	P94,472,181
Accounts receivable	150,537,436	19,261,588	22,429,947	118,530,733	310,759,704
Rental and other deposits	45,492,160	-	-	2,258,000	47,750,160
	<b>P290,501,777</b>	<b>P19,261,588</b>	<b>P22,429,947</b>	<b>P120,788,733</b>	<b>P452,982,045</b>

Past due accounts are generally less than 90 days. The credit quality of the Group's financial assets that are neither past due nor impaired as at December 31, 2017 and 2016 are as follows:

	2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P103,070,012	P-	P-	P103,070,012
Accounts receivable	9,760,896	-	-	9,760,896
Rental and other deposits	32,837,476	-	-	32,837,476
	<b>P145,668,384</b>	<b>P-</b>	<b>P-</b>	<b>P145,668,384</b>

2016				
	High Grade	Standard Grade	Substandard Grade	Total
Cash in banks	₱94,472,181	₱-	₱-	₱94,472,181
Accounts receivable	150,537,436	-	-	150,537,436
Rental and other deposits	45,492,160	-	-	45,492,160
	<b>₱290,501,777</b>	<b>₱-</b>	<b>₱-</b>	<b>₱290,501,777</b>

High grade receivables pertain to those receivables from clients or customers that consistently pay before the maturity date. Standard grade receivable includes those that are collected on their due dates even without an effort from the Group to follow them up while receivables which are collected on their due dates provided that Group made a persistent effort to collect them are included under substandard grade receivables. Past due receivables and advances include those that are either past due but still collectible or determined to be individually impaired.

### Liquidity Risk

The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences, and forecasts from its collection and disbursements. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. Moreover, it continuously assesses conditions in the financial markets for possible business opportunities.

The Group's objective is to maintain a balance between continuity of funding and flexibility using noninterest-bearing advances from its related parties. The Group considers its available funds and its liquidity in managing its financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of trade and other payables.

The tables below summarize the maturity profile of the Group's financial liability based on contractual undiscounted payments:

2017					
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	Total
Accounts payable and other current liabilities*	<b>₱201,508,203</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱201,508,203</b>
Notes payable	-	-	140,000,000	-	140,000,000
Operators' refundable deposits	-	-	-	12,755,000	12,755,000
	<b>₱201,508,203</b>	<b>₱-</b>	<b>₱140,000,000</b>	<b>₱12,755,000</b>	<b>₱354,263,203</b>

\*Excluding statutory payables amounting to ₱2.6 million.

2016					
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	Total
Accounts payable and other current liabilities*	₱302,038,723	₱-	₱-	₱-	₱302,038,723
Notes payable	-	-	50,000,000	-	50,000,000
Operators' refundable deposits	-	-	-	29,355,000	29,355,000
	<b>₱302,038,723</b>	<b>₱-</b>	<b>₱50,000,000</b>	<b>₱29,355,000</b>	<b>₱381,393,723</b>

\*Excluding statutory payables amounting to ₱7.6 million.

## 22. Financial Assets and Liabilities

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

### Financial Assets

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables:				
Cash and cash equivalents	<b>₱112,005,505</b>	<b>₱112,005,505</b>	₱98,088,993	₱98,088,993
Receivables	<b>22,678,968</b>	<b>22,678,968</b>	192,228,971	192,228,971
Rental and other deposits	<b>32,837,476</b>	<b>32,837,476</b>	45,492,160	45,492,160
	<b>₱167,521,949</b>	<b>₱167,521,949</b>	₱335,810,124	₱335,810,124

### Financial Liabilities

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Accounts payable and other current liabilities	<b>₱201,508,203</b>	<b>₱201,508,203</b>	₱302,038,723	₱302,038,723
Notes payable	<b>140,000,000</b>	<b>140,000,000</b>	50,000,000	50,000,000
Operators' deposits	<b>12,755,000</b>	<b>12,755,000</b>	29,355,000	29,355,000
	<b>₱354,263,203</b>	<b>₱354,263,203</b>	₱381,393,723	₱381,393,723

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash in Banks and Cash Equivalents, Receivables, Rental and Other Deposits, Accounts Payable and Other Current Liabilities (excluding Statutory Payables), Notes Payable and Operators' Refundable Deposits.* Due to the short-term nature of transactions, the carrying amounts approximate their fair values as at reporting date.

## 23. Capital Management

The Group considers its total equity as its core capital. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors its capital structure using debt-to-equity ratio which is gross debt divided by equity. The Group's debt-to-equity ratio is as follows:

	2017	2016
Total debt	<b>₱364,034,542</b>	₱402,467,732
Total equity	<b>74,222,620</b>	245,899,069
Debt-to-equity ratio	<b>4.905:1</b>	1.637:1

The Group manages the capital structure and makes adjustments when there are changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 24. Operating Segment Information

The Group operates in two (2) reportable geographical segments, the domestic operations and the foreign operations.

Bulk of the Group's revenue is coming from the domestic operations which is a group of related products or services that is subject to the same risks and returns. Its operations and sources of revenue are interdependent, share the use of the facilities of the Parent Company, particularly computer equipment and are under agreements with PAGCOR, the Group's partner in the internet gaming business.

The Group's foreign operations are considered to be immaterial in relation to the consolidated financial statements. Total assets and revenues are both below 1% in 2017, 2016 and 2015.

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

## 25. EBITDA

The following table presents the computation of EBITDA as derived from the Group's consolidated net income (loss) attributable to the equity holders of the Parent Company for the year:

	2017	2016	2015
Net income (loss) attributable to equity holders of the Parent Company	<b>(P293,269,659)</b>	(P296,099,426)	P870,165,159
Share of non-controlling interest in net income (loss)	<b>(1,155,493)</b>	(1,592,432)	(539,126)
Net income (loss)	<b>(294,425,152)</b>	(297,691,858)	869,626,033
Add (deduct):			
Depreciation and amortization	<b>108,549,479</b>	119,997,016	109,649,183
Impairment losses	<b>72,948,608</b>	110,337,325	76,260,998
Provision for (benefit from) income tax	<b>(40,463,639)</b>	5,949,850	173,940,595
Interest expense	<b>3,925,278</b>	6,227,941	22,727,535
Loss (gain) on sale or disposal of assets	<b>(1,841,095)</b>	649,285,056	-
Interest income	<b>(1,171,666)</b>	(14,076,659)	(51,767,383)
Equity in net income (loss) of associates	-	415,384	322,009
<b>EBITDA</b>	<b>(P152,478,187)</b>	P580,444,055	P1,200,758,970
Issued and outstanding shares at end of year	<b>1,175,891,107</b>	1,162,210,904	1,160,333,804
<b>EBITDA - EPS</b>	<b>(P0.1297)</b>	P0.4994	P1.0348

EBITDA and EBITDA - EPS are non-PFRS measures.



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

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group), as at and for the year ended December 31, 2017, on which we have rendered our report dated April 4, 2018.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the Parent Company has one thousand three hundred (1,300) stockholders owning one hundred (100) or more shares each.

**REYES TACANDONG & Co.**

  
MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

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

SEC Accreditation No. 1499-A Group A

Valid until August 31, 2018

BIR Accreditation No. 08-005144-012-2017

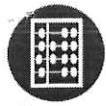
Valid until March 8, 2020

PTR No. 6607962

Issued January 3, 2018, Makati City

April 4, 2018  
Makati City, Metro Manila





## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group) and have issued our report thereon dated April 4, 2018. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules as at December 31, 2017 are the responsibility of the Group's management. These supplementary schedules include the following:

- Adoption of Effective Accounting Standards and Interpretations
- Financial Soundness Indicators
- Schedules required by Part II of SRC Rule 68, as Amended

These schedules are presented for purposes of complying with Securities Regulation Code Rule 68 Part II, as amended, and are not part of the consolidated financial statements. This information have been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves. In our opinion, the information is fairly stated in all material respect in relation to the consolidated financial statements taken as a whole.

### REYES TACANDONG & Co.

  
MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

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**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ADOPTION OF**  
**EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS**  
**DECEMBER 31, 2017**

Title	Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary			✓

**Philippine Financial Reporting Standards (PFRS)**

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities			✓
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments	✓		
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

### Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendment to PAS 19: Discount Rate: Regional Market Issue			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	✓		
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

### Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

#### PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2017**  
**(With Comparative Figures for 2016)**

	2017	2016
<i>Liquidity Analysis Ratios</i>		
Current assets	P161,202,593	P317,921,025
Current liabilities	344,137,096	359,639,162
Liquidity ratio	<b>0.47:1</b>	0.88:1
Current assets less prepayments and other current assets	P134,684,473	P290,317,964
Current liabilities	344,137,096	359,639,162
Quick ratio	<b>0.39:1</b>	0.81:1
Total assets	P438,257,162	P648,366,801
Total liabilities	364,034,542	402,467,732
Solvency ratio	<b>1.20:1</b>	1.61:1
<i>Financial Leverage Ratios</i>		
Total liabilities	P364,034,542	P402,467,732
Total assets	438,257,162	648,366,801
Debt ratio	<b>0.83:1</b>	0.62:1
Total liabilities	P364,034,542	P402,467,732
Total equity	74,222,620	245,899,069
Debt-to-equity ratio	<b>4.90:1</b>	1.64:1
Earnings before interest and taxes	(P330,963,513)	(P285,514,067)
Interest expense	3,925,278	6,227,941
Interest coverage ratio	<b>(84.32):1</b>	(45.84):1
<i>Profitability Ratios</i>		
Net loss	(P294,425,152)	(P297,691,858)
Total assets	438,257,162	648,366,801
Return on assets	<b>(0.67):1</b>	(0.46):1
Net loss	(P294,425,152)	(P297,691,858)
Total equity	74,222,620	245,899,069
Return on equity	<b>(3.97):1</b>	(1.21):1

**PHILWEB CORPORATION AND SUBSIDIARIES**

**SEC Supplementary Schedule as Required by Part II of SRC Rule 68 as Amended  
DECEMBER 31, 2017**

**Table of Contents**

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
A	Financial Assets	<u>1</u>
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>N/A</u>
C	Amounts Receivable from and Payable to Related Parties which are Eliminated During the Consolidation of the Financial Statements	<u>2</u>
D	Intangible Assets - Other Assets	<u>N/A</u>
E	Long-term Debt	<u>N/A</u>
F	Indebtedness to Related Parties	<u>N/A</u>
G	Guarantees of Securities of Other Issuers	<u>N/A</u>
H	Share Capital	<u>3</u>
I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries	<u>4</u>

**PHILWEB CORPORATION AND SUBSIDIARIES**

**A. Financial Assets  
DECEMBER 31, 2017**

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds and notes</i>	<i>Amount shown in the balance sheet</i>	<i>Value based on market quotation at end of reporting period</i>	<i>Income received and accrued</i>
<i>Cash</i>				
Cash and cash equivalents	N/A	₱112,005,505	₱112,005,505	₱605,346
<i>Receivables</i>				
Trade	N/A	₱2,872,262	₱2,872,262	
Advances to customers and suppliers	N/A	17,718,916	17,718,916	
Others	N/A	2,087,790	2,087,790	
		₱22,678,968	₱22,678,968	₱566,320
<i>Other noncurrent assets</i>				
Rental and other deposits	N/A	₱32,837,476	₱32,837,476	₱-

**PHILWEB CORPORATION AND SUBSIDIARIES**

**C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements**

**DECEMBER 31, 2017**

<i>Name and Designation of Debtor</i>	<i>Balance at Beginning of Period</i>	<i>Additions</i>	<i>Amounts Collected</i>	<i>Current</i>	<i>Noncurrent</i>	<i>Balance at End of Period</i>
BigGame, Inc.	₱17,735,629	₱81,651,017	(₱89,775,000)	₱9,611,646	₱-	₱9,611,646
PhilWeb Casino Corporation	54,660	118,800,000	(118,888,756)	(34,096)	-	(34,096)
Easy e-Bingo, Inc.	(142,890)	12,635,015	(12,375,000)	117,125	-	117,125
	<b>₱17,647,399</b>	<b>₱213,086,032</b>	<b>(₱221,038,756)</b>	<b>₱9,694,675</b>	<b>₱-</b>	<b>₱9,694,675</b>

**PHILWEB CORPORATION AND SUBSIDIARIES**

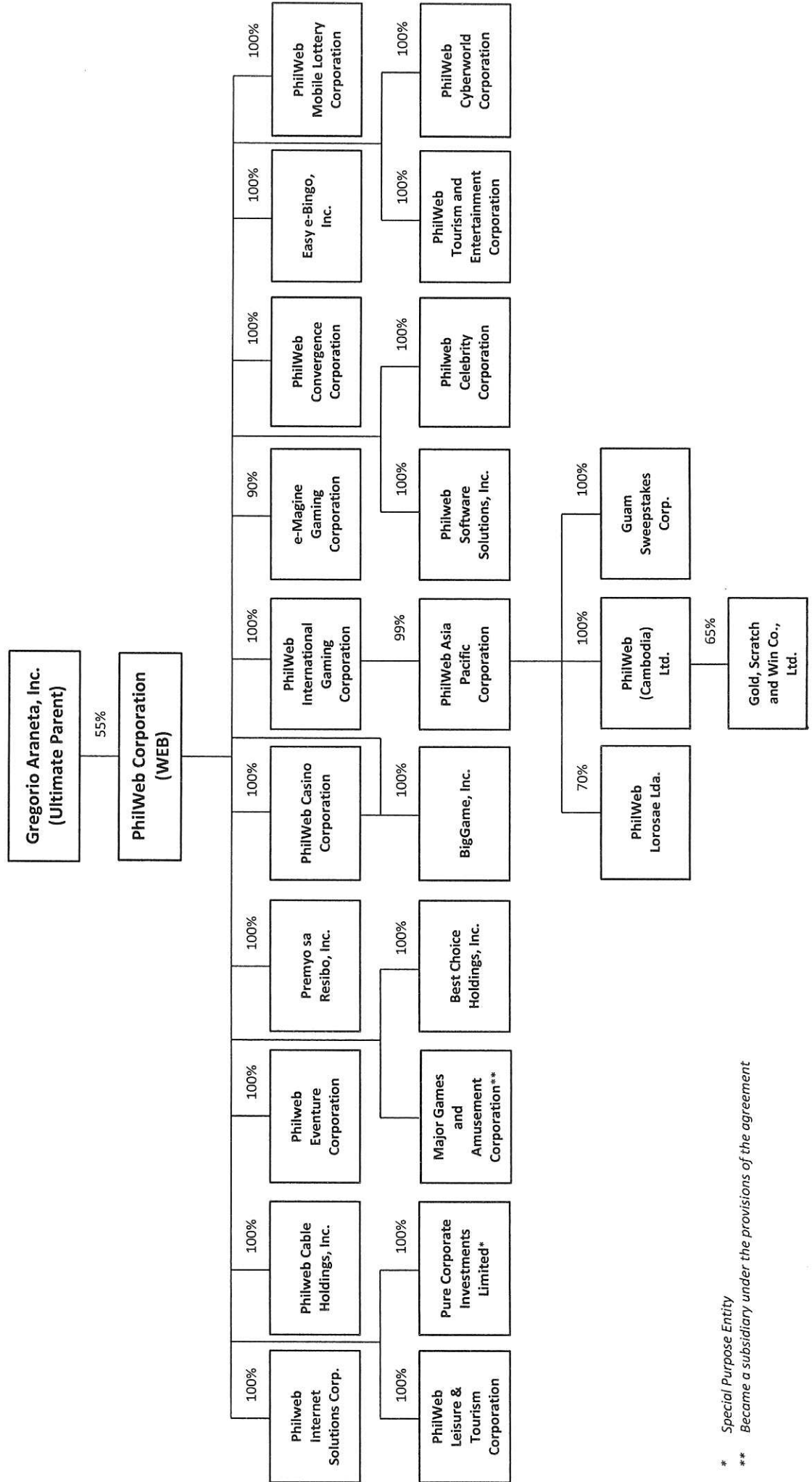
**H. SHARE CAPITAL  
DECEMBER 31, 2017**

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related financial position caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Capital Stock - ₱1 par value	2,600,000,000	1,175,891,107	-	-	809,768,706	366,122,401

**PHILWEB CORPORATION AND SUBSIDIARIES**

**I. Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries**

DECEMBER 31, 2017



\* Special Purpose Entity

\*\* Became a subsidiary under the provisions of the agreement



**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
PhilWeb Corporation  
The Penthouse, Alphaland Southgate Tower  
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- Reconciliation of Retained Earnings Available for Dividend Declaration
- Adoption of Effective Accounting Standards and Interpretations

These schedules are presented for purposes of complying with Securities Regulation Code Rule 68 Part II, as amended, and are not part of the separate financial statements. This information have been subjected to the auditing procedures applied in the audit of the separate financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the separate financial statements or to the separate financial statements themselves. In our opinion, the information is fairly stated in all material respect in relation to the consolidated financial statements taken as a whole.

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