



philweb  
CORPORATION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2016
2. SEC 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 principal office: The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City
8. Registrant's telephone number (632) 338-5599 Zip Code 1232
9. Former name, former address, and former fiscal year, if changed since last report NA.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

<u>Title of each Class</u>	<u>Number of shares of common stock and amount of debt outstanding</u>
Common P1.00 par value	1,435,451,680 (net of treasury shares)

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

12. Indicate whether the issuer:

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

- b) has been subject to such filing requirements for the past 90 days  
Yes

## **Part I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

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

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

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

The change in the Company's corporate name to "PhilWeb.Com, Inc.", its primary purpose from a mining and oil exploration company to that of an Internet company, increase in the number of directors to 15, and adoption of new By-laws became effective upon their approval by the SEC on February 8, 2000. The SEC subsequently approved the increase in the Company's authorized capital stock to P2.6 Billion and the declassification of its common shares to one class on March 6, 2000.

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

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

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

## **1.1 PAGCOR e-Games cafes**

e-Games was licensed by the Philippine Amusement and Gaming Corporation (PAGCOR) in 2003 to launch e-Games Stations, which are Internet cafes 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 cafes operate on a 24/7 basis.

There were 288 operating e-Games cafes 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 cafe.

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

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

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

### ***Operator Partnerships***

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

## ***Content and Services***

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

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

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

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

## ***Marketing***

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

provided with bespoke benefits for their continued patronage, including trips to the resort-island of Balesin.

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

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

### ***Roll-Out and Expansion***

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

## **1.2 BigGame, Inc.**

BigGame's network of cafes 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 cafe in question becomes the standard by which all other BigGame and e-Games cafes will follow. Because of this rigorous process, BigGame continues to bring in improved gaming configurations and upgrades for the Company's various services and amenities.

In 2016, BigGame added four locations to its network, bringing the total number of BigGame sites to 26. Total number of gaming terminals grew by 17.6% to 1,366 as of third quarter 2016. BigGame continued in its pioneering efforts, by obtaining regulatory

approvals to establish e-Games in greenfield locations, namely in Tanauan City, Batangas Province and Alphaland's Balesin Island resort located in Quezon Province. BigGame also acquired the existing e-Games operations of two locations in Paranaque, NCR, and one each in Cebu Province and Camarines Norte. Apart from these new additions, BigGame, Inc. management proceeded with various improvements to the existing gaming sites, with the objective of enhancing the player experience. These were conducted in its Mindanao Avenue (Quezon City), Sucat (Parafiaque), and Crossroads (Cebu City) branches. These sites have shown increases in gaming revenue since they were relaunched to the public.

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

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

### ***Best Gaming Experience***

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

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

## **1.3 Corporate Services**

### ***Finance***

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

During the first quarter of the 2016, Finance developed the reporting process and reconciliations of progressive jackpot contributions and actual payouts for slot machine games. This paved the way for PAGCOR to approve the introduction of new games with

large progressive payouts, such as Happy Golden Ox, Three Stooges and Rudolf's Revenge. The introduction and implementation of new games was successful not only in creating excitement for our players, but also in delivering additional revenue to all our stakeholders. In October, the highest single jackpot payout was 2.7 million pesos.

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

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

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

### *Legal*

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

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

## ***Customer Support***

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

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

## **1.4 Information Technology**

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

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

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

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

Testing on home grown software prior to customer endorsement in order to ensure that business requirements are met.

The Service Support Department is charged with providing first level technical support and ensuring that IT services are available 24/7 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.

### ***Highlights***

Account-based play was further enhanced this year through the introduction of the e-wallet feature. Players can leave balances on their accounts and play in any e-Games site without having to carry their cash around. IT has provided improvements in the home grown systems to ensure full and seamless integration with these new features. In line with this update, IT has also deployed the new version of the casino game client to all e-games venues across the country.

### ***Information Security***

In June 2015, 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.

### ***Goals and Objectives***

PhilWeb Corporate, Employee, Customer, and Trading Partner information and the applications, systems, and networks that support this information, are protected from unauthorized access, modification, disclosure, and usage. This is achieved through a combination of services, solutions, awareness training, and processes that enable the business to grow and thrive, while risks and exposures are managed.

Information Security plays a vital role in:

- Securing PhilWeb's Information to avoid potential data loss
- Providing immediate resolution, recommendation and mitigation of any Information Security incidents.
- Implementing Information Security policies, best practices and standards in alignment with the ISO 27001 & ISO27002 framework.
- Identifying and managing IT-related risks and increased requirements for control over information.

### ***Highlights***

Network security was reinforced in 2015 through the combined efforts of the Information Security Group as well as the InfoSec Engineering Team.

Access Review and recertification process for PhilWeb's critical systems was established to ensure that privilege accounts are reviewed and approved by the system and application owners.

The Group also established Information Security Policies for PhilWeb which are aligned and in accordance with the ISO27001 and ISO27002 version 2013 standards.

Furthermore, the implementation of network security policies for PhilWeb's version 15 casino environment, as well as the establishment of Security Standards for game terminals and POS were completed in 2015.

## **1.5 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 Team (HRT)***

### ***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.

In 2016, a total of 44 employees were hired and distributed to different departments. However, due to the expiration of the PhilWeb's IPLMA with PAGCOR, hiring was put on hold since August 2016. In this connection, to achieve economy and efficiency in our operations as well as to prevent losses, 22 people were separated in November 2016. As of December 2016, the Company has 216 employees, including IT, CS and Operations ready for a potential re-start in case e-Games resumes operation.

### ***Compensation and Benefits***

The HR Team ensured timely delivery of compensation and benefits to the workforce and their professional and personal growth were charted through based Performance Evaluation/Appraisal. Corresponding rewards and compensation are fairly given, including those who have been separated from the company due to the non-renewal of the IPLMA with PAGCOR.

The Year 2016 marked the 16th year of PhilWeb in the business. During the Company's anniversary, employees were recognized for their dedicated service and loyalty rendered to PhilWeb. Twenty-one (21) employees celebrated their 5th year of service, two (2) employees for their 10th, and eight (8) for their 15th year in PhilWeb.

### ***Workplace Learning & Development***

2016 paved the way for PhilWeb to review and refocus its business goals and core values. In January 2016, top executives underwent strategic planning sessions to review PhilWeb's achievements and plan for business growth in the coming years. Employees also had the same opportunity to align their individual goals with the company's through a series of planning sessions in March 2016.

To support the company's core value of innovation, (15) employees underwent trainings to improve their skills and knowledge in their chosen fields. In-house trainings targeting different skills were also given to all employees.

### ***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,

Thus, as PhilWeb's contribution to mitigate the impact of climate change, the employees participated in the Company's fourth Eco-Awareness Program, in partnership with Haribon Foundation. This partnership with Haribon Foundation started in 2014 and is sustained until now.

As we did in 2014, a group of employees participated in the tree-planting activity. Each group contributed to Haribon's "Road to 2020 Movement" by participating in the Haribon's nursery activities, i.e., sifting soil, packing soil in plastic bags for seedlings, pruning and transferring seedlings, tree-planting activities and hiking. All activities were led by Forest rangers of Haribon Foundation at Mt. Banahaw, Nagcarlan, Laguna.

Furthermore, as PhilWeb grows and delivers profit to its stakeholders, we continue 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.

In 2016, PhilWeb donated 66 desktop computers to 32 schools nationwide, namely:

1. Marciana P. Catolos Elementary School
2. Sta. Barbara Pangasinan Elementary Schools
3. Alibago Elementary School
4. Balingeo Elementary School
5. Banaoang Central School
6. Banzai Elementary School
7. Botao-Tebag Elementary School
8. Cablong Elementary School
9. Carosocan Elementary School
10. Dalongue Elementary School
11. Daroy Elementary School
12. East Central Elementary School
13. Gueguesangen Elementary School
14. Leet Elementary School
15. Malanay Elementary School
16. Maningding-Ventinilla Elementary School
17. Maronong Elementary School
18. Maticmatic Elementary School
19. Maticmatic II Elementary School
20. Minien-Tebag Elementary School
21. Nilombot Elementary School
22. Patayac Elementary School
23. Payas Elementary School

24. Primicias Elementary School
25. Sonquil Elementary School
26. Sta. Barbara Central School
27. Tebag Elementary School
28. Tuliao Elementary School
29. St. Therese School of Mirayon- CDO
30. St. Isidore High School
31. Loyola College of Culion- Palawan
32. Fr. Leoni Mission Foundation

Logistics and planning were spearheaded by the Administration Team.

### ***The Administration Team***

The Administration Team placed 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 strategic partners of the different business units of PhilWeb and will continue to contribute to innovation for excellence in all our endeavors.

### **1.6 Competitive Business Condition and the Registrant's Competitive Position in the Industry and Methods of Competition**

The Internet industry in the Philippines is relatively young, but it is experiencing rapid growth and diversification. There is a proliferation of portals, websites, e-commerce ventures and Internet gaming. The latter is undoubtedly one of the most attractive growth areas in the entire Internet business segment. Internet sports betting and Internet casinos dominates most of the Internet gaming revenues.

Sports betting are, to a vast population of Filipinos, a way of life. Betting on cockfighting, horse-racing, basketball and other local sports has been popular nationwide for many years. The gaming market in the Philippines is estimated to be over 100 billion pesos per year.

Capitalizing on its Internet technology experience, PhilWeb in early 2003 made a deliberate decision to focus on Internet gaming. It established partner relationship with leading software providers in addition to establishing its own gaming software capability. Recognizing PhilWeb's extensive knowledge in Internet technology, software development and expertise and its nationwide marketing distribution network, PAGCOR signed a Memorandum of Agreement with PhilWeb in November 2002,

engaging the latter as its technology service provider and marketing consultant for Internet sports betting. Subsequently, PhilWeb and PAGCOR likewise entered into several Supplementary Agreements to cover the expansion programs of PAGCOR on Internet sports betting. PhilWeb excels in the gaming industry by providing superior and innovative products with the highest standards of customer service. It establish strategic partnership to ensure a fair, secure and legal gaming experience for the customers. PhilWeb has created a rewarding and dynamic work environment where it attracts, retains and motivates highly competent, passionate and innovative people, and delivers above-market value for its shareholders.

The Company's objective is to be the premier Internet gaming firm in the country. Its Internet gaming strategy is anchored on the Company's contractual relationship with PAGCOR and its advanced Internet technology platform and marketing infrastructure.

The Company is the first and largest Internet gaming company in the Philippines. It is the dominant technology-based gaming firm listed on the Philippine Stock Exchange.

The Company excels in the gaming industry by providing superior and innovative products with the highest standards of customer service. It establishes strategic partnerships to ensure a fair, secure and legal gaming experience for the customers. The Company creates a rewarding and dynamic work environment where it attracts, retains and motivates highly competent, passionate and innovative people, and delivers above- market value for its shareholders.

#### Sources and Availability of Raw Materials and Names of Principal Supplier

The Company is a service business that does not require raw material. It is not dependent on any principal supplier.

#### Dependence on One or a Few Major Customers and Identification of Such

It is the Company's strategy to offer its services to as broad a market as possible. In 2004, the Company has set up business partnership with various Internet sports betting operators. This partnership continues to expand.

No PeGS operators accounts for a major portion or 20% or more of the revenues of the Company.

#### Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty Agreements

The Company has the following trademarks registered with the Intellectual Property Office of the Philippines (IPO):

1. Basketball Jackpot and device (Registration No. 4-2014-00005227 dated 18 September 2014)
2. e-Casino Filipino (Registration No. 4-2014-00005231 dated 16 October 2014)
3. Playaway and device (Registration No. 4-2014-005403 dated 16 October 2014)
4. PhilWeb Corporation (Registration No. 4-2010-006766 dated 19 May 2011)

5. e-pitaka and device (Registration No. 4-2014-00005230 dated 7 August 2014)
6. Premyo Sa Resibo (Registration No. 4-2014-00004755 dated 27 November 2014)
7. Wannabet and device (Registration No. 4-2014-005402 dated 16 October 2014)
8. Txtingo 9 (Registration No. 4-2014-00006250 dated 19 March 2015)
9. Txtingo Super 5 (Registration No. 4-2014-00006249 dated 19 March 2015)
10. e-Games (Registration No. 4-2012-00012726 dated 24 October 2013)
11. e-Magine (Registration No. 4-2013-00001693 dated 27 September 2013)
12. BigGame (Registration No. 4-2014-00004756 dated 20 August 2015)
13. Stylized Bidwars and device (Registration No. 4-2014-00005226 dated 7 August 2014)
14. Gold Lotto 4/38 (Registration No. 4-2012-00011522 dated 5 March 2015)
15. TV Sabong (Registration No. 4-2014-00005228 dated 18 September 2014)
16. e-Games Virtual Entertainment City (Registration No. 4-2012-00015429 dated 27 August 2015)
17. eSafe (Registration No. 4-2016-0002563 dated 1 September 2016)

Moreover, the Company also registered the following copyrights with the National Library:

1. Premyo Sa Resibo (Registration No. 0-2006-174 dated 26 May 2006)
2. BasketballJackpot.net Program Source Code (Registration No. 0-2006-3055 dated 20 October 2006)
3. Txtingo Super Singko Program Source Code (Registration No. 0-2008-393 dated 17 October 2008)
4. Resibonanza Program Source Code (Registration No. 0-2009-159 dated 12 March 2009)
5. Station Manager PAGCOR E-Games Station POS System Source Code (Registration No. N2010-23 dated 19 February 2010)
6. PAGCOR E-City POS Station Manager Source Code (Registration No. N2010-118 dated 1 October 2010)
7. Dashboard (Registration No. N2013-112 dated 4 October 2013)
8. PBA Trading Cards TMS (Registration No. N2013-113 dated 4 October 2013)
9. Loyalty System (Registration No. N2013-114 dated 4 October 2013)
10. Kick for Gold Betting and Admin System (Registration No. N2013-115 dated 4 October 2013)
11. Spyder Client (Registration No. N2013-116 dated 4 October 2013)
12. Spyder Server (Registration No. N2013-117 dated 4 October 2013)
13. E-City Launchpad (Registration No. N2013-118 dated 4 October 2013)
14. Kronus Admin (Registration No. N2013-119 dated 4 October 2013)
15. Kronus Alerts (Registration No. N2013-120 dated 4 October 2013)
16. Kronus Cashier (Registration No. N2013-121 dated 4 October 2013)
17. Kronus Prepaid Accounting System (Registration No. N2013-122 dated 4 October 2013)
18. Membership Admin (Registration No. N2013-123 dated 4 October 2013)
19. Membership Portal (Registration No. N2013-124 dated 4 October 2013)
20. MIS Tool (Registration No. N2013-125 dated 4 October 2013)
21. TMS- Indonesia (Registration No. N2013-126 dated 4 October 2013)
22. Voucher/Stacker Management System (Registration No. N2013-127 dated 4 October 2013)

23. TMS- Cambodia (Registration No. N2013-128 dated 4 October 2013)
24. TMS- Timor Leste (Registration No. N2013-129 dated 4 October 2013)
25. TeGS Zentrum Admin (Timor Leste e-Games) (Registration No. N2013-130 dated 4 October 2013)
26. TeGZ Zentrum Portal (Timor Leste e-Games) (Registration No. N2013-131 dated 4 October 2013)
27. Sweeps Admin (Registration No. N2013-132 dated 4 October 2013)
28. Sweepstakes Cashier (Registration No. N2013-133 dated 4 October 2013)
29. Sweeps Deck Management (Registration No. N2013-134 dated 4 October 2013)
30. Sweeps Launchpad (Registration No. N2013-135 dated 5 October 2013)
31. DBA Tool (Registration No. N2014-34 dated 28 January 2014)
32. Digital Signage System (Registration No. N2014-33 dated 28 January 2014)
33. SMS BGI (Registration No. N2013-172 dated 26 December 2013)
34. Launchpad-RSS (Registration No. N2013-171 dated 26 December 2013)
35. Loyalty V2 Web Service (Registration No. N2013-170 dated 26 December 2013)
36. Loyalty V2 Portal (Registration : \fo. N2013-169 dated 26 December 2013)
37. Loyalty V2 Admin (Registration No. N2013-168 dated 26 December 2013)
38. Cambodia Lottery Cashier (Registration No. N2013-167 dated 26 December 2013)
39. Cambodia Lottery Admin (Registration No. N2013-166 dated 26 December 2013)
40. PHP Hotel-Casino Lobby (Registration No. N2013-165 dated 26 December 2013)
41. PHP Hotel-Admin (Registration No. N2013-164 dated 26 December 2013)
42. Mobile Lotto (Registration No. N2013-163 dated 26 December 2013)
43. Friends Online Casino (Registration No. N2013-162 dated 26 December 2013)
44. Fraud Control management System (Registration No. N2013-161 dated 26 December 2013)
45. Bidwars (Registration No. N2013-160 dated 26 December 2013)
46. TV Sabong Admin & Betting System (Registration No. N2013-159 dated 26 December 2013)
47. Wannabet (Registration No. N2013-158 dated 26 December 2013)
48. Jackpot Karera (Registration No. N2013-157 dated 26 December 2013)

### **Pending Applications for Registration of Trademarks**

The Company has five (5) pending trademarks applications with the IPO:

1. Gold Master Brand Logo (Application No. 4-2012-011523)
2. Vibrant Vegas Logo (Application No. 4-2012-009142)
3. Magic Macau Logo (Application No. 4-2012-009141)
4. Genesis (Application No. 4-2013-00011661)

The Company has the following Industrial Designs and Utility Model registered with the IPO

1. Computer-Based Automated Terminal (Industrial Design) Registration No.3-2013-001325 dated 14 October 2015)

2. Printed Surface Ornamentation Applied to an e-Games Membership Card Design (Registration No. 3-2014-000864 dated 4 January 2016)
3. Printed Surface Ornamentation Applied to an e-Games Club Platinum Card (Registration No. 2-2014-000865 dated 4 January 2016)
4. Automated Terminal (Utility Model) Registration No. 2-2013-000658 dated 27 May 2015)

#### Need for Governmental Approval of Principal Products or Services; Effect of Existing or Probable Governmental Regulations on the Business

The Company's Internet gaming activities are done in partnership with PAGCOR, which is the only entity, authorized by the government to operate any game of chance.

#### Estimate of Amount Spent for Research and Development Activities in the Next Three Years

The Company does not expect to make any significant investment or expenditure for research and development for the existing bus. It is part of the Company's strategy to obtain its technology through strategic partnerships or similar arrangements with parties that already have access to the technologies, services, or products required by PhilWeb.

#### Costs and Effects of Compliance with Environmental Laws

The Company's current operations do not require an environmental compliance certificate from the Department of Environment and Natural Resources. In the event environmental laws and regulations cover any of its future operations, the Company intends to comply with such requirements.

#### Business Transactions with Related Parties

The Company has extended short-term advances to a related party with no interest. The Board of Directors of the respective companies has approved inter-company advances.

The Company has no material business transactions with related parties.

There are no major risks involved in each of the business of the Company and its subsidiaries.

As of December 2016, the Company has 216 employees broken down as follows: 90 rank and file, 63 supervisors, 46 managers, 17 executives. There is no union and neither is there a collective bargaining agreement with its employees. There have been no strikes or threats to strike in the past three years. Supplemental benefits given to employees include stock option plan to qualified employees, among others.

Employees are retained to support BGI operation and potential re-start if PhilWeb is able to secure contract with PAGCOR

## 1.7 Material Events

The significant contracts and commitments entered into by the Company as of December 31, 2016 are as follows:

- On December 17, 2010, Parent Company entered into an Omnibus Amended Intellectual Property License and Management Agreement (IPLMA) for PAGCOR E-Games with the Philippine Amusement and Gaming Corporation (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. On August 11, 2016, PAGCOR allowed the IPLMA to expire
- On December 22, 2009, the Parent Company entered into an Agreement relating to the sale and purchase in January 2010 of certain shares of Acentic GmbH with LBC Capital Sari (LBC Capital), Host Union International Limited and ISM. On January 11, 2010, the Parent Company completed the acquisition of 32.5% of Acentic GmbH, a Germany based company engaged in hotels and other multi- dwelling establishment thru Host Union International Limited in the amount of 9,750,000 Euro.

On November 15, 2012, the Parent Company executed an investment agreement with Acentic GmbH through PCIL, a company organized and existing under the laws of the British Virgin Islands, whereby the Parent Company, in consideration for 100% ownership in PCIL, exchanged its 50% ownership in Host Union. On December 14, 2012, the BOD approved the disposal of investment of PCIL in Host Union to a third party. On September 27, 2016, the Board approved the recovery of the said investment as payment of the balance of debt. On December 31, 2016, upon lengthy evaluation, the Board further approved the disposal of Investment for a total consideration of \$750,000. The cash generated is necessary to support the Company's expenses.

- In 2009, the Parent Company extended loans to Century Mill Limited (CML), a company based in Hong Kong, amounting to Euro 8,094,000. On October 18, 2011, Euro 4,147,500 was paid. On December 31, 2016, as approved by the BOD, the Company disposed its receivable from CML for a total consideration of Euro 1,937,250. The Company incurred a loss of Euro 1,937,250. The cash is necessary to sustain the Company's expenses and operation.
- In September 2006, the Parent Company entered into a Deed of Sale with SIIS Investment Holdings Limited wherein the latter has offered to sell and the Company has agreed to buy full ownership of all four special purpose vehicles (SPV), companies incorporated under the laws of the British Virgin Islands. The SPVs will own and hold the 2,285,714,286 common shares of ISM Communications Corporation in equal share.

- On July 26, 2006, the Company secured an irrevocable domestic standby letter of credit from Bank of Commerce in favor of PAGCOR amounting to P17 million to guarantee PhilWeb Corporation's obligation on the Premyo sa Resibo program and its obligation on Internet casinos and Internet sports betting.
- In April 2006, the Parent Company entered into a Memorandum of Understanding with the Department of Finance, Bureau of Internal Revenues, and PAGCOR, whereby the Parent Company and PAGCOR will establish a nationwide text-based raffle program with prizes. This project is entitled "Premyo sa Resibo" which will encourage all purchasers of goods and services in the country to demand an official receipt for every purchase.
- On June 1, 2006, the Parent Company entered into an Intellectual Property License and Management Agreement (IPLMA) 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, the Parent Company entered into an Omnibus Amended Intellectual Property License and Management Agreement for PAGCOR E-Games which supersedes the IPLMA, 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. The IPLMA expired on July 11, 2016. PAGCOR agreed to extend the contract for another month. On August 11, 2016, PAGCOR allowed the contract to lapse. Subscription to ISM Communications

#### Corporation Common Stock

On July 2, 2001, the Company entered into a Memorandum of Agreement (MOA) with Itogon-Suyoc Mines, Inc. (ISMI) whereby ISMI appointed the Company to manage the transformation of ISMI from a mining company to a company engaged in information technology, media, telecommunications, or other similar industries, as well as to identify and negotiate with investors who will infuse the necessary capital or assets for such project. In consideration of the services to be rendered by the Company, and in order to generate investor confidence in the new corporate direction of ISMI, the Company undertook to subscribe to 12,000,068,290 unissued shares of ISMI at its par value of P0.01 per share. The Company has made a partial payment of twenty five percent (25%) on such subscription.

On January 29, 2003, the PSE approved the application of ISM Communications Corporation to list the 3,000,000,000 common shares subscribed and fully paid by the Company at P0.01 par value per share. These shares form part of the 12,000,068,290 common shares subject of the private placement transaction between ISM Communications Corporation and the Company.

In July 2007, the Parent Company subscribed to 13,237,083,080 ISM Communications Corporation's rights offer shares at P0.01 par value each share. The subscription price was paid in full.

On February 16, 2009, the Parent Company exercised its right to subscribe to 1 share for every 1.92 common shares of ISM Communications Corporation held. The subscription payment amounted to P166,225,645 which covers 16,622,564,499 shares of ISM Communications Corporation. This subscription increased the Parent Company's holdings in ISM Communications Corporation from 24.5 billion shares or 19.4% in 2008 to 41.1 billion shares or 21.5% in February 2009.

On June 1, 2009, the Parent Company purchased 5,428,740,000 common shares of ISM Communications Corporation through Uscon Limited, a Hongkong based company. The total additional investment amounted to P172,250,000 which was also paid in the same month. This brings the holdings of the Parent Company to ISM Communications Corporation from 41.1 billion shares or 21.5% to 46.6 billion shares or 24.3%.

On November 19, 2013 as approved by the BOD, the Parent Company executed a Stock Purchase Agreement with Monfortino Holdings, Inc. (MHI) and agreed to sell its 466 million shares or 24.30% interest on ISM for a price of P1.50 per share.

### **Other Material Contracts**

1. Contract of Lease with Alphaland Corporation for the lease of the Company's principal office premises located at The Penthouse, Alphaland Southgate Tower, 2258 Chino Races Avenue Extension cor. Epifanio de los Santos Avenue (EDSA), Makati City. The lease is effective for 5 years and may be renewed upon the mutual agreement of the parties.
2. Deed of Assignment dated January 18, 2000 between the Company and All-Acacia Resources, Inc. whereby the Company transferred all of 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 P18 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.

### **Item 2. Properties**

In connection with the Company's intention to cease its mining and oil exploration operations and venture into the Internet business, the stockholders, at its annual meeting held on January 18, 2000, 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 to All-Acacia Resources, Inc. Consequently, the Company entered into a Deed of Assignment dated January 18, 2000 whereby it assigned to All-Acacia Resources, Inc. all of its rights over certain mining claims in the Provinces of Samar and Surigao and all of its mining assets, both tangible and intangible, used in the Company's mining operations.

The Company does not own any real property. However, it is presently leasing from Alphaland Corporation, the premises of its principal office located at The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue Extension corner EDSA, Makati City. The lease term is from September 19, 2014 to September 18, 2019 for a monthly lease of P2,689,406.42. The lease agreement is for a period of five (5) years with an option to renew under mutually agreeable terms. The Company is also leasing from Amberland Corporation, located at the Unit 4101, One San Miguel Avenue Condominium, San Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City. The lease term is from April 15, 2014 to April 14, 2019 for a monthly lease of P368,161.20. The lease agreement is for a period of five (5) years with an option to renew under mutually agreeable terms.

No extraordinary purchase or sale of plant and equipment are expected beyond those in the regular course of the Company's operations. All purchases will be financed through internally-generated funds and existing capitalization, except for limited leasing facilities that will be utilized for the purchases of certain computer and transportation equipment.

### **Item 3. Legal Proceedings**

1. Rodrigo R. Gacionco, Jr. vs. PhilWeb (CA G.R. CV-No. 01519) – Rescission of Lease Purchase Agreement.

The parties entered into a Lease Agreement with Option to Purchase on 22 November 2000. For alleged non-fulfillment of its obligation, Gandionco filed a case in the RTC to rescind the contract. PhilWeb stated that it never entered into such agreement for it was not signed by any of PhilWeb's authorized representatives. The Court Ruled in favor of Gandionco and declared the agreement between the parties as rescinded and ordered PhilWeb to pay Gacionco P 20,533.00 in litigation expenses, P20,000 in moral damages, P20,000 in exemplary damages and P50,000 in attorney's fees, in the total amount of P110,533.00. Gandionco was likewise ordered by the court to return to PhilWeb 10 IBM Computers, amounting to approximately P200,000.00 and 5000 pieces of ZOOM cards. PhilWeb appealed the case to the Court of Appeals. The appeal is submitted for decision by the Court of Appeals.

2. PhilWeb vs Sonia K. Pamatrnat  
LS. No. 07-J-8470

## Qualified Theft

The respondent is a former employee of PhilWeb. During her tenure as a former employee of PhilWeb, she took a company vehicle and did not return the same upon termination of her employment. PhilWeb demanded the return of its vehicle. Despite said demand, she failed to return the said property. PhilWeb then filed a complaint charging the respondent of Qualified Theft.

PhilWeb filed a Petition for Certiorari to annul the Resolution of the Department of Justice dismissing the criminal case against Sonia K. Pamatmat. The case is pending resolution by the Court of Appeals.

3. PhilWeb Corporation vs. BOS (Antigua) Ltd.  
Civil Case No. 06- 712  
For Damages with Attachment  
Makati RTC Branch 139

The parties entered into a Memorandum of Agreement on November 20, 2005 for the operation of sports betting facility. BOS allegedly violated provisions in the MOA prompting PhilWeb to file a case against BOS.

The case will be litigated upon service of summons to BOS.

4. Arvin Arcales vs. PhilWeb Corporation, et al.,  
NLRC RAB-VII-Case No. 09-1476-11/ CA Case No. CA- G.R.SP. No. 07281  
For Separation Pay, Backwages and damages

Arvin Arcales filed an illegal dismissal case with a claim for separation pay, backwages and damages. The National Labor Relations Commission (NLRC) decided on September 24, 2012 that Arcales was validly terminated from employment and that he is not entitled to the award of separation pay, backwages, moral and exemplary damages and attorney's fees. Arcales filed a Petition for Certiorari with the Court of Appeals to contest the NLRC Resolution upholding the validity of his termination from employment. On July 27, 2015, the Court of Appeals issued a Resolution denying Arcales' petition. Thereafter, the Court of Appeals issued a Resolution on March 11, 2016 stating that the decision dated July 27, 2015 has become final and executory for failure of Arcales to file a motion for reconsideration or appeal to the Supreme Court.

5. PhilWeb vs. Eduveges O. Batalan  
NPS No. XV-05-INV-148-0359  
Qualified Theft

PhilWeb discovered that Eduveges O. Batalan, whose employment has been terminated for cause, stole money from the company amounting to Php534,273.00 through unliquidated cash advances and allowances. Accordingly, PhilWeb filed a case for qualified theft against Batalan. The preliminary investigation was concluded and this is pending resolution before the Office of the City Prosecutor of Makati City. This case has already been settled amicably between the parties.

6. Brinia A. Flojemon vs. PhilWeb, et al.  
NLRC Case No. 00-04-03990

Brinia A. Flojemon filed an illegal dismissal case with the National Labor Relations Commission. On 30 October 2014, The Labor Arbiter issued a Decision in favor of Flojemon. On 29 December 2014, PhilWeb filed its Appeal Memorandum with the NLRC seeking to have the Decision of the NLRC reversed and set-aside. PhilWeb's Appeal Memorandum was denied by the NLRC on March 18, 2015. PhilWeb filed a Petition for Certiorari with the Court of Appeals on February 18, 2016 to overturn the decision of the NLRC. This case has already been settled amicably between the parties.

7. PhilWeb vs. Brinia A. Flojemon  
NPS No. XV-05-INV-14B-0360  
Qualified Theft

PhilWeb discovered that Brinia A. Flojemon, whose employment has been terminated for cause, stole money from the company amounting to Php1,829,000.00 through unliquidated cash advances and allowances. Accordingly, PhilWeb filed a case for qualified theft against Flojemon. On August 18, 2014, the Office of the City Prosecutor of Makati issued a Resolution dismissing the complaint filed by PhilWeb. Accordingly, PhilWeb seasonably filed a Motion for Reconsideration which was denied. On August 24, 2015, PhilWeb filed a Petition for Review with the Department of Justice. This case has already been settled amicably between the parties.

8. Eduveges O. Batalan vs. PhilWeb Corporation, et al.  
NLRC Case No. 06-07844

Eduveges O. Batalan filed an illegal dismissal case with the National Labor Relations Commission. The Labor Arbiter issued a Decision in favor of Batalan. On 11 December 2014, PhilWeb filed its Appeal Memorandum with the NLRC seeking to have the Decision of the Labor Arbiter reversed and set-aside. PhilWeb's Appeal Memorandum was denied by the NLRC on March 18, 2015. PhilWeb filed a Petition for Certiorari with the Court of Appeals on February 18, 2016 to overturn the decision of the NLRC. This case has already been settled amicably between the parties.

9. PhilWeb Corporation vs. Commission on Audit  
Decision No. 2015-097 (CGS-C Decision No. 2012-009) (ND No. 2011-001-(06/07))

On July 18, 2011, the Commission on Audit ("COA"), through its resident auditor, Atty. Resurreccion C. Quieta, issued a Notice of Disallowance ("ND") against PhilWeb regarding the payment of PAGCOR of 10% Software License Fee ("SLF") to PhilWeb effective on July 6, 2006.

PhilWeb challenged this ND and filed its Appeal Memorandum on 12 December 2011. On December 6, 2012, PhilWeb, received a copy of the Decision of the COA through Honorable Rufina S. Laquindanum dated 16 November 2012 denying its appeal and affirming the ND. Thereafter, PhilWeb filed its Petition for Review with the COA on 8

January 2013. On 8 May 2015, PhilWeb received a copy of the Decision of the COA dated 1 April 2015 dismissing its Petition for Review. On 19 May 2015, PhilWeb seasonably filed its Motion for Reconsideration. This Motion for Reconsideration is now pending resolution by the COA.

10. PhilWeb Corporation vs. Mark Kevin N. Mardo, Catherine Joy Fajardo, Luke Villanueva and John Dela Fuente  
NPS No. XV-05-INV-16E-1796

PhilWeb discovered that Mark Kevin Mardo manipulated PhilWeb's system and uploaded his own program and was able to remotely load gaming credits to eGames membership cards. Catherine Joy Fajardo, Luke Villanueva and John DelaFuente then attempted to redeem these gaming credits. PhilWeb filed this criminal case for violation of the Cybercrime Prevention Act of 2012. The case is now pending before the Regional Trial Court of Makati City and arraignment of the accused is set on 22 May 2017.

#### **Item4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## **Part II- OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item5. Market Price, Dividends and Related Stockholder Matters**

##### **Market Information**

PhilWeb Corporation's stocks are listed with the Philippine Stock Exchange.

The following table sets forth the high and low closing sales prices per share of the Common Shares listed on the PSE during the respective periods indicated according to published financial sources

		Price per Share	
		High	Low
12	First Quarter (ending March 2012)	13.90	12.70
	Second Quarter (ending June 2012)	17.62	12.70
	Third Quarter (ending September 2012)	17.00	12.24
	Fourth Quarter (ending December 2012)	17.04	12.26
2013	First Quarter (ending March 2013)	14.68	12.70
	Second Quarter (ending June 2013)	15.80	14.00
	Third Quarter (ending September 2013)	15.10	10.84
	Fourth Quarter (ending December 2013)	11.24	8.40

2014		
First Quarter (ending March 2014)	8.96	5.02
Second Quarter (ending June 2014)	5.61	4.89
Third Quarter (ending September 2014)	5.45	4.40
Fourth Quarter (ending December 2014)	9.75	5.09
2015		
First Quarter (ending March 2015)	13.88	10.82
Second Quarter (ending June 2015)	22.35	13.56
Third Quarter (ending September 2015)	19.00	18.00
Fourth Quarter (ending December 2015)	23.10	18.76
2016		
First Quarter (ending March 2016)	28.00	20.00
Second Quarter (ending June 2016)	24.80	21.90
Third Quarter (ending September 2016)	19.00	4.25
Fourth Quarter (ending December 2016)	14.74	5.80
2017		
First Quarter (ending March 2017)	10.52	7.70
April 10, 2016	8.06	7.85

#### Dividends

PhilWeb declared a cash dividend of P0.10 per share which was paid on September 15, 2014 to the holders of common stock as of September 1, 2014. PhilWeb declared a cash dividend of P0.10 per share which was paid on December 5, 2014 to the holders of common stock as of November 21, 2014. PhilWeb declared a cash dividend of P0.15 per share which was paid on February 16, 2015 to the holders of common stock as of January 30, 2015. PhilWeb declared a cash dividend of P0.15 per share which was paid on May 21, 2015 to the holders of common stock as of May 7, 2015. PhilWeb declared a cash dividend of P0.15 per share which was paid on August 28, 2015 to the holders of common stock as of August 14, 2015. PhilWeb declared a cash dividend of P0.15 per share which was paid on November 26, 2015 to the holders of common stock as of November 12, 2015. PhilWeb declared a cash dividend of P0.20 per share which was paid on March 4, 2016 to the holders of common stock as of February 19, 2016. PhilWeb declared a cash dividend of P0.20 per share which was paid on June 24, 2016 to the holders of common stock as of June 14, 2016.

The Company's future retained earnings corresponding to undistributed equity in net earnings are not available for dividend distribution until declared by the affiliates. There are no restrictions on the Company that limit the payment of dividends on common shares.

#### Holdings

There were 1,478 shareholders of record holding the Company's outstanding capital stock of 1,435,451,680 common shares as of March 31, 2017 net of treasury shares of 81,380,938.

## Top 20 Stockholders

The top 20 stockholders of record as of March 31, 2017 (based on total outstanding capital stock of 1,435,451,680 shares, net of treasury shares of 81,380,938 were:

	No. of Subscribed Common Shares	%to Total Outstanding
1. PCD Nominee Corporation:	894,224,788	62.30%
Filipino- 747,070,926		
Non-Filipino- 147,153,862		
2. PhiiWeb Casino Corporation	252,892,307	17.62%
3. Ang, Ramon S.	53,854,536	3.75%
4. Evermore Trading Limited	24,558,303	1.71%
5. HI<Pirate Holdings, Inc.	21,223,565	1.48%
6. Bluesirius Holdings, Inc.	20,000,000	1.39%
7. Dominion Equities, Inc.	20,000,000	1.39%
8. Compact Holdings, Inc.	18,500,000	1.29%
9. Elkhound Resources, Inc.	16,982,549	1.18%
10. Deltaventure Resources, Inc.	16,500,000	1.15%
11. Gregorio Araneta, Inc.	13,043,478	0.91%
12. Sunrise Sunset Island Corporation	8,000,000	0.56%
13. Tocmo Realty Corporation	8,000,000	0.56%
14. Labilab Corporation	7,000,000	0.49%
15. Coherco Securities, Inc. FAO 181513051200	6,400,400	0.45%
16. Olasiman, Edilberto O.	4,940,000	0.34%
17. Bacong Highland Realty, Inc.	4,000,000	0.28%
18. Itogon Realty Corporation	4,000,000	0.28%
19. Pilapil, Mary Grace Bautista	3,961,300	0.28%
20. Ponce, Jonathan D.	3,872,500	0.27%

### Recent Sales of Unregistered Securities:

There has been no sale in the past three years of any unregistered securities of the Company.

## Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The Company does not expect to conduct any material product research and development in the foreseeable future.

No extraordinary purchase or sale of plant and equipment are expected beyond those in the regular course of the Company's operations. All purchases will be financed through internally-generated funds and existing capitalization, except for the limited leasing facilities that may be utilized for the above-mentioned purchases.

Hiring of employees will continue in the regular course of business.

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

There are no significant elements of income or loss that has not been disclosed. The

#### Company's Key Performance Indicators

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

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

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

- 1.) The Company's Net Income margin for the aforementioned period was at 52%. Net Income of P869,626,033 divided by 'Jet Revenues of P1,667,610,476.
- 2.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P1,200,758,970 or 2.1% higher compared last year.
- 3.) The increase in revenues in 2015 was 1.7%. It was computed by dividing the difference between 2015 and 2014 Revenue by 2014 Revenue.

- 4.) Operating Income margin was 61%. Operating Income of P1,017,262,743 divided by Net Revenues of P1,667,610,476.
- 5.) Current ratio was at 1.21:1.00. Current Assets of P737,544,824 divided by Current Liabilities of P610,798,305.
- 6.) Asset to equity ratio was at 1.76:1.00. Total Assets of P1,580,166,741 divided by Total Equity of P897,425,866.
- 7.) Debt to equity ratio was at 0.76:1.00. Total Liabilities of P682,740,875 divided by Total Equity of P897,425,866.
- 8.) The Return on Total Assets was 55%. Net Income of P869,626,033 divided by the Total Assets of P1,580,166,741.
- 9.) The Return on Equity was 97%. Net Income of P869,626,033 divided by the Total Equity of P897,425,866.

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

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

## Performance for the Period Ended December 31, 2016

### *Cash and Cash Equivalents*

The cash and cash equivalents decreased by P112.2 million or 53.4% versus last year. The Company generated cash from operation amounting to P511.1 million and proceeds from subscription and issuance of shares of P111.7 million, and used its cash mainly for payment of dividends of P464.6 million, payment of loan of P150.0 million and payment of CAPEX of P100.7 million.

### *Receivables (net)*

The receivables decreased by P10.5 million or 5.3% versus last year, mainly due to collection of receivables.

### *Notes Receivable*

The decreased in notes receivable of P234.2 million or 100% versus last year, was mainly due to collection of receivables and recovery of investment as payment of the balance of debt. The investment was eventually disposed.

### *Prepayments and Other Current Assets*

Prepayments and other current assets decreased by P62.4 million or 69.3% versus last year mainly due to the reclassification of input VAT to other non-current assets.

### *Investment in Associates*

Investment in associates slightly decreased by P0.4 million or 2.8% due to equity in net losses from associates.

### *Noncurrent Receivables*

Noncurrent receivables decreased by P510.3 million or 100% versus last year, due to recovery of investment as payment of the balance of debt. The investment was eventually disposed.

### *Property and Equipment*

The decreased in property and equipment of P54.5 million or 21.7% represents the total acquisitions of P100.7 million less depreciation and amortization and impairment amounting to P154.3 million and disposal of P0.9 million.

The acquisitions mainly pertain to the upgrading network and data communication equipment for PeGS and leasehold improvements for BGI operations.

### *Deferred Tax Assets*

Deferred tax assets recognized amounting to P26.5 million represent the amounts of income taxes recoverable in future periods arising from deductible temporary differences and Net Operating Losses.

#### *Other Noncurrent Assets*

Other noncurrent assets increased by P40.2 million or 76.5% mainly due to the reclassification of input VAT to other non-current assets.

#### *Accounts Payable and Accrued Expenses*

The increased in accounts payable and accrued expenses by P5.7 million or 1.9% was mainly due to increase in trade payable.

#### *Income tax payable*

The decreased of P106.9 million was due to payment of income tax payable.

#### *Notes Payable*

Notes payable decreased by P150 million or 75.0% due to payment of loans.

#### *Retirement Benefits Liability*

The decreased in retirement benefits liability of P1.4 million or 9.5% represents additional provision for employees' retirement benefits, net of actuarial gain.

#### *Operators' deposit*

Operator's deposit decreased by P27.7 million or 48.5% due to refund of operators' deposit.

#### *Capital stock*

The increased in capital stock of P93.3 million or 6.7% was due to issuance of shares and collection of unpaid subscribed capital during the year.

#### *Additional paid in capital*

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

#### *Retained earnings*

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

### *Treasury stock*

There is no movement in treasury stock during the year.

### *Income and Expenses*

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

### *Revenues*

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

### *Salaries and Benefits*

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

### *Depreciation and Amortization*

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

### *Outsourced Services*

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

### *Rental*

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

### *Utilities and Communications*

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

### *Representation and Entertainment*

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

### *Supplies*

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

### *Impairment Losses*

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

### *Professional Fees*

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

### *Advertising and Promotion*

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

### *Taxes and Licenses*

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

### *Miscellaneous*

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

### *Equity in Net Earnings of Associates*

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

### *Loss on sale of assets*

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

### *Interest Income*

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

### *Interest Expense*

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

## Performance for the Period Ended December 31, 2015

### *Cash and Cash Equivalents*

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

### *Receivables (net)*

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

### *Inventories*

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

### *Notes Receivable*

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

### *Prepayments and Other Current Assets*

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

### *Investment in Associates*

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

### *Noncurrent Receivables*

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

### *Property and Equipment*

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

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

#### *Deferred Tax Assets*

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

#### *Other Noncurrent Assets*

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

#### *Accounts Payable and Accrued Expenses*

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

#### *Income tax payable*

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

#### *Notes Payable*

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

#### *Retirement Benefits Liability*

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

#### *Operators' deposit*

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

#### *Capital stock*

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

#### *Additional paid in capital*

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

#### *Retained earnings*

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

#### *Treasury stock*

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

#### *Income and Expenses*

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

#### *Revenues*

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

#### *Salaries and Benefits*

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

#### *Depreciation and Amortization*

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

#### *Outsourced Services*

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

#### *Rental*

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

#### *Utilities and Communications*

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

#### *Representation and Entertainment*

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

#### *Supplies*

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

#### *Operator Incentives and Commissions*

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

#### *Impairment Losses*

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

#### *Professional Fees*

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

#### *Advertising and Promotion*

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

#### *Taxes and Licenses*

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

#### *Miscellaneous*

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

#### *Equity in Net Earnings of Associates*

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

#### *Interest Income*

The decreased of P5.0 million or 13% was mainly due lower interest rate from notes receivables.

#### *Interest Expense*

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

### Performance for the Year Ended December 31, 2014

#### *Cash and Cash Equivalents*

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

#### *Receivables (net)*

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

#### *Inventories*

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

#### *Notes Receivable*

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

#### *Prepayments and Other Current Assets*

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

#### *Investment in Associates*

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

#### *Noncurrent Receivables*

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

#### *Property and Equipment*

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

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

#### *Deferred Tax Assets*

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

#### *Other Noncurrent Assets*

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

#### *Accounts Payable and Accrued Expenses*

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

#### *Notes Payable*

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

#### *Retirement Benefits Liability*

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

#### *Operators' deposit*

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

#### *Capital stock*

No significant movement for capital stock in 2014.

#### *Additional paid in capital*

No significant movement for additional paid in capital in 2014.

#### *Retained earnings*

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

#### *Treasury stock*

No movement for treasury stock in 2014.

#### *Income and Expenses*

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

#### *Revenues*

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

#### *Salaries and Benefits*

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

#### *Depreciation and Amortization*

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

#### *Outsourced Services*

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

### *Rental*

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

### *Utilities and Communications*

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

### *Representation and Entertainment*

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

### *Supplies*

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

### *Operator Incentives and Commissions*

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

### *Impairment Losses*

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

### *Professional Fees*

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

### *Advertising and Promotion*

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

### *Taxes and Licenses*

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

### *Miscellaneous*

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

### *Equity in Net Earnings of Associates*

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

### *Interest Income*

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

### *Interest Expense*

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

### *Key Variable and Other Qualitative and Quantitative Factors*

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

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

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

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

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

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

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

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

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

Item 7. Financial Statements

See attached.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

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

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

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

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

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

## Part III- CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Registrant

Name	Age	Position/ Citizenship/Period Served/Term of Office
Gregorio Ma. Araneta III	69	Director & Chairman/Filipino/3 yrs./1 yr.
Dennis O. Valdes	55	Director & President/Filipino/10 yrs./1 yr.
Tomas I. Alcantara	70	Director/Filipino/15 yrs./1 yr.
Crisanto Roy B. Alcid	47	Director/Filipino/2 yrs./1 yr.
Edgardo J. Angara	82	Director /Filipino/3 yrs./1 yr.
Michael Angelo Patrick M. Asperin	58	Director/Filipino/3 yrs./1 yr.
Edgar Brian K. Ng	47	Director/Filipino/3 yrs./1 yr.
Cliburn Anthony A. Orbe	43	Director & Corporate Secretary /Filipino/3 yrs./1 yr.
Mario A. Oreta	72	Director/Filipino/1 yr./1 yr.
Rafael B. Ortigas	45	Director/Filipino/13 yrs./1 yr. Director
Zalduy M. Prieto	42	& CFO/Filipino/3 yrs./1 yr.
Raymund S. Aquino	48	Director & Assistant Corporate Secretary/Filipino/1 yr./1 yr.

Gregorio Ma. Araneta III was elected Chairman of the Company in September 2016. He was elected Director of the Company in May 2014. He is the Chairman and Chief Executive Officer of Araneta Properties, Inc. since 2010. He is the Chairman and President of Gregorio Araneta, Inc., ARAZA Resources Corporation, H. E. Heacocks Resources Cmp., Gregorio Araneta Management Corporation, Gamma Properties Inc. and Carmel Development Inc. He is also the Chairman of Energy and Gas Holdings Inc. Mr. Araneta attended the University of San Francisco and the Ateneo de Manila University, where he received his degree in Bachelor of Arts in Economics.

Dennis O. Valdes was elected Director of the Company in July 2006. He is the President of the Company, and serves as Director of Alphaland Corporation and Atok-Big Wedge Co., Inc. His previous work experience includes ten years with the Inquirer Group of Companies, as a Director of the newspaper, and also expanding their internet, printing and ink-making operations. Prior to that, he spent six years with The NutraSweet Company developing their business in Asia. He is a Certified Public Accountant, graduated magna cum laude in Business Administration and Accountancy from the University of the Philippines, and has an MBA from the Kellogg School of Management, Northwestern University.

Tomas I. Alcantara was elected Independent Director of the Company in May 2002. He holds a Bachelor of Science degree in Economics from Ateneo de Manila University, a Masters in Business Administration degree from Columbia University, USA and attended the Advance Management Program of the Harvard Business School. Mr. Alcantara was Undersecretary for the Industry and Investment Group of the Department of Trade and Industry and the Vice Chairman and Managing Head of

the Board of Investments from July 1986 to March 1995. He was also Special Envoy of the Philippine President to APEC in 1996. He is presently the Chairman and President of Alsons Consolidated Resources, Inc., and of several power and property development companies in the Alcantara Group. He is Chairman of Holcim Philippines, Inc. and Eagle Ridge Golf & Country Club, Inc.

Senator Edgardo J. Angara was elected Independent Director of the Company in May 2014. He was the longest serving senator in the post-EDSA Senate, authoring many laws including the Free High School Education Act, the Generics Act, Philhealth Act, the Senior Citizens Act, the Renewable Energy Act, and others. He graduated from the University of the Philippines in 1958, passed the bar in 1959, and joined the law firm of Ponce-Emile Siguion-Reyna Montecillo & Belo Law Offices. He obtained his Masters of Laws majoring in International Relations & Corporate laws from the University of Michigan under the DeWitt Fellowship. Senator Angara is a founding member of the ACCRA Law Offices, one of the Philippines' top law firms. He also served as president of the Philippine Bar Association in 1975, president of the Integrated Bar of the Philippines in 1979 and founding president of the ASEAN Law Association.

Michael Angelo Patrick M. Asperin was elected Director of the Company in August 2014. He graduated from the Philippine Military Academy in 1981. He served as Senior Vice President for Security for the Company from 2009 to 2012, and as Enterprise Risk and Security Management Officer of Peh-on Corporation from 2007 to 2009. He is also the CEO of Alphaland Balesin Island Club Inc., Executive Vice President for Operations of Alphaland Corporation, and President of Alphaland Aviation, Inc.

Edgar Brian K. Ng was elected Director of the Company in May 2014. He is currently the Senior Vice President for Gaming of the Company. In the past, he served as Managing Director/Country Manager of Affinity Express Philippines, Inc., Vice President & Country Manager of RR Donnelley Global Outsourcing, Director for Operations of OfficeTiger Philippines Corporation, and Director of Special Projects (Global Operations Support) for SPi. He also spent six years with The Print Town Group starting as a Prepress Manager for FEP Printing Corp and ending as Senior Vice President of LexMedia Digital. Aside from the corporate world, Mr. Ng has been heavily involved in the academe, as an instructor at both the undergraduate and graduate levels of Ateneo Universities. He has a Bachelor of Arts degree from the Ateneo de Manila University and an MBA from the Ateneo Graduate School of Business.

Cliburn Anthony A. Orbe was elected Director of the Company in May 2014. He also serves as the Company's Corporate Secretary and Corporate Information Officer. He has a Bachelor of Laws degree from Mindanao State University where he graduated cum laude and class valedictorian. He was formerly an associate of the Rodrigo Berenguer Guno law firm. He is a member of the Integrated Bar of the Philippines.

Crisanto Roy B. Alcid was elected Director of the Company in April 2015. He is the President and Chief Operating Officer of Araneta Properties, Inc. while concurrently

serving as Director and Executive Vice President of Gregorio Araneta, Inc., Carmel Development Corp., Gregorio Araneta Management Corporation, and Araza Resources Corporation. He is also a Director of Philippine Coastal Storage & Pipeline Corp. Before joining the Araneta Group, he was formerly connected with Ayala Land, Inc., Asiatrust Development Bank, and Citibank N.A. Mr. Alcid holds a Bachelor of Science Degree in Management Engineering from the Ateneo de Manila University and has completed the General Management Program at the Harvard Business School.

**Mario A. Oreta** was elected Director of the Company in May 2016. He is also a former President and Vice-Chairman of Alphaland Development, Inc., Alphaland Balesin Island Resort Corporation, Alphaland Makati Place, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., and Alphaland Property Management Corporation. He is also a Director of Atok-Big Wedge Co., Inc. Mr. Orela graduated with honors from the Ateneo De Manila University with a degree of Bachelor of Laws and immediately joined the law firm of Siguiou Reyna, Montecillo and Ongsiako. He was also the founder and managing partner of Tanjuaatco Oreta and Factoran Law Offices.

**Rafael B. Ortigas** was elected Director of the Company in April 2002. He is the Chairman and President of Leafar Commercial Corporation, a Director of Sagitro, Inc. and ISM Communications Corporation. He was a director of Itogon-Suyoc Resources, Inc., and OCLP Holdings, Inc. and former General Partner of Ortigas and Company Ltd. Partnership. He is also a Trustee and President of Leafar Foundation, Inc. and a Trustee of the Ortigas Foundation, Inc. He has a Bachelor of Science degree in Computer Science from De La Salle University and an MBA from Ateneo de Manila Graduate School of Business.

**Zaldy M. Prieto** was elected Director of the Company in May 2014. He was elected as the CFO and Treasurer of the Company in November 2008. Mr. Prieto is a certified public accountant and certified financial consultant. He has been practicing as a finance professional since 1995. His previous work experiences include being a senior tax consultant of SGV & Co., assistant vice president for finance in Ford Motor Company and plant controller and assistant finance director of James Hardie Philippines. He has also served as a director of Primus Finance and Leasing Co., and Ford Philippines Component Manufacturing Company. He is a member of the Philippine Institute of Certified Public Accountants and Institute of Financial Consultants.

**Raymund Nonato S. Aquino** was elected Director of the Company in May 2016 and was elected Assistant Corporate Secretary of the Company in May 2011. He was a director of SGV & Co. He has a Juris Doctor Degree from the Ateneo de Manila University College of Law and a Bachelor of Arts degree major in Legal Management from the Ateneo de Manila University. He is a member of the Integrated Bar of the Philippines.

The following are the Company's independent directors:

1. Tomas I. Alcantara
2. Edgardo J. Angara

#### Significant Employees

There are no persons other than the executive officers that are expected by the Company to make a significant contribution to the business.

#### Family Relationship of Directors and Officers

The Company does not know of any family relationship among its directors and officers.

#### Involvement of Directors and Officers in Certain Legal Proceedings

The Company is not aware that any of its directors and officers is involved in the past five years up to the date of the filing of this Statement in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

#### Item 10. Executive Compensation

The aggregate amount of compensation paid by the Company to all of its directors and management as a group for fiscal years 2015 and 2016 were P45,336,000.00 and P42,349,000.00, respectively. The estimated aggregate compensation for 2017 is P33,252,000.00.

#### Annual Compensation of Five Most Highly-Paid Executives including the CEO

(a) Name and Principal Position	(b) Year	(c) Salary	(d) Bonus	(e) Other Annual Comp.
1. Roberto V. Ongpin Chairman (elected January 18, 2000 and resigned August 4, 2016)				
2. Dennis O. Valdes President (elected in July 2006)				
3. BrianKNg Senior Vice President (effective January 2011)				

4. Zaldy M. Prieto  
Senior Vice President & CFO  
(effective November 2008)

5. Mona Liza I. Navarro  
Vice President  
(effective March 2014)

Aggregate Compensation of the CEO  
& Five Most Highly-Paid Executives

2015	25,080,000	1,454,500	2,090,000
2016	21,782,000		2,038,000
2017 <sup>1</sup>	20,388,000		1,699,000

All Officers and Directors as a Group  
Unnamed

2015	45,336,000	2,022,500	3,778,000
2016	42,349,000		3,529,083
2017 <sup>2</sup>	33,252,000		2,771,000

There are no standard arrangements with regard to election, bonus, profit sharing, pension/retirement plan granting or extension of any option, warrant or right to purchase any securities. The Company has a stock option plan, which is administered by a stock options committee.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

The abovementioned executive officers have employment contracts with the Company.

There has been no change in control arrangements with the present management. Warrants and Options Outstanding

On February 16, 2001, the Securities and Exchange Commission ("SEC") approved the exemption of 4,447,134,695 common shares under the Company's Stock Option Plan from the registration requirements under the Securities Regulation Code (SEC Resolution No. 005, Series of 2001).

On November 18, 2003, the Stock Option Committee approved the awarding to selected individuals who have helped develop the business of the Company over the past two years option to subscribe to a total of One Billion Three Hundred Million (1,300,000,000)

<sup>1</sup> **Estimated figures**

<sup>2</sup> **Estimated figures**

common shares at a price of P0.01 per share (the then prevailing market price was P0.012 per share).

On October 14, 2004, the Stock Option Committee of the Company approved the award to selected officer options to subscribe to 500,000,000 common shares, at a subscription price of P0.01 per share (the then prevailing market price was P0.012 per share).

On March 2, 2005, the Stock Option Committee of the Company approved the award to selected officers, employees and third parties options to subscribe to 1,391,000,000 common shares, at a subscription price equivalent to a twenty percent (20%) discount over the average closing price during the past thirty (30) trading days (the then prevailing market price was P0.0169 per share).

On January 20, 2006, the Stock Option Committee of the Company approved the award to selected officers and employees options to subscribe to a total of 1,786,500 common shares, at a subscription price of P0.013 per share (the then prevailing market price was P0.016 per share).

On November 29, 2006, the Stock Option Committee of the Company approved the award to selected officers options to subscribe to total of 1,156,000,000 common shares, at a price of P0.0248 (the then prevailing market price was P0.031 per share).

On April 9, 2008, the PSE approved the Company's application for the listing of additional 1,982,399,858 common shares with a par value of P0.01 per share, to cover the Stock Option Plan of PhilWeb.

On April 19, 2012, the Stock Option Committee of the Company approved the award to selected officers and employees of options to subscribe to a total of 8,900,000 common shares, at a price of P14.00 per share.

On May 29, 2014, the Stock Option Committee of the Company approved the award to selected officers of options to subscribe to a total of 1,500,000 common shares, at a price of P4.15 per share.

## Item 11, Security Ownership of Certain Record Beneficial Owners and Management

### (1) Security Ownership of Certain Record and Beneficial Owners

As of March 31, 2017, PhilWeb Corporation knows of no one who beneficially owns more than 5% of its common stock except as set forth in the table below:

<i>Title of Class</i>	<i>Name and Address of Record Owner and Relationship with Record Owner</i>	<i>Name of Beneficial Owner and Relationship with Record Owner</i>	<i>Citizenship</i>	<i>Amount and Nature of Record / Beneficial Ownership (indicate "r" or "b")</i>	<i>Percent Held</i>
Common	PhilWeb Casino Corporation The Penthouse, Alphaland	Dennis O. Valdes Proxy/Representative	Filipino	260,392,307 (r&b- direct)	18.14%

<i>Title of Class</i>	<i>Name and Address of Record Owner and Relationship with Issuer</i>	<i>Name of Beneficial Owner and Relationship with Record owner</i>	<i>Citizenship</i>	<i>Amount and Nature of Record/ Beneficial Ownership (indicate "r" or "b")</i>	<i>Percent Held</i>
Common	Southgate Tower, 2258 OUno Races Avenue cor, EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	147,868,248 (r&b - indirect)	10.30%
Common	Azurestar Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Races Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	90,842,400 (r&b - indirect)	6.33%
Common	Dominion Equities, Inc. The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	95,574,500 (r&b- indirect)	6.66%
Common	Compact Holdings, Inc. The Penthouse, Alphaland Southgate Tower, 2258 OUno Roces Avenue cor, EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	90,001,797 (r&b - direct)	6.27%

(2) Security Ownership of Management

As of March 31, 2017, the following are the details of the security ownership of Management based on total outstanding shares of 1,435,451,680:

<i>Title of Class</i>	<i>Name of Beneficial Owner</i>	<i>Citizenship</i>	<i>Number of Shares and Nature of Beneficial Ownership</i>	<i>Percentage of Ownership</i>
-----------------------	---------------------------------	--------------------	--	--------------------------------

Common	Gregorio Ma. Araneta III Chairman	Filipino	100 (direct) 13,043,478 (indirect)	0.00% 0.91%
Common	Dennis O. Valdes President	Filipino	2,533,200 (direct) 21,223,565 (indirect)	0.00%
Common	Crisanto Roy B. Alcid Director	Filipino	100 (direct)	0.17% 1.48%
Common	Tomas I. Alcantara Independent Director	Filipino	372,000 (direct)	0.00%
Common	Rafael B. Ortigas Director	Filipino	1,200 (direct)	0.03%
Common	Edgardo J. Angara Independent Director	Filipino	100 (direct)	0.00%
Common	Prieto, Zaldy M. Director/CFO	Filipino	703,100 (direct)	0.00%
Common	Mario A. Oreta Director	Filipino	1 (direct)	0.00%
Common	Edgar Brian K. Ng Director/Senior Vice President	Filipino	151,500 (direct)	0.03%
Common	Cliburn Anthony A. Orbe Director/Corporate Secretary	Filipino	202,800(direct)	0.02%
Common	Michael Angelo Patrick M. Asperin Director	Filipino	1 (direct)	0.00%
Common	Raymund S. Aquino Director/Asst. Corp Secretary	Filipino	114,866 (direct)	0.01%
Aggregate Ownership of Directors and Officers as a Group			38,346,011	2.67%

There are no voting trust agreements or any other similar agreement that may result in a change in control of the Company of which the Company has any knowledge. No change in control of the Registrant has occurred since the beginning of its last fiscal year.

#### Item 12. Certain Relationships and Related Transactions

The Company's legal counsel is the law firm of Orbe & Altubar Law Offices where Atty. Cliburn Anthony A. Orbe is a senior partner. Please also refer to Note Number 15 on Related Party Transactions of the enclosed Consolidated Financial Statements for the year 2016.

Other than the foregoing, there has been no transaction outside of the ordinary course of business during the last two years, nor is any transaction presently proposed, to which the Company was or is to be a party in which any director or executive officer of the Company, or owner of more than 10% of the Company's voting securities or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest. In the ordinary and regular course of business, the Company had or may have had transactions with other companies in which some of the foregoing persons may have an interest.

Mr. Roberto V. Ongpin directly and indirectly owns at least 53.76% of the Company's voting securities. No person, natural or juridical, owns more than 50% of the Company's voting securities.

**Item 13. Corporate Governance**

The Company through its Compliance Officer Atty. Cliburn Anthony A. Orbe, has monitored the Company's compliance with SEC Memorandum Circular No. 2 dated April 15, 2002 and the relevant SEC Circulars on Corporate Governance and noted that no substantive or major deviations occurred. The Company's directors and officers have complied with the practice and policies contained in the Company's Manual on Corporate Governance. The Company has submitted its self-rating performance assessment sheet in compliance with SEC requirements. All of the Company's directors and officers attended a seminar on corporate governance. The Company's new directors will be encouraged to attend seminars as well.

The Company's Board of Directors and officers have been properly briefed on their specific responsibilities as embodied on the Manual on Corporate Governance. The compliance officer monitors the Company's compliance with the provisions and requirements of the manual and determines violations if any.

There were no deviations made from the adopted Manual on Corporate Governance.

The Company's management considers its Manual on Corporate Governance sufficient and believes that there is no need to amend it. It ensures that the provisions of the manual are properly implemented.

Please refer to the attached Annual Corporate Governance Report.

## **Part IV - EXHIBITS AND SCHEDULES**

**Item 14. Exhibit and Reports on SEC Form 17-C**

a. Exhibit

Exhibit A - Material Contracts

b. Reports on SEC Form 17-C

March 15, 2016

Announcement that the Annual Stockholders' Meeting for 2016 is on May 17, 2016 (Tuesday) at 5 p.m. at The City Club at Alhambra Makati Place, Ayala Avenue Extension corner Malugay Street, Makati City. The record date for

stockholders who will be eligible and entitled to vote at the said meeting is March 31, 2016.

April 19, 2016

Announcement that the Annual Stockholders' Meeting for 2016 is on May 24, 2016 (Tuesday) at 5 p.m. at The City Club at Alphaland Makati Place, Ayala Avenue Extension corner Malugay Street, Makati City. The record date for stockholders who will be eligible and entitled to vote at the said meeting is March 31, 2016.

April 27, 2016

Announcement that the Annual Stockholders' Meeting for 2016 is on May 31, 2016 (Tuesday) at 5 p.m. at The City Club at Alphaland Makati Place, Ayala Avenue Extension corner Malugay Street, Makati City. The record date for stockholders who will be eligible and entitled to vote at the said meeting is March 31, 2016.

May 31, 2016

Announcement of the results of the annual stockholders' meeting whereby the Company's stockholders elected the Company's fifteen directors; election by the Board of Directors of the Company's officers, members of the Executive Committee, Compliance Officers, Information Officers and members of the nominations, compensation and audit committees.

Announcement that the Company has declared a cash dividend of P0.20 per share which will be paid on June 24, 2016 to the holders of common stock of record as of June 14, 2016.

Announcement that during the annual stockholders' meeting of the Company, the stockholders unanimously approved management's proposal to make a private placement of up to 300 million shares at a discount to market but in no case less than P20.00 per share. The shares to be sold at this private placement are part of the 354.6 million shares currently in treasury which PhilWeb bought from PLDT in 2013 at an average price of P11.90 or a total value of P4.2 billion. The 354.6 million shares are broken down as follows: 81,380,938 shares are held by the Company as treasury shares, 260,392,307 shares are held by PhilWeb Casino Corporation (wholly-owned subsidiary of the Company) and 12,848,522 shares are held by Pure Corporate Investments Limited (wholly-owned subsidiary of the Company). The current market price of PhilWeb shares is P 23.90 per share. Thus the total value of these treasury shares is more than 8.4 billion or double the acquisition cost of PhilWeb from PLDT. The private placement will result in PhilWeb receiving cash and receivables of at least Php 6.0 billion. With this war chest, the Company will have the ability to go on an aggressive expansion program. The actual price and payment terms will be subject to the approval by the PhilWeb Board or Executive Committee.

June 30, 2016

The Company requested the Philippine Stock Exchange that in view of the recent media reports regarding President Rodrigo Duterte's directive on online gaming for an immediate trading halt in PhilWeb shares until the impact, if any, can be ascertained.

July 3, 2016

In view of unverified material information affecting the business of PhilWeb Corporation that will materially affect the investing public, the Company requested for a trading suspension in PhilWeb shares from 4 July 2016 to 6 July 2016.

July 5, 2016

In view of the rescheduled meeting with the Board of Directors of the Philippine Amusement and Gaming Corporation (PAGCOR) to 8 July 2016, the Company requested for an extension of the trading suspension to the end of July 8, 2016, so that the Company can properly inform the PSE and the investing public as to the results of its PAGCOR meeting immediately after its conclusion.

July 10, 2016

Announcement that PAGCOR extended the Company's Intellectual Property License and Management Agreement from July 11, 2016 to August 10, 2016.

August 2, 2016

Press Release entitled: Court of Appeals Restrains SEC on Ongpin Case

August 4, 2016

Announcement of the resignation of Mr. Roberto V. Ongpin and Ms. Anna Bettina Ongpin as Chairman and Vice Chairperson, respectively, of the Company.

August 7, 2016

Press Release entitled: PhilWeb issues statement on President Duterte's pronouncements.

August 8, 2016

Press Release entitled: PhilWeb seeks clarification from PAGCOR.

August 9, 2016

Announcement that the Company will be winding down operations as a service provider to PAGCOR's e-Games network due to the expiration of its Intellectual Property Licensing and Management Agreement or IPLMA contract on August 10, 2016.

Due to material uncertainties and unverified material information affecting the business of the Company that will materially affect the investing public and in order to prevent a false or disorderly trading of PhilWeb shares, the Company requested for a trading suspension in PhilWeb shares from 10 August 2016 to 31 August 2016.

August 10, 2016

The Company announced to its stockholders, e-Games Operators and employees that it will suspend services to PAGCOR's e-Games network to be effective 10

August 2016 at 11:59 PM. This does not mean though that PhilWeb will be closing as it will meet with PAGCOR in the coming weeks to try to obtain a new Intellectual Property Licensing and Management Agreement.

August 31, 2016

The Company announced that during this time of discussions with PAGCOR for the renewal of the Intellectual Property Licensing and Management Agreement, the Company will temporarily put on "forced leave" 216 employees for a period of one (1) month effective on 1 September 2016.

September 13, 2016

Announcement of the resignation of Victor C. Macalincag as director of the Company.

September 19, 2016

Announcement of the election of Gregorio Ma. Araneta III as Chairman of the Board of Directors of the Company.

October 2016

Announcement of the conclusion of the Sale and Purchase Agreement between the Roberto V. Ongpin Group of Companies and Gregorio Araneta Incorporated, in which the former sold its entire holdings of 771,651,896 (equivalent of 53.76%) of PhilWeb Corporation, to Gregorio Araneta Incorporated at a price of Php2.60 per share.

December , 2016

Announcement that the Board has decided to increase the members of the Executive Committee from three to five and appointed the following as its members: Gregorio Ma. Araneta III (Chairman) Dennis O. Valdes, Crisanto Roy B. Alcid, Edgar Brian K. Ng, and Zaldy M. Prieto (members).

December 31, 2016

Announcement that the Company sold its investment in Acentic GmbH to Niantic Holding GmbH for US\$750,000 and that it has also collected the sum of €1,973,250 from Acentic GmbH in full settlement of its loan receivables.



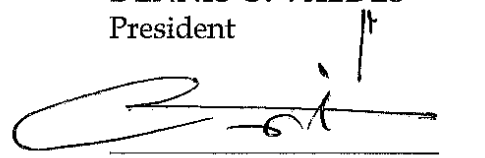
March 8, 2017

Announcement that the Company plans to acquire 15 PAGCOR e-Games Stations from existing independent operators using a total of up to 7,500,000 Company shares it is currently holding in treasury as payment.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on 3 April 2017.


By:

  
\_\_\_\_\_  
**GREGORIO MA. ARANETA III**  
Chairman  
\_\_\_\_\_  
**CLIBURN ANTHONY A. ORBE**  
Corporate Secretary  
\_\_\_\_\_  
**DENNIS O. VALDES**  
President  
\_\_\_\_\_  
**ZALDY M. PRIETO**  
SVP & Chief Finance Officer

**SUBSCRIBED AND SWORN** to before me this 3<sup>th</sup> day of April 2017 affiants exhibiting to me their Tax Identification Numbers, as follows:

<b>Name</b>	<b>Tax Identification No.</b>
Gregorio Ma. Araneta III	136-998-184
Dennis O. Valdes	141-808-056
Cliburn Anthony A. Orbe	180-004-166
Zaldy M. Prieto	193-976-155

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Page No. 40  
Book No. III  
Series of 2017.

  
**NOELLI S. GAVINO**  
Appointment No. M-420  
Notary Public for Makati City  
Until December 31, 2017  
5<sup>th</sup> Floor, The City Club at Alphaland Makati Place  
7232 Ayala Ave. corner Malugay St. Makati City  
Roll No 61296  
PTR No. 5918354; 01/11/2017; Makati City  
IBP No. 1069461, 01/24/2017, Makati City  
MCLE No. V-0021546 / TIN No. 274-478-243

**EXHIBIT**

**"A"**

(Please refer to the Registration Statement for copies  
of other material contracts of PhilWeb Corporation)

**PHILWEB CORPORATION  
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The Management of **PhilWeb Corporation** (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the Stockholders.

R.G. Manabat & Co., the independent auditors appointed by the Stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**GREGORIO MA. ARANETA III**  
Chairman



**DENNIS O. VALDES**  
President



**ZALDY M. PRIETO**  
SVP & Chief Financial Officer

Signed this 7<sup>th</sup> day of April 2017

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of APR 07 2017  
2017, in \_\_\_\_\_, affiant exhibited to me the following TIN/SSS No.

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

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

Doc. No. 700 ;  
Page No. 42 ;  
Book No. III ;  
Series of 2017.

  
**NOELLE S. GAVINO**

Appointment No. M-420  
Notary Public for Makati City  
Until December 31, 2017

5<sup>th</sup> Floor, The City Club at Alphaland Makati Place  
7232 Ayala Ave. corner Malugay St. Makati City  
Roll No 61296

PTR No. 5918354; 01/11/2017; Makati City  
IBP No. 1069461, 01/24/2017, Makati City  
MCLE No. V-0021546 / TIN No. 274-478-243

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

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **PHILWEB CORPORATION AND SUBSIDIARIES** for the period ended December 31, 2016.

In discharging this responsibility, I hereby declare that:

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

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

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

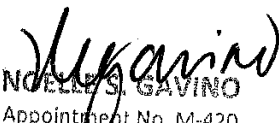
ZALDY M. PRIETO  
CPA License No. 0092825  
Valid until December 31, 2018

Accreditation No. 1077  
Valid until December 31, 2019

07 APR 2017

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2017, in \_\_\_\_\_ affiant exhibiting to me his Driver License No. N26-00-040435 issued on May 4, 2015 in Quezon City.

Doc No. 696  
Page No. 41  
Book No. III  
Series of 2017

  
NOELLE S. GAVINO  
Appointment No. M-420  
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MCLE No. V-0621546 / TIN No. 274-478-243



R.G. Manabat & Co.  
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6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet www.kpmg.com.ph  
Email ph-inquiry@kpmg.com.ph

## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

We have audited the consolidated financial statements of PhiiWeb Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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



### *Material Uncertainty Related to Going Concern*

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which describes the expiration of PhiiWeb Corporation's (the "Parent Company") Intellectual Property License and Management Agreement (IPLMA) with the Philippine Amusement and Gaming Corporation (PAGCOR) on July 11, 2016, but was later extended until August 10, 2016. Since said date, the Parent Company has not operated as a service provider to PAGCOR e-Games stations (PeGs) which caused a decrease in revenues by P595.1 million in 2016 as compared to 2015 and partially contributed to the net loss of P297.7 million in 2016. These conditions, among others, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As disclosed in Note 1 to the consolidated financial statements, various steps are being taken by the management to support the continued viability of the Group which include the following, among others: (a) vigorously participate in the bidding to be conducted by PAGCOR for the grant of the management of the PeGs; (b) increase the PeGs that are owned and operated by BigGame, Inc. (BGI), a wholly-owned subsidiary; (c) negotiate with a third party to enable the Group to offer sports betting to its players; (d) continue to maintain the personnel, particularly IT support and IT developers, that will be necessary for the prompt restart of the Parent Company's operations once the management contract with PAGCOR is executed. In addition, BGI has committed to provide the necessary financial support to the Group to continue as a going concern and fulfill its obligations. The validity of these assumptions is dependent on the Group's ability to fully implement the aforesaid action plans and the success of its future operations.

We have performed the following in consideration of the material uncertainty identified above: (a) evaluated the management's plan for future actions in relation to its going concern assessment; (b) reviewed the integrity of the cash flow forecast provided by management which involved evaluation of the assumptions applied and comparison to historical and external data, where applicable; (c) verified through the board minutes of the meeting the support committed by BGI to the Group; and (d) requested written representations from management of the Group and those charged with governance, regarding their plans for future actions and feasibility of these plans including the cash flow projections. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

### *Key Audit Matters*

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

#### *Revenue Recognition (P1.02 billion)*

Refer to Note 3, Summary of Significant Accounting Policies and Note 23, Segment Reporting

##### *The risk*

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when revenues from providing technical, marketing and cash management services for PeGs are earned. It also includes commission income from the operation of PeGs. The revenues are based on certain percentage of winnings as stipulated in the IPLMA with PAGCOR. There is a risk that due to pressure and/or incentive on management to meet targets, material misstatements may arise through inappropriate revenue recognition.

*Our response*

We performed the following audit procedures, among others, around revenue recognition:

- We tested the design and implementation and operating effectiveness of key manual controls over revenue recognition.
- We recomputed the revenue allocation based on the provisions of the IPLMA and relevant agreement with the IT service provider.
- We tested the completeness and accuracy of the monthly gross winnings report by checking the subsequent monthly remittances to PAGCOR, IT service provider (RTG), PeGs operators and incentive fund.
- We tested journal entries posted to revenue accounts to identify unusual or irregular items.

*Valuation of Property and Equipment (P196.93 million)*

Refer to Note 2, *Basis of Preparation*, Note 3, *Summary of Significant Accounting Policies* and Note 10, *Property and Equipment*

*The risk*

The Group's IPLMA with PAGCOR expired on August 11, 2016 and has not been renewed as at audit report date. This resulted to cessation of the Group's PeGs operations. There is a risk that the Group's property and equipment may not be recovered through continuing use. In addition, determining the recoverable amount of property and equipment is subject to a high degree of judgment and estimation. This includes estimating the fair value less costs of disposal and value in use.

*Our response*

We performed the following audit procedures, among others, around valuation of property and equipment:

- We obtained concrete plan of the management on the Group's operations.
- We obtained and understood the Group's assessment of impairment.
- We tested the assumptions used by the Group in its assessment of impairment and obtained relevant supporting documentations.
- We tested the reasonableness of the Group's calculation of recoverable amount including the underlying support in determining such amount.
- We compared the carrying amount of the property and equipment against the recoverable amount at reporting date.



### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Ador C. Mejia.

**R.G. MANABAT & CO.**

ADOR C. MEJIA

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until April 30, 2017

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2016

Issued April 12, 2016; valid until April 11, 2019

PTR No. 5904935MD

Issued January 3, 2017 at Makati City

April 13, 2017

Makati City, Metro Manila

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4, 22	<b>P98,088,993</b>	P210,314,159
Accounts receivable- net	5, 15, 22	<b>192,228,971</b>	203,004,280
Current portion of notes receivable	7, 22		234,221,902
Prepaid expenses and other current assets - net	8	<b>27,603,061</b>	90,004,483
<b>Total Current Assets</b>		<b>317,921,025</b>	737,544,824
<b>Noncurrent Assets</b>			
Investments in associates	9	<b>14,352,836</b>	14,768,220
Noncurrent notes receivable	7, 22		510,300,000
Property and equipment- net	10	<b>196,931,230</b>	251,398,249
Deferred tax assets	14	<b>26,457,678</b>	13,642,042
Other noncurrent assets - net	11, 22	<b>92,704,032</b>	52,513,406
<b>Total Noncurrent Assets</b>		<b>330,445,776</b>	842,621,917
		<b>P648,366,801</b>	P1,580,166,741
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12, 22	<b>P309,639,162</b>	P303,891,471
Notes payable	13, 22	<b>50,000,000</b>	200,000,000
Income tax payable			106,906,834
<b>Total Current Liabilities</b>		<b>359,639,162</b>	610,798,305
<b>Noncurrent Liabilities</b>			
Retirement benefits liability- net	20	<b>13,473,570</b>	14,887,570
Operators' deposits	21, 22	<b>29,355,000</b>	57,055,000
<b>Total Noncurrent Liabilities</b>		<b>42,828,570</b>	71,942,570
<b>Total Liabilities</b>		<b>402,467,732</b>	682,740,875
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	16	<b>1,483,173,441</b>	1,389,874,997
Additional paid-in capital	16	<b>1,112,897,280</b>	1,091,982,096
Stock options reserve	16	<b>4,273,021</b>	6,757,960
Retained earnings	16	<b>1,856,644,010</b>	2,617,356,756
Cumulative translation adjustment			6,165,227
Remeasurement losses on defined benefit liability - net of tax	20	<b>756,155</b>	(4,458,764)
Treasurystock	16	<b>(4,211,137,736)</b>	(4,211,137,736)
		<b>246,606,171</b>	896,540,536
<b>Non-controlling Interest</b>		<b>(707,102)</b>	885,330
<b>Total Equity</b>		<b>245,899,069</b>	897,425,866
		<b>P648,366,801</b>	P1,580,166,741

See Notes to the Consolidated Financial Statements.

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<b>Years Ended December 31</b>				
	<i>Note</i>	<b>2016</b>	2015	2014
<b>REVENUES</b>				
Internet application services		<b>P832,466,562</b>	P1,427,591,374	P1,399,551,444
Commission		<b>187,260,000</b>	240,019,102	233,173,213
Scratch cards				7,231,918
		<b>1,019,726,562</b>	1,667,610,476	1,639,956,575
<b>OPERATING EXPENSES</b>				
Salaries and benefits	<i>15, 16, 17, 20</i>	<b>124,437,130</b>	130,451,283	118,036,531
Depreciation and amortization	<i>10</i>	<b>119,997,016</b>	109,649,183	103,445,643
Impairment losses	<i>5, 6, 8, 10, 11</i>	<b>110,337,325</b>	76,260,998	44,400,909
Outsourced services		<b>80,803,579</b>	92,069,605	89,180,634
Rental	<i>19</i>	<b>66,652,418</b>	64,594,145	66,727,033
Utilities and communications		<b>57,718,220</b>	68,634,432	88,011,890
Representation and entertainment		<b>34,182,102</b>	46,424,335	42,154,396
Supplies		<b>28,219,512</b>	21,656,858	19,407,022
Taxes and licenses		<b>23,421,304</b>	20,524,765	11,390,830
Professional fees		<b>7,564,686</b>	9,408,037	8,853,134
Advertising and promotion		<b>4,112,723</b>	4,245,089	4,434,649
Miscellaneous		<b>18,867,669</b>	6,429,003	11,808,129
		<b>676,313,684</b>	650,347,733	607,850,800
<b>OPERATING INCOME</b>		<b>343,412,878</b>	1,017,262,743	1,032,105,775
<b>OTHER INCOME (CHARGES)</b>				
Interest income	<i>4, 5, 7</i>	<b>14,076,659</b>	51,767,383	59,799,886
Foreign exchange gain (loss) - net		<b>6,184,430</b>	28,611	(3,121,758)
Bank charges		<b>(33,664)</b>	(2,847,315)	(719,437)
Equity in net earnings (loss) of associates	<i>9</i>	<b>(415,384)</b>	(322,009)	325,368
Interest expense	<i>13</i>	<b>(6,227,941)</b>	(22,727,535)	(49,569,583)
Loss on sale of assets	<i>7</i>	<b>(649,285,056)</b>		
Miscellaneous - net		<b>546,070</b>	404,750	(107,345)
		<b>(635,154,886)</b>	26,303,885	6,607,131
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>(291,742,008)</b>	1,043,566,628	1,038,712,906
<b>INCOME TAX EXPENSE (BENEFIT)- Net</b>	<i>14</i>	<b>5,949,850</b>	173,940,595	134,837,218
<b>NET INCOME (LOSS)</b>		<b>(P297,691,858)</b>	P869,626,033	P903,875,688
<b>Net Income (Loss)</b>				
<b>Attributable to</b>				
Equity holders of the Parent Company		<b>(P296,099,426)</b>	P870,165,159	P903,990,032
Non-controlling interest		<b>(1,592,432)</b>	(539,126)	(114,344)
		<b>(P297,691,858)</b>	P869,626,033	P903,875,688
<b>EARNINGS PER SHARE</b>				
<b>ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>				
Basic	<i>18</i>	<b>(P0.2549)</b>	P0.7421	P0.7712
Diluted	<i>18</i>	<b>(P0.2544)</b>	P0.7389	P0.7706
<b>EBITDA</b>	<i>25</i>	<b>P580,444,055</b>	P1,200,758,970	P1,176,003,787

*Forward*

		Years Ended December 31		
	Note	2016	2015	2014
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Items that will never be reclassified to profit or loss				
Remeasurement gains (losses) on defined benefit liability	20	P7,449,884	(P4,729,453)	P339,596
Deferred tax effect on remeasurement gains (losses) on defined benefit liability	14	(2,234,965)	1,418,836	(101,878)
		5,214,919	(3,310,617)	237,718
Item that can be reclassified to profit or loss				
Foreign exchange translation adjustment		(6,165,227)	669,245	3,163,214
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>				
		(950,308)	(2,641,372)	3,400,932
<b>TOTAL COMPREHENSIVE INCOME- Net of tax</b>				
		(P298,642,166)	P866,984,661	P907,276,620
<b>Total Comprehensive Income (Loss) Attributable to Equity holders of the Parent Company</b>				
		(P296,994,146)	P867,517,753	P907,359,332
Non-controlling interest		(1,648,020)	(533,092)	(82,712)
		(P298,642,166)	P866,984,661	P907,276,620

See Notes to the Consolidated Financial Statements.

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31

	Equity Attributable to Equity Holders of the Parent Company							Total	Non-controlling Interest	Total Equity
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Remeasurement Gain (Losses) on Defined Benefit Liability- Net of Tax (Note 20)	Treasury Stock (Note 16)			
As at January 1, 2014	P1,388,913,231	P1,081,837,366	P4,042,818	P2,015,642,772	P2,332,768	(P1,385,865)	(P3,941,779,041)	P549,604,049	P1,538,800	P551,142,849
Stock subscription	3,500	45,500						49,000		49,000
Cash dividends				(468,889,253)				(468,889,253)		(468,889,253)
Cost of stock option			561,232					561,232		561,232
	3,500	45,500	561,232	(468,889,253)				(468,279,021)		(468,279,021)
<b>Total comprehensive Income (loss)</b>										
Net income (loss) for the year				903,990,032				903,990,032	(114,344)	903,875,688
Other comprehensive income for the year:										
Foreign exchange translation adjustment					3,163,214			3,163,214		3,163,214
Remeasurement gains on defined benefit liability-net of tax						237,718		237,718		237,718
<b>Total comprehensive income (loss)</b>				903,990,032	3,163,214	237,718		907,390,964	(114,344)	907,276,620
As at December 31, 2014	1,388,916,731	1,081,882,866	4,604,050	2,450,743,551	5,495,982	(1,148,147)	(3,941,779,041)	988,715,992	1,424,456	990,140,448
Stock subscription	958,266	9,092,048						10,050,314		10,050,314
Cash dividends				(703,551,954)				(703,551,954)		(703,551,954)
Acquisition of treasury stock							(269,358,695)	(269,358,695)		(269,358,695)
Cost of stock option			3,161,092					3,161,092		3,161,092
Exercised stock option		1,007,182	(1,007,182)							
	958,266	10,099,230	2,153,910	(703,551,954)			(269,358,695)	(959,699,243)		(959,699,243)
<b>Total comprehensive Income (loss)</b>										
Net income for the year				870,165,159				870,165,159	(539,126)	869,626,033
Other comprehensive income (loss) for the year:										
Foreign exchange translation adjustment					669,245			669,245		669,245
Remeasurement gains on defined benefit liability-net of tax						3,310,617		3,310,617		3,310,617
<b>Total comprehensive income (loss)</b>				870,165,159	669,245	(3,310,617)		867,523,787	(539,126)	866,984,661
As at December 31, 2015	P1,389,874,997	P1,091,982,096	P6,757,960	P2,617,356,756	P6,165,227	(P4,458,764)	(P4,211,137,736)	P896,540,536	P885,330	P897,425,866

Fotward

Years Ended December 31

Equity Attributable to Equity Holders of the Parent Company

	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital {Note 16}	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adj@!!!! !IL	Remeasur-ement Losses on Defined Benefit Liability- Net of Tax (Note 20)	Treasury Stock {Note 16}	Total	Non-controlling Interest	Total Equity
As at December 31, 2015	P1,389,874,997	P1,091,982,096	P6,757,960	P2,617,356,756	P6,165,227	(P4,458,764)	{P4,211,137,736}	P896,540,536	P885,330	P897,425,866
Stock subscription	93,298,444	18,430,245						111,728,689		111,728,689
Cash dividends				(464,613,320)				(464,613,320)		(464,613,320)
Acquisition of treasury stock										
Cost of stock option		2,484,939	(2,493,939)							
Exercised stock option	93,298,444	20,915,184	{2,484,939}	{464,613,320}				{352,884,631}		{352,884,631}
Total comprehensive income (loss)										
Net loss for the year				(296,099,426)				(296,099,426)	(1,592,432)	(297,691,858)
Other comprehensive income (loss) for the year:										
Foreign exchange translation adjustment					{6,165,227}			(6,165,227)		{6,165,227}
Remeasurement gains on defined benefit liability- net of tax						5,214,919		5,214,919		5,214,919
Total comprehensive income (loss)				(296,099,426)	{6,165,227}	5,214,919		(297,049,734)	{1,592,432}	{298,642,166}
As at December 31, 2016	P1,483,173,441	P1,112,897,280	P4,273,021	P1,856,644,010	P •	P756,155	(P4,211,137,736)	P246,606,171	(P707,102)	P245,899,069

See Notes to the Consolidated Financial Statements

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31				
	Note	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax		<b>(P291,742,008)</b>	P1,043,566,628	P1,038,712,906
Adjustments for:				
Loss on sale of assets	7	<b>649,285,056</b>		
Depreciation and amortization	10	<b>119,997,016</b>	109,649,183	103,445,643
Impairment losses	5, 6, 8, 10, 11	<b>110,337,325</b>	76,260,998	44,400,909
Interest expense	13	<b>6,227,941</b>	22,727,535	49,569,583
Retirement benefits cost	17, 20	<b>6,035,884</b>	5,134,907	5,870,237
Equity in net (earnings) loss of associates	9	<b>415,384</b>	322,009	(325,368)
(Gain) loss on disposals of property and equipment		<b>64,806</b>	(370,000)	(1,000)
Cost (reversal) of stock option	16, 17		3,161,092	561,232
Unrealized foreign exchange loss (gain)		<b>{6,243,678}</b>	651,363	(21,980)
Interest income	4, 5, 7	<b>(14,076,659)</b>	(51,767,383)	(59,799,886)
Operating income before working capital changes		<b>580,301,067</b>	1,209,336,332	1'182,412,276
Decrease (increase) in:				
Accounts receivable		<b>48,253,834</b>	41,500,378	(5,401,945)
Inventories				(57,656,145)
Prepaid expenses and other current assets		<b>54,078,052</b>	(26,195,343)	(31,324,933)
Increase in accounts payable and accrued expenses		<b>8,376,158</b>	76,222,188	18,267,358
Cash generated from operations		<b>691,009,111</b>	1,300,863,555	1,106,296,611
Interest received		<b>25,843,653</b>	3,938,981	19,442,677
Contribution to the retirement fund	20		(13,474,215)	(15,000,000)
Interest paid		<b>(8,856,409)</b>	(22,763,407)	(51'166,007)
Income tax aid		<b>(127,907,285)</b>	(190,649,844)	(7,240,741)
Net cash provided by operating activities		<b>580,089,070</b>	1,077,915,070	1,052,332,540
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	10	<b>(100,702,654)</b>	(48,619,722)	(75,215,449)
Proceeds from disposals of property and equipment		<b>864,600</b>	370,000	1,000
Decrease (increase) in:				
Notes receivable				25,561,874
Investments in associates				3,163,214
Other noncurrent assets		<b>(61,970,003)</b>	(5,235,144)	(5,365,459)
Net cash used in investing activities		<b>(161,808,057)</b>	(53,484,866)	(51,854,820)
<i>Forward</i>				

		Years Ended December 31		
	Note	2016	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from subscriptions to and issuances of common stock	16	P111,728,689	P10,050,314	P49,000
Acquisition of treasury shares	7, 16		(582,162)	
Proceeds from availment of loans	13		200,000,000	
Increase (decrease) in operators' deposits		(27,700,000)	5,000,000	1,300,000
Payments of loans	13	(150,000,000)	(700,000,000)	(500,000,000)
Cash dividends eaid	16	(464,613,320)	(703,551,954)	(468,889,253)
Net cash used in financing activities		(530,584,631)	(1'189,083,802)	(967,540,253)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>				
		78,452	17,882	21,980
<b>NET INCREASE (DECREASE) IN CASH</b>				
		(112,225,166)	(164,635,716)	32,959,447
<b>CASH AT BEGINNING OF YEAR</b>				
	4	210,314,159	374,949,875	341,990,428
<b>CASH AT END OF YEAR</b>				
	4	P98,088,993	P210,314,159	P374,949,875

*See Notes to the Consolidated Financial Statements.*

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Reporting Entity**

PhiiWeb Corporation ("Parent Company") was originally a mining and exploration company and registered with the Philippine Securities and Exchange Commission (SEC) on August 20, 1969 under the name South Seas Oil and Mineral Exploration Co. Inc.

In 2000, upon the approval by the stockholders and effectivity of the Restructuring Plan, which includes, among others, the change in the primary purpose from a mining and oil exploration company to that of an internet company and change in corporate name to "PhiiWeb.Com., Inc.," the Parent Company focused its activities on building its internet-based products and services. The internet business of the Parent Company started commercial operations on January 1, 2001.

On November 5, 2002, the SEC approved the change in corporate name of the Parent Company from "PhiiWeb.Com, Inc." to "PhiiWeb Corporation". This change in corporate name is in line with emphasis and focus of the Parent Company on the internet gaming industry.

On May 29, 2003, the stockholders approved a resolution to amend the primary purpose of the Parent Company to gaming, and to include the current internet business activities as an additional secondary purpose of the Parent Company, thereby amending the Second Article of its Articles of Incorporation. Under the same resolution, the Board of Directors (BOD) was also granted the authority to determine the text of the gaming purpose clause in the amended Articles of Incorporation. The change in the primary and secondary purpose completed the Parent Company's transformation into a gaming and internet company.

The Parent Company's shares are listed at the Philippine Stock Exchange (PSE) under the stock symbol "WEB".

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as the "Group"):

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhiiWeb Convergence Corporation	Internet access provider	September 6, 2000, PH	100	
PhiiWeb Cyberworld Corporation	Operates internet cafes and kiosks	July 6, 2000, PH	100	
PhiiWeb Software Corporation	Computer software programming and development services	April 3, 2000, PH	100	
BigGame, Inc.❶	Operates internet casino stations	February 11, 2005, PH	100	

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
Premyo sa Resibo, Inc. ID	Develops and markets computer systems, applications, programs and operate gaming platforms in relation to Premyo sa Resibo program of the BIR and Philippine Amusement and Gaming Corporation (PAGCOR)	December 8, 2006, PH	100	
PhiiWeb Casino Corporation	Develops, engages and maintains gaming systems and applications for all types of casino operations whether land-based, internet-based or virtual	December 22, 2006, PH	100	
e-Magine Gaming Corporation Ibl	Develops technology for the gaming industry	May 8, 2007, PH	90	
PhiiWeb Leisure & Tourism Corporation	Establishes, operates, and maintains leisure and tourism-oriented activities	June 6, 2007, PH	100	
PhiiWeb Tourism and Entertainment Corporation	Establishes, operates and maintains leisure-oriented activities, except in the travel agency business, and facilities such as but not limited to hotels, courts, stadiums and other facilities for the conduct of any and all kinds of sports and games	July 26, 2007, PH	100	
PhiiWeb International Gaming Corporation lei	Engages in international gaming ventures including all forms of gaming which are legal in the countries in which it operates	November 18, 2009, PH	100	
Easy e-Bingo, Inc. Ihl	Engages in the business of setting up internet bingo stations and its operations	October 23, 2009, PH	100	
PhiiWeb Mobile Lottery Corp.	Operate, as may be permitted by law, either alone or in partnership with others, mobile-based lottery games and other related mobile games offerings	February 3, 2010, PH	100	
PhiiWeb Asia-Pacific Corp. (PAPC)	Engage in international gaming ventures including all forms of gaming which are legal in countries in which it will operate	July 13, 2010, PH	99	

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhiiWeb (Cambodia) Ltd. (PCL)	Incorporated under the laws of The Kingdom of Cambodia, and shall engage in the business of operating internet-based and mobile-based games of chance including but not limited to lottery, internet casino cafe and other games of chance as they become legally available in the kingdom of Cambodia	June 2, 2010, Cambodia		100
PhiiWeb Lorosae, Lda	The Company was incorporated under the laws of Timor Leste and is engaged in the business of operating instant Scratch n' Win. It commenced operations in November 2011	February 16, 2011, Timor-Leste		70
Guam Sweepstakes Corp.	Incorporated in the Territory of Guam and entered into a Memorandum of Agreement with a prominent local family and launched its first sweepstakes cafe in October 2011	May 20, 2011, Guam		51
Gold Scratch and Win Co., Ltd. lgl	Incorporated under the laws of The Kingdom of Cambodia and engaged in the business of operating instant Scratch n' Win. It commenced operations in March 2012	November 18, 2011, Cambodia		65
Best Choice Holdings, Inc.	Engages to purchase, own, and hold stock of other corporations and to do every act and thing covered generally by the denomination "holding corporation"	September 11 2012, PH	100	
Major Games and Amusement Corporation (MAGCOR) l'l	Establishes, operates and provides Consultancy services with regard to amusement, recreational, gaming and gaming equipment facilities and enterprises of every kind and nature	July 29, 2008, PH	30	

Special Purpose Entity	Purpose	Percentage of Ownership	
		Direct	Indirect
Pure Corporate Investments Ltd. (PCIL)	Holds 50% ownership in Host Union International Limited	100	

- (a) Except for BigGame, Inc., all subsidiaries are not in commercial operations as at December 31, 2016.
- (b) Formerly Phi/Web Gaming Solutions Corporation (PGSC), change in registered business activity and business name were approved by the SEC on July 17, 2012 and December 17, 2012, respectively.
- (c) Currently the parent company of Phi/Web Asia Pacific Corporation.
- (d) Became a subsidiary effective January 1, 2012 (see Note 9). MAGCOR's operations of gaming cafe resumed in January 2017.
- (e) Acquired in 2012, 100% owned in 2012, (see Note 7).
- (f) Ceased commercial operations effective October 1, 2014.
- (g) Dissolution of Phi/Web Lorosae, Lda and Gold Scratch and Win Co., Ltd. was approved by the Board of Directors on December 19, 2014 and January 16, 2015, respectively.
- (h) Formerly Phi/Web Homeplay, Inc. (PHI), change in registered business activity and business name were approved by the SEC on April 7, 2014.

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2016, 2015 and 2014, except when indicated.

The Parent Company provides proprietary software system, collateral hardware, webhosting and other services to enable the operation of Philippine Amusement and Gaming Corporation (PAGCOR) e-Games. The Group was first licensed by PAGCOR to launch e-Games on June 30, 2003. Since then, the contract has been renewed a total of four times, with the latest being an Intellectual Property License and Management Agreement (IPLMA) signed on December 17, 2010 and which expired on July 11, 2016. Under these agreements, the Group delivers all the software and hardware necessary for the operation of PAGCOR's electronic casino, much of which is proprietary and not available from any other company. Furthermore, under these agreements, the Group remits over P2.0 billion a year to PAGCOR.

On July 10, 2016, PAGCOR extended the Parent Company's IPLMA from July 11, 2016 to August 10, 2016. On August 11, 2016, the Parent Company winded down its operations as a service provider to PAGCOR's e-Games network due to the expiration of its IPLMA. Due to the cessation of the PAGCOR e-Games stations (PeGs) operations, revenues decreased by P595.1 million in 2016 as compared to 2015 and this partially contributed to the net loss of P297.7 million in 2016. These conditions, among others, indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. To ensure the continued viability of the Group, various steps are being taken by the management which include, among others: (a) vigorously participate in the bidding to be conducted by PAGCOR for the grant of the management of the PeGs; (b) increase the PeGs stations that are owned and operated by BigGame, Inc. (BGI); (c) negotiate with a third party to enable the Group to offer sports betting to its players; (d) continue to maintain the personnel, particularly, IT support and IT developers that will be necessary for the prompt restart of the Parent Company's operations once the management contract with PAGCOR is executed; (e) ensure that the servers, hardware and software are operational and up to date so that there will be no significant delay in the restart of the Parent Company's operations; (f) maintain internet connectivity to ensure smooth and instant restart of operations; (g) retain customer support, Topup personnel and riders of the Parent Company so that they can service the operations of BGI's PeGs; (h) reduce any non-essential cost that will not affect the instant restart of operations; and (i) explore business opportunities and other streams of revenue for the Group. Furthermore, BGI has committed to provide necessary financial support to the Group. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

The Parent Company's registered office address is at The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue corner EDSA, Makati City.

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## 2. Basis of Preparation

### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations, issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on April 7, 2017, as authorized by the BOD of the Parent Company.

### Basis of Measurement

The consolidated financial statements have been prepared using a historical cost basis of accounting except for retirement benefits liability which is measured at fair value of plan assets less the present value of the defined benefit obligation.

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the functional currency of the Parent Company. All financial information presented in Philippine peso has been rounded off to the nearest peso, unless otherwise indicated. The functional currency of PhiiWeb (Cambodia) Ltd. (PCL), PhiiWeb Lorosae Lda. (PLL), Guam Sweepstakes Corp. (GSC), and Gold Scratch and Win Co., Ltd. (GSW) is United States dollar (USD).

### Basis of Consolidation

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. In accordance with PFRS 10, *Consolidated Financial Statements*, the Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the Group obtains control and continue to be consolidated until the date when such control ceases.

#### *Special Purpose Entity (SPE)*

The Group has an SPE for investment purposes. An SPE is consolidated when the substance of its relationship with the Group indicates that the SPE is controlled by the Group.

#### *Non-controlling Interests*

Non-controlling interests represent the portion of equity in a subsidiary, not directly or indirectly, attributable to the Parent Company and are presented within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company. Losses applicable to the non-controlling interests in a subsidiary (including components of other comprehensive income) are allocated to the non-controlling interests (NCI) even if doing so causes the NCI to have a deficit balance.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to NCI are based on proportionate amount of the net assets of the subsidiary. Information on the interest that NCI have in the Group's activities and cash flows is not disclosed as these NCI are not material to the Group.

NCI represent the interests not held by the Group in e-Magine Gaming Corporation, PhiiWeb Asia-Pacific Corporation, PhiiWeb Lorosae, Lda, Guam Sweepstakes Corporation, Gold Scratch and Win., Ltd. and Major Games and Amusement Corporation.

#### *Loss of Control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *Transactions Eliminated on Consolidation*

All intra-group balances, transactions, unrealized income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in preparing the consolidated financial statements, in accordance with the accounting policy on consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

The financial statements of the subsidiaries and an SPE are prepared for the same reporting period as the Parent Company, using consistent accounting policies for like transactions and other events in similar circumstances.

#### Use of Judgments and Estimates

The preparation of consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets and liabilities, income and expenses reported in the consolidated financial statements at reporting date.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when the estimate is revised and if the revision affects only that period or in the period of the revision and future period when revision affects both current and future periods.

## Judgments

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

### *Going Concern*

The Parent Company's IPLMA with PAGCOR has expired on July 11, 2016 and was extended only until August 10, 2016. The Parent Company winded down its operations as a service provider to PeGs. These conditions, among others, indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. To ensure the continued viability of the Group, steps are being taken by the management as discussed in Note 1 to the consolidated financial statements. The validity of these assumptions is dependent on the Group's ability to meet its financing requirements on a continuing basis and the success of its future operations.

### *Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. It is the currency that mainly influences the sales price of services and the cost of providing these services of the Parent Company.

PCL, PLL, GSC, and GSW's functional currency has been determined to be the USD. As at the reporting date, the assets and liabilities of PCL, PLL, GSC, and GSW, with functional currency other than the functional currency of the Parent Company, are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period and their respective profit or loss is translated at the monthly weighted average exchange rates during the year. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of PCL, PLL, GSC, and GSW the related cumulative translation adjustments shall be recognized in profit or loss.

### *Detennination of Control and Significant Influence*

An entity controls an investee when: (a) it has power over the investee, (b) it is exposed or has rights to variable returns from its involvement with that investee, and (c) it has the ability to affect those returns through its power over the investee. The Parent Company has 30% ownership interest in Major Games and Amusement Corporation (MAGCOR) which is accounted for as an investment in subsidiary. The Parent Company determines that it has control due to its power to govern the financial and operating policies of MAGCOR.

### *Classifying Financial Instruments*

The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

*Determining Fair Values*

Where the fair values recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from a variety of valuation models and make assumptions regarding consideration of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

*Determining whether an Arrangement Contains a Lease*

The Group uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership of the Group.

*Operating Leases*

The Group has entered into various lease arrangements as a lessee. In determining whether all significant risks and rewards of ownership remain with the lessor or transferred to the lessee, the following factors are considered:

- a. the ownership of the asset does not transfer at the end of the lease term;
- b. there is no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- c. the lease term is not for the major part of the economic life of the asset even if title is not transferred;
- d. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset;  
or
- e. the leased assets are not of such a specialized nature that only the lessee can use them without major modifications.

The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease agreements.

Rent expense recognized in profit or loss amounted to P66.7 million, P64.6 million, and P66.7 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 19).

### *Contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with the Group's legal counsel and is based upon an analysis of potential results. The Group does not believe that these proceedings will have a material effect on its financial position. It is possible, however, that the future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 24).

### *Estimates*

#### *Estimating Allowance for Impairment Losses on Receivables*

The Group maintains an allowance for impairment losses at a level considered adequate to provide for uncollectable receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group performs regular review of the age and status of these accounts with objective evidence of impairment and provide these with appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective approaches, with the impairment losses being determined with for each risk grouping identified by the Group. 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 recorded operating expenses and decrease current assets.

Allowance for impairment losses on receivables amounted to P118.5 million and P120.1 million as at December 31, 2016 and 2015, respectively (see Note 5).

#### *Estimating Net Realizable Value (NRV) of Inventories*

In determining the NRV of inventories, the Group considers inventory obsolescence, physical deterioration, physical damage and changes in price levels or other causes based on specific identification and as determined by management for inventories estimated to be salable in the future. The Group adjusts the cost of inventories to recoverable value at a level considered adequate to reflect market decline in value of the recorded inventories. The Company reviews its inventories on a regular basis to identify those which are to be written down to NRV.

Allowance for inventory write-down to NRV amounted to P4.1 million as at December 31, 2016 and 2015, respectively (see Note 6).

#### *Estimating Allowance for Impairment Losses on Input Value-Added Tax (VAT)*

The Group provides for an allowance for impairment losses on input VAT at a level considered adequate to provide for potential loss where the Group cannot utilize the benefits therefrom. The level of this allowance is evaluated by management on the basis of factors that affect the profitability of the Group.

Allowance for impairment losses on input VAT amounted to P223.5 million and P193.4 million as at December 31, 2016 and 2015, respectively (see Notes 8 and 11).

#### *Estimating Allowance for Impairment Losses on Property and Equipment and Other Nonfinancial Assets*

The Group assesses impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Allowance for impairment losses on property and equipment and other noncurrent assets (excluding allowance for impairment of noncurrent input VAT) amounted to P49.7 million and P15.5 million as at December 31, 2016 and 2015 (see Notes 10 and 11).

#### *Estimating Useful Lives of Property and Equipment*

The Group reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

The carrying amount of the Group's property and equipment amounted to P196.9 million and P251.4 million as at December 31, 2016 and 2015, respectively (see Note 10).

#### *Estimating Realizability of Deferred Tax Assets*

The Group reviews its deferred tax assets at each reporting date and reduces carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses while the Group believes that the assumption in estimating future taxable income are appropriate and reasonable. Significant changes in these assumptions may materially affect the Group's assessment of realizability of deferred tax assets and may lead to additional deferred tax expense.

The Group's deferred tax assets amounted to P26.5 million and P13.6 million as at December 31, 2016 and 2015, respectively. On the other hand, the Group has temporary differences aggregating to P167.6 million and P173.9 million as at December 31, 2016 and 2015, respectively for which no deferred tax assets have been recognized (see Note 14).

#### *Estimating Retirement Benefits Obligation*

The determination of the Parent Company's retirement benefits liability and cost is dependent on selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in note 20 to the consolidated financial statements and include, among others, discount rates and future salary increases. Actual results may differ due to difference from the assumptions used and may affect the recognized expense and recorded obligation in future periods.

Retirement benefits liability amounted to P13.5 million and P14.9 million as at December 31, 2016 and 2015, respectively. Retirement benefits cost amounted to P6.0 million, P5.1 million, and P5.9 million for the years ended December 31, 2016, 2015 and 2014 respectively (see Note 20).

#### *Share-based Payments*

The Parent Company grants share-based payments to all employees, officers and directors of the Group as well as such other qualified persons determined as eligible by the BOD. These transactions are accounted for as equity-settled share-based payments. PFRS 2 has been applied to all equity-settled grants.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is recognized in profit or loss over the vesting period, based on the Parent Company's estimate of awards that will eventually vest. Equity-settled grants are not remeasured for subsequent changes in the value of the equity instruments.

Fair value for stock options is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Cost of stock options recognized in profit or loss under "salaries and benefits" account amounted to nil, P3.2 million and P0.6 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 16).

#### *Provisions*

A provision is a liability of uncertain timing or amount. It is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The amount recognized for the reimbursement shall not exceed the amount of provision.

The Group does not have any contingent legal or constructive obligation that requires provision as at December 31, 2016 and 2015.

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### 3. Summary of Significant Accounting Policies

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

#### Adoption of New or Revised Standards, Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38)*. The amendments to *PAS 16 Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset- e.g., changes in sales volumes and prices.
- *Annual Improvements to PFRS 2012 - 2014 Cycle*. This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Group's consolidated financial statements.
- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
  - Information should not be obscured by aggregating or by providing immaterial information.
  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

### Standards Issued but Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

#### *Effective January 1, 2017*

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type
- *Annual Improvements to PFRS 2014- 2016 Cycle*. This cycle of improvements contains amendments to three standards, none of which are expected to have significant impact on the Group's consolidated financial statements. Earlier application is permitted.

#### *Effective January 1, 2018*

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

The new standard is to be applied retrospectively and with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

- *Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2)*. The amendments cover the following areas:

- *Measurement of cash-settled awards*. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments- i.e. the modified grant date method.
- *Classification of awards settled net of tax withholdings*. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if:

the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and

the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature.

The exception does not apply to equity instruments that the company withholds in excess of the employee's tax obligation associated with the share-based payment.

- *Modification of awards from cash-settled to equity settled*. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled, at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value, recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is recognized in profit or loss immediately.

As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is to be applied retrospectively and with early adoption permitted. Management is currently assessing the potential impact of PFRS 15 on the consolidated financial statements.

- *Measuring an associate or joint venture at fair value (Amendments to PAS 28).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

*Effective January 1, 2019*

- PFRS 16 *Leases* supersedes PAS 17 *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

Earlier application is permitted for entities that apply *PFRS 15 Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

### Financial Instruments

#### *Non-derivative Financial Instruments*

Non-derivative financial instruments comprise of cash, accounts receivable, notes receivable, rental and other deposits (under other noncurrent assets), accounts payable and accrued expenses (excluding due to government agencies), notes payable, and operators' deposits.

#### *Date of Recognition*

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

#### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at 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 as at fair value through profit or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, financial assets are classified by the Group as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, or available-for-sale (AFS) financial assets, as appropriate. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. Management determines the classification of the Group's financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as at December 31, 2016 and 2015.

The classification depends on the purpose for which the financial assets are acquired or financial liabilities are incurred and whether they are quoted in an active market.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial-assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or FVPL financial asset. Such amounts are recognized initially at fair value.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in profit or loss on an accrual basis. 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. The periodic amortization is also included as part of "Interest income" in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Group's cash, accounts receivable, notes receivable and rental and other deposits (under other noncurrent asset) account are included under this category.

Cash includes cash on hand and in banks and is stated at its face value.

#### *Other Financial Liabilities*

The Group's other financial liabilities are recognized initially on the trade date when the Group becomes a party to the contractual provisions of the instrument. These include financial liabilities arising from operations and borrowings. Such financial liabilities are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Classified under this category are the Group's accounts payable and accrued expenses (excluding due to government agencies), notes payable, and operators' deposits.

#### Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Determination of Fair Value

The Group measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

*'Day 1' Profit.* Where the transaction price in a non-active market is different from the fair value from other observable current market transaction in the same time instrument or based on a valuation technique whose variable includes only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; This is not generally the case with master netting agreements. Thus, the related assets and liabilities are presented gross basis in the consolidated statements of financial position.

#### Inventories

Scratch cards of PhiiWeb Lorosae, Lda. and Gold Scratch and Win Co., Ltd., and gaming terminals of e-Magine Gaming Corporation are valued at the lower of cost and NRV. Cost is determined using the first-in, first-out method and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. NRV is the current replacement cost.

#### Prepaid xQenses and Other Current Assets

Prepaid expenses are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than twelve (12) months or within the normal operating cycle.

#### *Value-added Tax (VAT)*

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- the payables are stated with the amount of tax included.

The amount of tax recoverable from the taxation authority is included as part of "prepaid expenses and other current assets" in the consolidated statements of financial position.

Input VAT is stated at its estimated NRV.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs (including costs of replacing a part of an item of property and equipment) that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits, associated with the asset will flow to the Group. The carrying amount of the replaced part is derecognized. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. The costs of day-to-day servicing of an asset are recognized in profit or loss in the period in which these are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

	<u>Number of Years</u>
Computer software	5- 10
Computer equipment	3 – 5
Leasehold and site improvements	5
Network and data communication equipment	5
Furniture and fixtures	3 – 5
Office equipment	3 – 5
Transportation equipment	3

The useful lives and depreciation and amortization methods are reviewed at each reporting date to ensure that they are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost or revalued amount and any related accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

#### Impairment of Assets

##### *Financial Assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed accounts, whether significant or not, the assets are included in a group of financial assets with similar credit risk characteristics and collectively assesses these for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of such credit risk characteristics as type of borrower, credit and payment status and term. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. Any impairment loss is recognized in profit or loss.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

#### *Nonfinancial Assets*

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group estimates the recoverable amount of the impaired asset. The estimated recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses on nonfinancial assets may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss relating to these nonfinancial assets is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

#### Investments in Associates

Investments in associates are accounted for under the equity method. An associate is an entity over which the Group has significant influence and is neither a subsidiary nor an interest in joint venture. Significant interest is presumed to exist when the Group holds between twenty (20) and fifty (50) percent of the voting power of another entity.

Under the equity method, investment in an associate is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the net assets of the investee, less any impairment in value. The Group's share in the investee's post acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in the investee's equity reserves, if any, is recognized directly in equity. The share in the profit or loss of associates is shown as "equity in net earnings of associates" in the statements of comprehensive income. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's interests thereon. Unrealized losses are eliminated similarly but only to the extent that there is evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investments.

#### Capital Stock and Additional Paid-in Capital

The Group has issued capital stock composed of common stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction from equity, net of any tax effects, from proceeds. Additional paid-in capital represents the excess of the investor's total contribution over the stated par value of shares.

#### Retained Earnings

The amount included in retained earnings includes profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effects of changes in accounting policy as may be required by the standard's traditional provisions.

### Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. Treasury shares also include shares of the Parent Company held by a subsidiary. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

### Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

### Segment Resorting

An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

The Group determines and presents operating segments based on the information that internally is provided to the President, who is the Group's chief operating decision maker.

### Share-based Transactions

The Parent Company has a stock option plan covering employees, officers and directors, whereby employees render service for shares or rights over shares ("equity-settled transaction"). The rights granted under the plan are not assignable and non-transferable. The cost of the equity-settled transaction is measured by reference to the fair value of the stock option at the date when it is granted. Fair value is determined using an option-pricing model as discussed in Note 16 to the consolidated financial statements.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). No expense is recognized for grants that do not ultimately vest. The cumulative expenses recognized for share-based payment transactions, at each reporting date until the vesting date, reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

#### Revenue and Expense Recognition

Revenue is recognized upon performance of the related service, when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the revenue can be measured reliably and is measured at fair value of the consideration received or receivable. Descriptions of the Group's revenues are as follows:

##### *Internet Application Services*

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

Internet application service income also includes the Group's share in the income of Premyo sa Resibo Program (PSR Program) which is recognized as a percentage of net revenue of PSR. Where the PSR Program incurs a net loss, such loss is immediately recognized in profit or loss.

##### *Commission*

Commission income from the operation of PAGCOR eGames stations (PeGS) is computed based on agreed percentage of casino winnings from PeGS' operations.

##### *Scratch Cards*

Revenues from scratch cards are recognized when sold.

##### *Interest*

Interest income from bank deposits and short-term investments, net of final tax, is recognized on a time proportion basis that reflects the effective yield on the assets.

##### *Other Income*

Other income is recognized when earned.

##### *Expenses*

Expenses are recognized when incurred.

#### Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the Group's benefit.

#### Foreign Currency Transactions

##### *Foreign Currency Translations*

Transactions in foreign currencies are translated to Philippine peso at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are restated to the Philippine peso at the exchange rate at that date.

### *Foreign Operations*

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

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

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

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

### Income Taxes

Income tax in profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

#### *Current Tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the reporting date.

#### *Deferred Tax*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits*

The Group accrues retirement benefits cost based on the provisions of Republic Act (R.A.) 7641. The Group's net obligation in respect of its retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, using the projected unit credit method performed by a qualified actuary. The discount rate is the yield at the reporting date of long-term government bonds that have maturity dates approximating the terms of the Group's plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

### Earnings Per Share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of common shares outstanding during the year, excluding own shares held in treasury, and with retroactive adjustment for any stock dividends declared. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible notes and share options granted to employees.

### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### Provisions and Contingencies

Provisions are recognized when: (a.) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c.) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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#### 4. Cash

This account at December 31 consists of:

	<i>Note</i>	2016	2015
Cash on hand		P3,616,812	P9,013,780
Cash in banks	22	94,472,181	201,300,379
	22	P98,088,993	P210,314,159

Cash in banks earns annual interest at the respective bank deposit rates.

Interest income derived from cash in banks amounted to P0.6 million, P0.9 million and P2.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## 5. Accounts Receivable

This account at December 31 consists of:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Receivables from non-affiliated entities	7	<b>P173,726,125</b>	P37,973,275
Trade receivables		<b>83,129,132</b>	89,261,448
Advances to customers/suppliers		<b>41,605,743</b>	77,937,641
Claims from telecommunication companies		<b>8,090,049</b>	12,615,999
Interest receivable	7	<b>2,722,772</b>	14,489,766
Receivables from PeGS operators		<b>922,508</b>	30,387,188
Receivable from PAGCOR			33,478,483
Advances to related a party	15		22,734,175
Others		<b>563,375</b>	4,237,041
		<b>310,759,704</b>	323,115,016
Less allowance for impairment losses on:			
Trade receivables		<b>82,507,006</b>	82,507,006
Advances to customers/suppliers		<b>27,933,678</b>	27,933,678
Claims from telecommunication companies		<b>8,090,049</b>	8,090,049
Receivable from PAGCOR			1,580,003
		<b>118,530,733</b>	120,110,736
	22	<b>P192,228,971</b>	P203,004,280

The movements in the allowance for impairment losses are shown below:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Balance at beginning of year		<b>P120,110,736</b>	P105,013,709
Impairment losses during the year			33,102,118
Write-off of receivables		<b>(1,580,003)</b>	(18,005,091)
Balance at end of year	22	<b>P118,530,733</b>	P120,110,736

Receivables from non-affiliated entities pertain mainly to 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 P139.7 million in 2016 (see Note 7). The total amount was collected in full in 2017. These also include foreign exchange losses/gains on notes receivable in Note 7 to the financial statements that are being charged to ISM. The related foreign exchange losses amounted to P0.4 million, P10.3 million and P25.6 million in 2016, 2015 and 2014, respectively.

Trade receivables consists mainly of receivables of PhiiWeb Lorosae, Lda. and Gold Scratch and Win Co., Ltd (GSW) which are fully provided with allowance for impairment losses.

Advances to customers/suppliers pertain to advance payments on services to be incurred or goods to be delivered in connection with the Group's operations which can be refunded or collected under the terms of agreement. The account includes unsecured interest bearing loans extended to the operators amounting to P12.9 million and P31.0 million as at December 31, 2016 and 2015, respectively. These loans are short-term in nature and bear interests of 8% to 12% per annum. Interest income pertaining to the loans amounted to P2.7 million, P3.7 million and P3.7 million in 2016, 2015 and 2014, respectively. In September 2016, the Company write-off loan receivable to operators amounted to P2.9 million as the same can no longer be collected from said operators due to cessation of their operation.

Receivable from PAGCOR represents the aforesaid government agency's unpaid share in marketing expenses incurred for the PeGS operation advanced by the Parent Company. These marketing expenses are pre-approved and shall be reimbursed by PAGCOR upon completion of its review of all the documentations required. In 2013, the Company collected P9.9 million. In 2015, PAGCOR put on-hold the release of remaining fund due to the Notice of Disallowance (NO) issued by Commission on Audit (COA). The NO is on appeal with GOA's En Bane. There has been no update from the appeal as at December 31, 2016. But, in view of the non-renewal of the IPLMA with PAGCOR, the Parent Company written-off receivables from PAGCOR amounting to P33.5 million in September 2016.

Receivables from PeGS operators 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.

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

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## 6. Inventories

This account consists of gaming terminals and scratch cards with no net realizable value as of December 31, 2016 and 2015 due to cessation of operation.

Gaming terminals pertain to the cost of direct materials of gaming terminals such as computer box, monitors, bill validators and other computer parts. In 2015, the Group entered into a related party sale whereby e-Magine Corporation sold its gaming terminals to the Parent Company amounting to P102.2 million. This is accounted as property and equipment in the Parent Company's financial statements (see Note 10).

Scratch cards consist of inventories of GSW which ceased its operations in 2014.

Due to the cessation, the Group written down its inventories to NRV. The allowance for impairment losses of gaming terminals amounted to P4.1 million as at December 31, 2016 and 2015.

## 7. Notes Receivable

This account at December 31 consists of notes receivable from third parties:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
At original currency			
Euro 3.9 million	5	<b>P</b>	P204,196,251
PHP 729 million			540,325,651
			744,521,902
Less: Current portion			
Euro 3.9 million			204,196,251
PHP 540.3 million			30,025,651
	22		234,221,902
Noncurrent notes receivable	22	<b>P</b>	P510,300,000

The Euro loan bears an annual interest of 90-day Euro LIBOR plus 550 basis points (bps). Under the terms of the agreement, any foreign exchange exposure (gains/losses) and all income and expenses arising from this loan is shouldered equally with ISM (see Note 5). The balance matured on September 30, 2016. In December 2016, Parent Company accepted the proposal of a third party to settle the obligation as full payment for a consideration of Euro 1.97 million (see Note 5). As a result, the Parent Company recognized loss on settlement amounting to Euro 1.97 million or equivalent to P102.3 million in 2016.

On November 15, 2012, the Parent Company executed an investment agreement with Acentic GmbH through PCIL, a company organized and existing under the laws of the British Virgin Islands, whereby the Parent Company, in consideration for 100% ownership in PCIL, exchanged its 50% ownership in Host Union.

On December 14, 2012, the BOD approved the disposal of investment of PCIL in Host Union to Lucktime Management Limited (Lucktime) for a total consideration of P810.0 million. The Group received 10% of the consideration upon signing of agreement while the remaining balance will be received on equal installments over a period of 3 years starting from December 27, 2013.

On October 23, 2013, as requested to PCIL, the Parent Company agreed to amend the payment term of the remaining P729.0 million to ten equal annual installments but with interest at the rate of 5.5% per annum. The annual installments are payable on December 31, 2014 to 2023.

On December 15, 2015, upon the proposal of Lucktime, the BOD approved the payment of notes receivable by way of transferring its ownership in the shares of the Parent Company. The agreed price is set based on the actual trading price at the time of transfer, and the transfers were made on December 15 and 16, 2016. As a result, PCIL received 12.8 million shares of Parent Company's common shares at a total cost of P269.4 million, which represent full payment of the amount due and partial advance payment for 2016 amounting to P42.9 million. The transaction has been accounted for as treasury shares in the consolidated financial statements at cost (see Note 16). The current market value of these shares is at P22.4 per share. After this payment, the remaining balance of the said loan will be P30.0 million due within one year and P510.3 million beyond one year.

In September 2016, the BOD authorized PCIL to enter into agreement with Lucktime whereby PCIL will own fifty percent of Host Union in settlement of its receivable. In October 2016, Lucktime transferred the ownership over the share to PCIL as full payment of its obligation. In December 2016, the BOD approved to sell the investment in Acentic thru Host Union for a consideration of US\$ 0.75 million (see Note 5). Loss on disposal of the said investment is recognized in the statements of comprehensive income of PCIL and is reflected as "other charges" in the consolidated statements of comprehensive income.

The interest income earned on these notes receivables amounted to P10.8 million, P47.2 million, and P53.6 million for the years ended December 31, 2016, 2015 and 2014, respectively, and is shown as part of "interest income" in profit or loss.

## 8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2016	2015
Input value-added tax (VAT) - net of allowance for impairment losses	P22,108,708	P72,708,967
Creditable withholding tax	1,314,542	1,314,542
Prepaid insurance	253,519	4,874,588
Prepaid rent	251,336	1,803,974
Prepaid fees	-	2,688,085
Other prepaid expenses	3,481,209	6,420,580
Other current assets	193,747	193,747
	<b>P27,603,061</b>	<b>P90,004,483</b>

Input value-added tax (VAT) represents VAT imposed on the Group by its suppliers and contractors for the acquisition of the goods and services under Philippine taxation laws and regulations.

The movements of the allowance for impairment losses on input VAT for the years ended December 31 are as follows:

	<i>Note</i>	2016	2015
Balance at beginning of year		P193,387,047	P164,488,976
Reclassification	11	(112,482,425)	-
Impairment losses during the year		8,323,370	28,898,071
Balance at end of year		<b>P89,227,992</b>	<b>P193,387,047</b>

## 9. Investments in Associates

This account at December 31 consists of:

	2016		Total
	Choice Insurance	Alphaforce	
<b>Percentage Ownership</b>	30%	40%	
<b>Cost of Investment</b>			
Balance at beginning/end of year	6,951,510	7,999,900	14,951,410
<b>Accumulated Equity in Net Earnings (Losses)</b>			
Balance at beginning of year	(1,892,080)	1,708,890	(183,190)
Equity in net earnings-(losses) for the year	(24,392)	(390,992)	(415,384)
Balance at end of year	(1,916,472)	1,317,898	(598,574)
	<b>P5,035,038</b>	<b>P9,317,798</b>	<b>P14,352,836</b>

	2015		Total
	Choice Insurance	Alphaforce	
Percentage Ownership	30%	40%	
<b>Cost of Investment</b>			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
<b>Accumulated Equity in Net Earnings (Losses)</b>			
Balance at beginning of year	(1,169,105)	1,307,924	138,819
Equity in net earnings (losses) for the year	(722,975)	400,966	(322,009)
Balance at end of year	(1,892,080)	1,708,890	(183,190)
	<b>P5,059,430</b>	<b>P9,708,790</b>	<b>P14,768,220</b>

### Investment in Major Games Amusement Corporation (MAGCOR)

On January 1, 2012, PhilWeb Corporation and MAGCOR, a 30% associate of the Parent Company, entered into an agreement where the former will manage and render oversight services to the operations of the latter. The agreement is effective for a term of one (1) year beginning on January 1, 2012 and shall continue until December 31, 2012, unless sooner terminated by written consent of the parties. In the absence of termination by written consent, the agreement shall be renewed automatically for a period of one year.

Under the provisions of the agreement, the Parent Company has power to govern the financial and operating policies of MAGCOR. As a result, MAGCOR became a subsidiary of the Parent Company effective January 1, 2012 and is included in the consolidated financial statements as at December 31, 2016 and 2015.

### Investment in Choice Insurance Brokerage Inc. (Choice Insurance)

On July 3, 2012, Best Choice Holdings, Inc., a wholly-owned subsidiary of the Parent Company purchased 6,000,000 shares of Choice Insurance at P1 par value, which represent 30% share of Choice Insurance's outstanding shares.

### Investment in Alphaforce Corporation

In October 2011, the Parent Company subscribed to 79,999 shares of Alphaforce at P100 par value per share, which represent 40% interest on Alphaforce's outstanding shares. On the same date, the Parent Company paid P4.0 million. In July 2013, the Parent Company paid another P4.0 million as full payment of the subscribed shares.

The summarized financial information of investments in associates as at and for the years ended December 31 follows:

	2016	
	Choice Insurance	Alphaforce
Current assets (a)	<b>P954,088</b>	<b>P41,321,750</b>
Noncurrent assets (b)	<b>23,070,280</b>	<b>4,676,881</b>
Current liabilities (c)	<b>7,240,907</b>	<b>22,704,137</b>
Revenues	<b>3,613,471</b>	<b>9,833,189</b>
Net income (loss)	<b>(81,307)</b>	<b>(977,481)</b>
Total comprehensive income (loss)	<b>(81,307)</b>	<b>(977,481)</b>
Net assets (a+b-c)	<b>16,783,461</b>	<b>23,294,494</b>
%Ownership	<b>30%</b>	<b>40%</b>
Share in the net assets	<b>5,035,038</b>	<b>9,317,798</b>
Carrying value of the investment	<b>P5,035,038</b>	<b>P9,317,798</b>

	2015	
	Choice Insurance	Alphaforce
Current assets (a)	P2,503,119	P33,413,078
Noncurrent assets (b)	23,070,280	8,053,194
Current liabilities (c)	8,708,633	17,194,296
Revenues	822	9,605,983
Net income (loss)	(2,409,917)	1,002,414
Total comprehensive income (loss)	(2,409,917)	1,002,414
Net assets (a+b-c)	16,864,766	24,271,976
%Ownership	30%	40%
Share in the net assets	5,059,430	9,708,790
Carrying value of the investment	P5,059,430	P9,708,790

## 10. Property and Equipment

The movements and balances of this account (in thousands) as at and for the years ended December 31 are as follows:

	Computer Equipment and Software	Leasehold and Site Improvements	Network and Data Communication Equipment	Furniture and Fixtures	Office Equipment	Transportation Equipment	Total
<b>Cost</b>							
January 1, 2015	P395,264	P228,695	P186,694	P88,892	P18,737	P33,190	P951,472
Additions	11,904	19,811	9,084	2,607	143	5,071	48,620
Transfer from inventories	102,119	-	-	-	-	-	102,119
Disposals	-	-	-	-	-	(3,997)	(3,997)
December 31, 2015	509,287	248,506	195,778	91,499	18,880	34,264	1,098,214
Additions	6,291	26,638	64,279	3,365	130	-	100,703
Disposals	(48)	-	-	-	-	(5,830)	(5,878)
December 31, 2016	515,530	275,144	260,057	94,864	19,010	28,434	1,193,039
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2015	309,975	171,083	142,252	64,584	17,818	27,582	733,294
Depreciation and amortization for the year	38,953	33,541	21,982	10,811	333	4,029	109,649
Impairment losses	-	7,870	-	-	-	-	7,870
Disposals	-	-	-	-	-	(3,997)	(3,997)
December 31, 2015	348,928	212,494	164,234	75,395	18,151	27,614	846,816
Depreciation and amortization for the year	55,846	32,823	24,315	4,420	279	2,314	119,997
Impairment losses	27,621	5,814	174	634	-	-	34,243
Disposals	(32)	-	-	-	-	(4,916)	(4,948)
December 31, 2016	432,363	251,131	188,723	80,449	18,430	25,012	996,108
<b>Carrying Amount</b>							
December 31, 2015	P160,359	P36,012	P31,544	P16,104	P729	P6,650	P251,398
December 31, 2016	P83,167	P24,013	P71,334	P14,415	P580	P3,422	P196,931

In view of the non-renewal of the IPLMA with PAGCOR, the Group provided impairment losses on its property and equipment amounting to P34.2 million in 2016.

## 11. Other Noncurrent Assets

This account at December 31 consists of:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Noncurrent Input VAT		<b>P181,473,674</b>	P -
Rental and other deposits	19	<b>47,750,160</b>	54,833,633
Advances for projects		<b>5,378,199</b>	5,315,972
	22	<b>234,602,033</b>	60,149,605
Less allowance for impairment losses on:			
Noncurrent input VAT		<b>134,261,802</b>	
Advances for projects		<b>5,315,972</b>	5,315,972
Other deposits		<b>2,320,227</b>	2,320,227
		<b>141,898,001</b>	7,636,199
		<b>P92,704,032</b>	P52,513,406

The movement in the allowance for impairment losses on noncurrent input VAT for the year ended December 31, 2016 is as follows:

	<b>Note</b>	<b>2016</b>
Balance at beginning of year		P -
Reclassification	8	<b>(112,482,425)</b>
Impairment losses during the year		<b>(21,779,377)</b>
Balance at end of year		<b>P134,261,802</b>

Rental and other deposits include advance payment of rent and security deposits equivalent to two to four months rental. The carrying amount of rental and other deposits approximates their amortized cost as the impact of discounting is not material.

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 losses on these assets.

The Group also recognized provision for impairment losses on franchise fee paid by a subsidiary to PAGCOR related to its land-based casino project amounting to P2.3 million in 2015.

## 12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Accounts payable -trade		<b>P269,571,057</b>	P259,311,120

<u>Accrued expenses and other payables</u>	<b>40,068,105</b>	44,580,351
	22	<b>P309,639,162</b>
		P303,891,471

Accounts payable - trade mainly consists of payable to suppliers, PeGS operators and PAGCOR.

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

The details of the accrued expenses and other payables account are as follows:

	<i>Note</i>	2016	2015
Contractors		P19,116,496	P19,831,332
Due to government agencies		7,600,439	5,347,282
Manpower services		6,084,302	7,960,444
Utilities and communications		5,164,960	5,072,450
Audit fees		1,419,619	1,474,711
Ads and promo		174,347	1,304,015
Travel expenses		90,087	313,812
Interest	13	66,667	2,695,135
Others		351,188	581,170
	22	P40,068,105	P44,580,351

### 13. Notes Payable

The Parent Company has peso-denominated short-term notes payable from local banks amounting to P50.0 million and P200.0 million as at December 31, 2016 and 2015 with maturities of less than a year and bear annual interest at average rates of 6.0% and 6.1% in 2016 and 2015, respectively. As at December 31, 2016, outstanding loan of P50.0 million is secured by the following: (a) assignment of various Parent Company's shares at 300% cover based on prevailing market price; or (b) assignment of the Parent Company or third party deposits at 100% loan value. While in 2015, total outstanding loan of P150.0 million is fully secured by the 100% ownership of the Parent Company in BGI which was subsequently settled in 2016.

The Group recognized interest expense of P6.2 million, P22.7 million and P49.6 million in profit or loss for the years ended December 31, 2016, 2015 and 2014, respectively.

### 14. Income Taxes and Registration with the Board of Investments ("801") and Philippine Economic Zone Authority (PEZA)

#### a) 801

Effective March 14, 2001, the Parent Company was registered with the 801 as a new IT service firm, providing internet services and other IT-related services on a pioneer status. As a SOI-registered enterprise, the Parent Company is entitled to certain tax and non-tax incentives which include, among others, an income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years; tax and duty-free importation of capital equipment; and, tax credit on domestic capital equipment.

On February 26, 2007, the Parent Company was registered with the BOI, under Registration No. 2007-030, on a pioneer status as new IT Service Firm in the field of an Application Service Provider. ITH entitlement period started on March 1, 2007 to February 28, 2013. As a SOI-registered enterprise, the Parent Company is entitled to certain tax and non-tax incentives which include among others, income tax holiday for a period of six (6) years from March 2007, provided, however, that the Parent Company has complied with the infusion of the minimum investment cost of US\$2.5 million or its peso equivalent within one year from the date of its 801 registration. In 2008, the Parent Company has complied with all the requirements of the 801.

On January 23, 2013, the BOI approved a one year extension of the Parent Company's ITH covering the period from March 1, 2013 to February 28, 2014. One of the conditions for the approved ITH bonus year is to undertake Corporate Social Responsibilities (CSR) activities and the total cost incurred for these activities amounting to P2.0 million, P3.7 million and P1.8 million in 2016, 2015 and 2014, respectively.

The Parent Company set up a new business location in Pasig City. This is a strategic location that allows it to serve its customer better and faster. This also allows room for additional equipment and new employees. On February 13, 2014, the BOI approved the registration of this new project under New Creative Industries/Knowledge-Based Services Provider (Software Development) on a Non-Pioneer Status. This entitles the Parent Company to an ITH for four (4) years for all the income to be generated through this new location.

#### PEZA

On November 29, 2012, the Philippine Economic Zone Authority (PEZA) approved the application for registration of e-Magine Gaming Corporation (formerly PhiiWeb Gaming Solutions Corporation) ("e-Magine"), a subsidiary of Parent Company, as an Ecozone Export Enterprise to develop and manufacture electronic machines at the Laguna Technopark- Special Economic Zone. Under the PEZA registration agreement, the e-Magine's projects shall be entitled to four (4) years ITH from start of commercial operations. The Company's registration with PEZA was cancelled in June 2015.

b) Income tax expense for the years ended December 31 consists of:

	2016	2015	2014
Current tax expense	P21,000,452	P171,438,803	P132,098,290
Deferred tax expense (benefit)	(15,050,602)	2,501,792	2,738,928
	P5,949,850	P173,940,595	P134,837,218

- c) Deferred tax assets as at December 31 pertains to the tax impact of the following temporary differences:

	2016	2015
<b>Items recognized in profit or loss</b>		
Allowance for impairment losses on input VAT	<b>P8,701,770</b>	P8,701,770
Retirement benefits liability	<b>4,366,136</b>	2,555,372
NOLCO	<b>13,713,838</b>	
Allowance for impairment losses on receivables		474,001
	<b>26,781,744</b>	11,731,143
<b>Items recognized directly in other comprehensive income</b>		
Remeaswrementlosses on defined benefit liability	<b>(324,066)</b>	1,910,899
	<b>P26,457,678</b>	P13,642,042

- d) Deferred tax assets of the Group at December 31 have not been recognized in respect of the following items because it is not probable under current situation that tax benefits will be available in the near future against which the Group can utilize the benefits therefrom.

	2016	2015	2014
Allowance for impairment losses on input VAT, and receivables	<b>P119,648,814</b>	P89,546,067	P91,051,515
NOLCO	<b>47,935,140</b>	84,357,466	87,199,222
	<b>P167,583,954</b>	P173,903,533	P178,250,737

Details of NOLCO as at December 31 are as follow:

Incurred In	Amount	Expired/ Aeplied	As at December 31, 2016	Available Until
2013	P38,846,841	(P38,846,841)	p -	2016
2014	21,429,874		21,429,874	2017
2015	24,080,751		24,080,751	2018
2016	2,424,515		2,424,515	2019
	P86,781,981	(P38,846,841)	P47,935,140	

All these NOLCO pertains to non-operating subsidiaries.

- e) The reconciliation between the income tax expense computed at the statutory tax rate and income tax expense shown in profit or loss for the years ended December 31 follows:

	2016	2015	2014
Income (loss) before tax	(P291,742,008)	P1,043,566,628	P1,038,712,906
Income tax expense (benefit) at statutory rate (30%)	(P87,522,602)	P313,069,988	P311,613,872
Adjustments resulting from:			
Income tax holiday on 801 - registered operations	(78,625,279)	(153,930,681)	(176,573,678)
Unrecognized deferred tax assets arising from temporary differences and NOLCO	3,849,883	9,379,625	3,815,792
Tax effects of:			
Equity in net (earnings) losses of associates	124,615	96,603	(97,610)
Interest/other income not subject to corporate tax	(182,066)	(12,287,018)	(14,982,938)
Non-deductible expenses/losses	168,305,299	17,612,078	11,061,780
Income tax expense	P5,949,850	P173,940,595	P134,837,218

#### 15. Related Party Transactions

In the ordinary course of business, the Group has transactions with its related parties summarized as follows:

- a) The Parent Company and Alphaland Corporation are entities under common control. The Parent Company bills Alphaland for its share in common expenses which includes common personnel cost and rental expense. Common personnel cost amounted to P14.7 million, P19.3 million and P21.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. While, common rental expense amounted to P4.9 million, P5.2 million and P7.4 million for the years ended December 31, 2016, 2015 and 2014, respectively. Receivable (payable) from Alphaland amounted to (P3.8 million) and P22.7 million as at December 31, 2016 and 2015, respectively. The account is unsecured, non-interest bearing and payable on demand and is expected to be settled in cash.
- b) Compensation and short-term employee benefits of key management personnel of the Group in 2016, 2015 and 2014 amounted to P45.8 million, P47.9 million, and P45.2 million, respectively. The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to P2.5 million, P3.5 million and P4.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## 16. Equity

### Common Stock

The movements in the number of authorized and issued and outstanding shares of common stock are as follows:

	2016		2015	
	Number of Shares	Amount	Number of Shares	Amount
Authorized common stock	2,600,000,000		2,600,000,000	
Balance at beginning of year	1,351,576,645	P1,351,576,645	1,350,618,379	P1,350,618,379
Issuance during the year	1,877,100	<b>1,877,100</b>	958,266	958,266
Subscribed shares (net of subscriptions receivable)	163,378,780	129,719,696	163,378,780	38,298,352
Issued shares at end of year	1,516,832,525	P1,483,173,441	1,514,955,425	P1,389,874,997
Less treasury shares	(354,621,621)		(354,621,621)	
Issued and outstanding shares at end of year	1,162,210,904		1,160,333,804	

### Change in Par Value of Capital Stock

On September 22, 2009, PSE approved the change in par value of the Parent Company's shares from P0.01 to P1.

### Additional Paid-In Capital

The movements in additional paid-in capital and stock options reserved are as follows:

	Additional Paid-In Capital		Stock Options Reserve	
	2016	2015	2016	2015
Balance at beginning of year	P1,091,982,096	P1,081,882,866	P6,757,960	P4,604,050
Stock Subscription	18,430,245	9,092,048		
Cost of stock option				3,161,092
Exercised stock option	2,484,939	1,007,182	(2,484,939)	(1,007,182)
Balance at end of year	P1,112,897,280	P1,091,982,096	P4,273,021	P6,757,960

### Stock Option Plan

On February 15, 2000, the BOD approved the Parent Company's Stock Option Plan ("Plan") covering all employees, officers and directors of the Parent Company, its subsidiaries 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. 1/3 of the total number of options covered by a 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. Options may be exercised within a period of three (3) years, starting after the lapse of one (1) year from the date of grant.

On April 19, 2012, the Stock Option Plan Committee of the Parent Company approved the awarding to selected officers and employees of options to subscribe to a total of 8.9 million common shares at an exercise price of P14.0 per share.

On May 29, 2014, the Stock Option Plan Committee of Parent Company approved the awarding to selected officers of options to subscribe to a total of 1.5 million common shares at an exercise price of P4.15 per share.

The fair value of stock option is estimated using 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:

	2016	2015
Expected volatility	<b>33.18%</b>	33.18%
Risk-free interest rate	<b>3.09%</b>	3.09%
Expected life option	<b>3 years</b>	3 years

Expected volatility is estimated by considering average share price volatility.

Details of stock option transactions at December 31 are as follows:

	2016		2015	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	<b>5,104,900</b>	P	6,896,500	P -
Granted				
Exercised	<b>(1,877,100)</b>		(958,266)	
Forfeited/expired	<b>(1,057,433)</b>		(833,334)	
Options outstanding, end of year	<b>2,170,367</b>	P	5,104,900	P -
Options exercisable, end of year	<b>2,170,367</b>	P	5,104,900	P -

Stock option cost recognized in profit or loss is included under "salaries and benefits" account amounted to nil, P3.2 million and P0.6 million in 2016, 2015 and 2014, respectively (see Note 17).

#### Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2016, 2015 and 2014 follow:

Date Announced	Per Share	Total Amount (in Phe)	Stockholders of Record Date	Date Paid/Issued
March 4, 2014	0.10	117,222,050	March 18, 2014	March 28, 2014
May 26, 2014	0.10	117,222,401	June 9, 2014	June 23, 2014
July 11, 2014	0.10	117,222,401	September 1, 2014	September 15, 2014
July 11, 2014	0.10	117,222,401	November 21, 2014	<b>December 5, 2014</b>
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
<b>February 4, 2016</b>	0.20	232,171,150	February 19, 2016	March 4, 2016
May 31, 2016	0.20	232,442,170	<b>June 14, 2016</b>	June 24, 2016

On December 19, 2013, the BOD and stockholders of PAPC, a subsidiary of the Parent Company, approved the increase in PAPC's authorized capital stock from 40,000,000 common shares with a par value of P1 per share to 274,000,000 common shares with a par value of P1 per share. Such increase was fully subscribed and paid-up by the Parent Company, hence, resulting to the dilution of 22% minority interest to 1% of total outstanding shares. The equity portion of the minority interest in the consolidated financial statements was reclassified to retained earnings.

## Treasury Stock

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

	2016		2015	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	354,621,621	P4,211,137,736	341,773,099	P3,941,779,041
Purchase during the year			12,848,522	269,358,695
Balance at end of year	354,621,621	P4,211,137,736	354,621,621	P4,211,137,736

- a. On July 10, 2012, the Parent Company entered into a Share Purchase Agreement (SPA) with ePLDT where the latter offered to sell to the former 397.9 million common shares of the Parent Company, representing approximately 27% of the then outstanding capital stock of the Parent Company. The SPA provided that the sale of the shares will be executed in four tranches, where the first two tranches representing 186.9 million shares for a total purchase price of P2.0 billion were completed in 2012; while the other remaining two tranches representing 211.0 million shares for a total purchase price of P2.3 billion were executed in 2013.

On October 17, 2012, the Parent Company, ePLDT and PhilWeb Casino Corporation (PCC) entered into a Supplement to the SPA whereby the former designated PCC as the buyer of the second, third and fourth tranches. The first and second tranches were completed on July 13, 2012 and October 22, 2012, respectively. These transactions have been accounted for as treasury shares and presented as a reduction in equity in the consolidated statements of changes in equity.

Relative to the above transaction, the Parent Company entered into a SPA with PCC where the former sold to the latter 93.4 million shares of the Parent Company at a price of P10.7 per share. These shares comprised the first tranche of shares that the Parent Company acquired from ePLDT on July 13, 2012. These transactions have been accounted for as treasury shares and presented as a reduction in equity in the consolidated statements of changes in equity.

On October 25, 2012, PCC sold 137.5 million of the Parent Company's shares through a placement, to qualified buyers at a price of P15.0 per share, with a total selling price of P2,062.5 million. The excess of selling price over the cost of the treasury shares is shown as "additional paid-in capital" in the consolidated statements of changes in equity.

The third and fourth tranches covering 93.5 million shares and 117.5 million shares for a total purchase price of P1.0 million and P1.3 billion were completed on June 13, 2013 and December 13, 2013, respectively.

- b. On November 21, 2012, the BOD approved the creation of a share buyback program. The Parent Company acquired 41.2 million shares and 40.1 million shares of its common shares at a total cost of P567.2 million and P531.6 million in 2013 and 2012, respectively, which has been accounted for as treasury shares.
- c. On December 15, 2015, PCIL received from Lucktime 12.8 million shares of Parent Company's common shares at a total cost of P269.4 million as collection of portion of notes receivable. This has been accounted for as treasury shares in the consolidated financial statements (see Note 7).

### *Subsequent Events*

On March 8, 2017, the Board approved the Group's plan to acquire PeGs from existing independent PeGs operators using a total of 7.5 million treasury shares as payment. As at April 13, 2017, the Company had already acquired two (2) PeGS through BGI.

## 17. Salaries and Benefits

This account consists of:

	<i>Note</i>	2016	2015	2014
Salaries and wages		P118,401,246	P122,155,284	P111,605,062
Retirement benefits cost	20	6,035,884	5,134,907	5,870,237
Cost(reversal) of stock O(ition	16		3,161,092	561,232
		P124,437,130	P130,451,283	P118,036,531

## 18. Earnings Per Share

The following reflects the income and share data used in the basic/dilutive EPS computations:

	2016	2015	2014
Net income attributable to equity holders of the parent (a)	(P296,099,426)	P870,165,159	P903,990,032
Weighted average number of shares outstanding (b)	1'161,599,028	1,172,561,122	1'172,222,602
Dilutive shares arising from stock options	2,170,367	5,104,900	875,000
Adjusted weighted average number of common shares for diluted earnings (per share (c)	1,163,769,395	1'177,666,022	1'173,097,602
Earnings per share (a/b)	(P0.2549)	P0.7421	P0.7712
Diluted earnings per share (a/c)	(P0.2544)	P0.7389	P0.7706

The weighted average number of shares outstanding takes into account stock dividends and the treasury shares at year-end. There have been no other transactions involving ordinary shares or potential ordinary shares.

## 19. Lease Commitments

The Group leases its main and other offices under various operating lease arrangements with terms ranging from three (3) to five (5) years. Such leases are renewable at the end of the lease term upon mutual consent of the parties.

The Group has rental deposits amounting to P29.6 million and P29.9 million as at December 31, 2016 and 2015, respectively.

Total rentals recognized in profit or loss for the years ended December 31, 2016, 2015 and 2014 amounted to about P66.7 million, P64.6 million, and P66.7 million, respectively.

Non-cancellable operating lease rentals as at December 31 are payable as follows:

	<b>2016</b>	2015	2014
Less than one year	<b>P53,826,778</b>	P55,454,410	P56,222,266
Between one and five years	<b>77,378,663</b>	124,157,575	165,295,616
	<b>P131,205,441</b>	P179,611,985	P221,517,882

## 20. Retirement Benefits

The Group has a funded, non-contributory, defined benefit 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 trustee. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date was made on December 31, 2015. Valuations are obtained on an annual basis.

On December 18, 2014, the Group submitted the employees' retirement plan to the Bureau of Internal Revenue (BIR) for its adjudication as a reasonable retirement plan under Republic Act No. 4917, as amended. On March 3, 2015, the Group received Tax Approval Letter from the BIR for the Group's retirement plan.

The amounts recognized in the consolidated statements of financial position as retirement benefits liability as at December 31 are determined as follows:

	Present Value of Defined Benefit Obligation		Fair Value of Plan Assets		Retirement Benefits Liability	
	2016	2015	2016	2015	2016	2015
Balance at beginning of year	P42,475,188	P33,497,425	(P27,587,618)	(P15,000,000)	P14,887,570	P18,497,425
Recognized in profit or loss						
Current service cost	5,213,308	4,598,315			5,213,308	4,598,315
Interest expense	2,077,037	1,504,034			2,077,037	1,504,034
Interest income			(1,254,461)	(967,442)	1,254,461	(967,442)
	7,290,345	6,102,349	(1,254,461)	(967,442)	6,035,884	5,134,907
Recognized in other comprehensive income						
Remeasurement (gains) losses:						
Actuarial (gains) losses arising from:						
Experience adjustments	(5,112,049)	2,001,273	-	-	(5,112,049)	2,001,273
Changes in financial assumptions	(751,471)	(1,538,266)	-	-	(751,471)	(1,538,266)
Changes in demographic assumptions	(2,797,640)	2,793,419	-	-	(2,797,640)	2,793,419
Return on plan assets			1,211,276	1,473,027	1,211,276	1,473,027
	(8,661,160)	3,256,426	1,211,276	1,473,027	(7,449,884)	4,729,453
Others						
Benefits paid	(3,868,020)	(381,012)	3,868,020	381,012	-	(13,474,215)
Contributions				(13,474,215)		
Balance at end of year	P37,236,353	P42,475,188	(P23,762,783)	(P27,587,618)	P13,473,570	P14,887,570

The principal actuarial assumptions used as at December 31 follow:

	2016	2015	2014
Discount rate	5.38%	4.89%	4.49%
Future salary increases	5.00%	5.00%	5.00%

The Group does not expect to make contributions to the plan in 2017.

#### Assumptions and Relevant Information

##### *Sensitivity Analysis*

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by 100 bps:

	Defined Benefit Obligations			
		Increase		Decrease
Discount rate	(P1,440,656)	(3.9%)	P1,568,162	4.2%
Future salary increases	1,515,021	4.1%	(1,420,771)	(3.8%)

##### *Maturity Profile of the Defined Benefit Liability*

Assumptions regarding mortality and disability rates used in the valuation were based on 100% of the 1985 Unisex Annuity Table and 100% of the 1952 Disability Table, respectively.

The weighted-average duration of the defined benefit liability is 4.0 and 16.6 years as at December 31, 2016 and 2015, respectively.

The maturity profile of the defined benefit obligation is as follows:

	Carrying Amount	Contractual Cash Flows	2016		
			Within 1 Year	Within 2-5 Years	More than 5 Years
<b>Defined benefit obligation</b>	P37,236,353	P60,485,816	P14,315,551	P25,401,859	P20,768,406

	Carrying Amount	Contractual Cash Flows	2015		
			Within 1 Year	Within 2-5 Years	More than 5 Years
<b>Defined benefit obligation</b>	P42,475,188	P41,590,972	P13,372,800	P1,403,910	P26,814,262

##### *Funding Arrangements*

The Group is not required to pre-fund the future defined benefits payable under the retirement plan before they become due. For this reason, the amount and timing of contributions to the retirement fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the retirement fund.

##### *Significant Risks to which the Retirement Plan Exposes the Group*

There are no unusual or significant risks to which the plan exposes the Group. However, in the event a benefit claim arises under the retirement plan and the retirement fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Group to the retirement fund.

## 21. Operators' Deposits

Operator's deposits account consists of cash received from operators upon opening of PeGS Station. 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 operator's deposits approximate amortized cost as the impact of discounting is not material. As of December 31, 2016, the Company returned P30.6 million to operators as instructed by PAGCOR.

## 22. Financial Risk and Capital Management Objectives and Policies

### Financial Instruments

The accounting policies for financial instruments classified under loans and receivables have been applied to the line items below:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Current assets:			
Cash in banks	4	<b>P98,088,993</b>	P210,314,159
Accounts receivable	5	<b>192,228,971</b>	203,004,280
Notes receivable	7		234,221,902
Total current financial assets		<b>290,317,964</b>	647,540,341
Noncurrent assets:			
Noncurrent notes receivable	7		510,300,000
Rental and other deposits under "Other noncurrent asset- net"	11	<b>92,704,032</b>	52,513,406
Total noncurrent financial assets		<b>92,704,032</b>	562,813,406
Total financial assets		<b>383,021,996</b>	P1,210,353,747

### Fair Values

The fair values of the Group's financial assets approximate their carrying amounts as of reporting date because of their relatively short-term nature. In the case of noncurrent notes receivable, the fair value of P510.3 million in 2015 is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Accounts payable and accrued expenses, notes payable and operators' deposits are designated as other financial liabilities. The balances disclosed are the contractual undiscounted cash flows which equal their carrying amounts, as the impact of discounting is not significant.

### Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Group's risk management policies are established to identify and analyze these risks, to set appropriate transaction limits and controls, and to monitor and assess the risks and compliance to internal control policies. Risk management policies and structures are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

#### *Credit Risk*

Credit risk represents the risk of loss the Group would incur if counterparties fail to perform their contractual obligations. The Group's internet gaming businesses are made on cash basis and internet gaming operators are covered by required security deposits. Other receivables arise from one-off transactions and are due and demandable on a short term basis. Due to these reasons, management believes that the Group's exposure to credit risk is manageable as at December 31, 2016 and 2015. The carrying amount of each financial asset represents the Group's maximum credit exposure.

The Group's aging per class of financial assets that were not impaired is as follows:

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
December 31, 2016					
Cash in banks	P94,472,181	P -	P -	P -	P94,472,181
Accounts receivable	150,537,436	14,164,048	5,097,540	22,429,947	192,228,971
Notes receivable					
Rental and other deposits under "Other noncurrent assets - net"	92,704,032				92,704,032
	P337,713,649	P14,164,048	P5,097,540	P22,429,947	P379,405,184

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
December 31, 2015					
Cash in banks	P201,300,379	P -	P -	P -	P201,300,379
Accounts receivable	107,957,860	67,007,426	11,875,654	16,163,340	203,004,280
Notes receivable	744,521,902				744,521,902
Rental and other deposits under "Other noncurrent assets - net"	52,513,406				52,513,406
	P1,106,293,547	P67,007,426	P11,875,654	P16,163,340	P1,201,339,967

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

The credit quality of financial assets is managed by the Group using internal credit ratings such as high grade and standard grade.

High Grade - pertains to deposits or placements to counterparties with good credit rating or bank standing. For receivables, this covers accounts of good paying customers, with good credit standing and are not expected by the Group to default in settling obligations, thus credit risk is minimal. This normally includes large prime financial institutions and well established companies.

Standard Grade - there is a moderate concentration of credit risk with respect to these financial assets. These refer to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Low Grade- there is a high concentration of credit risk with respect to these financial assets. These refer to accounts from customers in default due to financial difficulties and without clear indication of full recoverability.

The table shows the credit quality of the Group neither past due nor impaired financial assets as follows:

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
<b>December 31, 2016</b>					
Cash in banks	P94,472,181	P -	P -	P -	P94,472,181
Accounts receivable	150,537,436	14,164,048	5,097,540	22,429,947	192,228,971
Notes receivable	-	-	-	-	-
Rental and other deposits under "Other noncurrent assets - net"	92,704,032	-	-	-	92,704,032
	<b>P337,713,649</b>	<b>P14,164,048</b>	<b>P5,097,540</b>	<b>P22,429,947</b>	<b>P379,405,184</b>

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
<b>December 31, 2015</b>					
Cash in banks	P201,300,379	P -	P -	P -	P201,300,379
Accounts receivable	107,957,860	67,007,426	11,875,654	16,163,340	203,004,280
Notes receivable	744,521,902	-	-	-	744,521,902
Rental and other deposits under "Other noncurrent assets - net"	52,513,406	-	-	-	52,513,406
	<b>P1,106,293,547</b>	<b>P67,007,426</b>	<b>P11,875,654</b>	<b>P16,163,340</b>	<b>P1,201,339,967</b>

#### Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. To effectively manage liquidity risk, the Group monitors its cash flows and ensures that credit facilities are available to meet its obligation when they fall due.

The Group's ratio of current assets to current liabilities as at December 31, 2016 and 2015 is 0.88:1 and 1.21:1, respectively. The current liabilities of the Group are expected to be paid within one year.

	Carrying Amount	As at December 31, 2016		
		Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense (a)	P302,038,723	P302,038,723	P302,038,723	p "
Notes payable	50,000,000	50,250,000	50,250,000	
Operator's deposits	29,355,000	29,355,000		29,355,000

	Carrying Amount	As at December 31 2015		
		Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense (a)	P298,544,189	P298,544,189	P298,544,189	p -
Notes payable	200,000,000	202,119,135	202,119,135	
Operator's deposits	57,055,000	57,055,000		57,055,000

(a) Due to government agencies are excluded

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk managements is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group is subject to various risks, including foreign currency and prices.

*Interest Rate Risk.* Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to notes receivable. Receivables issued at variable rates expose the Group to cash flow interest rate risk.

As at December 31, 2016 and 2015, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Nominal Amount	
	2016	2015
<b>Fixed-rate Financial Instruments</b>		
Financial Assets		
Cash in bank	<b>P94,472,181</b>	P201,300,379
Notes receivable		540,325,651
	<b>94,472,181</b>	741,626,030
Financial Liabilities		
Notes payable	<b>50,000,000</b>	200,000,000
<b>Variable-rate Financial Instruments</b>		
Financial Asset		
Notes receivable		204,196,251

#### Fair Value Sensitivity Analysis for Fixed-rate Instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### Cash Flow Sensitivity Analysis for Variable-rate Instruments

A reasonably possible change of 1% in interest rate at December 31, 2015 would have increased or decreased equity and profit or loss by P2.0 million. This assumes that all other variables, in particular foreign exchange currency rates, remain constant.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charges on Group's borrowings are optimal and benchmarked against the rates charged by other creditor banks.

#### *Foreign Currency Exchange Risk*

The Group has no foreign currency exchange risk on its Euro loan as this is offset with the receivable from ISM.

#### Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To manage or adjust the capital structure, the Group may obtain additional advances from stockholders, adjust the return of the capital to stockholders or issue new shares. The Group's overall strategy remains unchanged from 2015. The Group monitors capital using the monthly cash position report and financial statements.

The Group defines capital as total equity, which includes capital stock, additional paid-in capital, stock options outstanding and retained earnings, net of treasury stock as shown in the consolidated statements of financial position.

The Company is compliant with the minimum public float requirements of the PSE as at December 31, 2016 and 2015.

### 23. Segment Reporting

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

In 2012 and 2011, the Group launched scratch cards or instant-win type product in Cambodia and Tirnor-Leste, respectively. Likewise, the Group opened its Sweepscenter business in Guam in October 2011. These scratch cards, instant-win type products and Sweepstakes business are not material to the Group in 2016, 2015 and 2014.

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

The Group's Chairman of the BOD reviews internal management reports on a monthly basis.

Analysis of financial information by geographical segment in 2016 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
Net Revenues				
External revenue	P1,019,726,562	P -	P	P1,019,726,562
Operating expenses	(666,232,528)	(10,081,156)		(676,313,684)
Interest income	14,073,466	3,193		14,076,659
Interest expense	(6,227,941)			(6,227,941)
Others	(648,952,599)	6,364,379		(642,588,220)
	(1,307,339,602)	(3,713,584)		(1,311,053,186)
Income before Income Tax	(287,613,040)	(3,713,584)		(291,326,624)
Income tax expense	5,949,850			5,949,850
Segment Profit (Loss)	(293,562,890)	(3,713,584)		(297,276,474)
Equity net earnings of associates	(415,384)			(415,384)
Consolidated Profit	(P293,978,274)	(P3,713,584)	P	(P297,691,858)
Other Information				
Additions to property and equipment	P100,702,653	P -	P	P100,702,653
Depreciation and amortization	119,973,312	23,704		119,997,016
Assets and Liabilities				
Current assets	P316,170,151	P1,750,874	P	P317,921,025
Noncurrent assets	328,765,136	1,680,640		P330,445,776
Total Assets	P644,935,287	P3,431,514	P	P648,366,801
Current liabilities	P359,018,256	P191,974,220	(P191,353,314)	P359,639,162
Noncurrent liabilities	42,828,570			42,828,570
Total Liabilities	P401,846,826	P191,974,220	(P191,353,314)	P402,467,732

Analysis of financial information by geographical segment in 2015 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
Net Revenues				
External revenue	P1,667,610,476	P -	P	P1,667,610,476
Operating expenses	(613,404,839)	(36,942,894)		(650,347,733)
Interest income	51,759,961	7,422		51,767,383
Interest expense	(22,727,535)			(22,727,535)
Others	(2,270,241)	(143,713)		(2,413,954)
	(586,642,654)	(37,079,185)		(623,721,839)
Income before Income Tax	1,080,967,822	(37,079,185)		1,043,888,637
Income tax expense	173,940,595			173,940,595
Segment Profit (Loss)	907,027,227	(37,079,185)		869,948,042
Equity net earnings of associates	(322,009)			(322,009)
Consolidated Profit	P906,705,218	(P37,079,185)	P	(P5)9,626,033
Other Information				
Additions to property and equipment	P150,739,187	P -	P	P150,739,187
Depreciation and amortization	101,385,984	8,263,199		109,649,183
Assets and Liabilities				
Current assets	P707,714,227	P218,233,687	(P188,402,890)	P737,544,824
Noncurrent assets	840,917,573	1,704,344		842,621,917
Total Assets	1,548,631,800	P219,938,031	(P188,402,890)	1,580,166,741
Current liabilities	P575,017,772	P224,183,423	(P188,402,890)	P610,798,305
Noncurrent liabilities	71,942,570			71,942,570
Total Liabilities	P646,960,342	P224,183,423	(P188,402,890)	P682,740,875

## 24. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and the Group's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements as at and for the years ended December 31, 2016 and 2015.

On January 30, 2014, the Parent Company filed a case against Play1ech Software Limited for damages and loss of revenue it caused by violating the provision of the agreement with the Parent Company. On May 11, 2015, the Regional Trial Court dismissed the complaint.

On May 14, 2015, the Parent Company filed a Motion for Reconsideration (MR) relative to GOA's decision dismissing the Petition for Review to nullify GOA's Notice of Disallowance (ND). The disallowance pertains to Parent Company's alleged under remittance for the share in software license fee in 2006 and 2007. PAGCOR used this ND to defer the release of the remaining fund due to the Parent Company for the reimbursement of PAGCOR's share in the Incentive and Promotions Fund for 2009 and 2010 amounting to P34.6 million (see note 5). There has been no update from the appeal as at December 31, 2016.

## 25. Earnings before Interest, Taxes and Depreciation and Amortization (EBITDA)

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

	2016	2015	2014
Net income attributable to equity holders of the parent	(P296,099,426)	P870,165,159	P903,990,032
Minority interest	(1,592,432)	(539,126)	(114,344)
Net income	(297,691,858)	869,626,033	903,875,688
Add (deduct):			
Loss on sale of assets	649,285,056		
Depreciation and amortization	119,997,016	109,649,183	103,445,643
Impairment losses	110,337,325	76,260,998	44,400,909
Provision for income tax	5,949,850	173,940,595	134,837,218
Equity in net earnings of associates	415,384	322,009	(325,368)
Interest expense	6,227,941	22,727,535	49,569,583
Interest income	(14,076,659)	{51,767,383}	(59,799,886)
EBITDA	580,444,055	P1,200,758,970	P1,176,003,787
Issued and outstanding shares at end of year	1'162,210,904	1,160,333,804	1'172,224,060
EBITDA- EPS	P0.4994	P1.0348	P1.003

EBITDA and EBITDA- EPS are non-PFRS measures.

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

The Board of Directors and Stockholders  
PhiiWeb Corporation  
The Penthouse, Alphaland Southgate Tower  
2258 Chino Races Avenue corner EDSA  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PhiiWeb Corporation and Subsidiaries (the "Group") as at and for the year ended December 31, 2016, included in this form 17-A, and have issued our report thereon dated April 13, 2017.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

**R.G. MANABAT & CO.**



ADOR C. MEJIA

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until April 30, 2017

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2016

Issued April 12, 2016; valid until April 11, 2019

PTR No. 5904935MD

Issued January 3, 2017 at Makati City

April 13, 2017

Makati City, Metro Manila

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Accreditation No. 0003, with extended validity until April 30, 2017 pursuant to Board Resolution No. 37 s. of 2017  
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017  
IC Accreditation No. F-2014/014-R, valid until August 26, 2017  
BSP Accredited, Category A, valid until December 17, 2017



**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	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			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and 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	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments		✓	
PFRS 9	Financial Instruments		✓	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39			✓
PFRS 9 (2014)	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities		✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	
PFRS 11	Joint Arrangements		✓	
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

PFRS 11: Accounting for Acquisitions of  
Interests in Joint Operations

Amendments to

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
				✓
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone	✓		✓
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	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	✓		✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone	✓		
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	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-			
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 39</b>	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 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
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 and PAS 39: 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			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements			✓
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015			✓
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓

**Legend:**

**Adopted** - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** - means the standard or interpretation is not relevant at all to the operations of the entity.

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**INDEX TO FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2016**

<b>Schedule</b>	<b>Particulars</b>	
A	FINANCIAL ASSETS	Schedule A
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	Not applicable
C	- AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS	Schedule C
D	INTANGIBLE ASSETS AND OTHER ASSETS	Not applicable
E	- LONG-TERM DEBT	Not applicable
F	- INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)	Not applicable
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	Not applicable
H	- CAPITAL STOCK	Schedule H

**PHILWEB CORPORATION  
AND SUBSIDIARIES**

**SCHEDULE A- FINANCIAL ASSETS  
DECEMBER 31, 2016**

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Cash and cash equivalent</i>				
Cash on hand and in banks	P98,088,993	P98,088,993	P210,314,159	P210,314,159
Short-term investments	-98,088,993	-98,088,993	210,314,159	210,314,159
<i>Accounts receivables</i>				
Trade receivables	622,126	622,126	6,754,442	6,754,442
Receivables from non-affiliated entities	173,726,125	173,726,125	37,973,275	37,973,275
Advances to customers/suppliers	13,672,065	13,672,065	50,003,963	50,003,963
Interest receivable	2,722,772	2,722,772	14,489,766	14,489,766
Receivables from eCasino operation	922,508	922,508	30,387,188	30,387,188
Advances to officers and employees	563,375	563,375	4,237,041	4,237,041
Claims from telecommunication companies			4,525,950	4,525,950
Receivable from PAGCOR			31,898,480	31,898,480
Advances to a related party			22,734,175	22,734,175
	192,228,971	192,228,971	203,004,280	203,004,280
<i>Notes receivable</i>			234,221,902	234,221,902
<i>Other assets</i>	92,704,032	92,704,032	52,513,406	52,513,406
Total	P383,021,996	P383,021,996	P700,053,747	P700,053,747

Best Choice Holdings, Inc.	6,941,510			6,941,510	6,941,510
e-Magine Gaming	36,138,197	1,089,999		37,228,196	37,228,196
Total	252,283,387	10,729,363	(21,585,052)	(176,562,683)	64,865,015

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C- AMOUNTS RECEIVABLE FROM RELATED PARTIES**  
**WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

Subsidiary	Balance of Beginning Period	Additions	Amounts Collected	Amounts Provided with Allowance	Current	Non-current	Balance at End of Period
PhilWeb Cyberworld Corporation	168,472,799	-	-	(168,472,799)	-	-	-
BigGame, Inc	8,096,265	9,639,364	-	-	17,735,629	-	17,735,629
PhilWeb Asia-Pacific Corporation	19,883,962	-	(16,978,942)	-	2,905,020	-	2,905,020
PhilWeb Casino Corporation	2,504,160	-	(2,449,500)	-	54,660	-	54,660
Triple Play Technology, Inc.	6,789,709	-	-	(6,789,709)	-	-	-
Philweb Homeplay, Inc.	2,156,610	-	(2,156,610)	-	-	-	-
PhilWeb Convergence Corporation	1,300,175	-	-	(1,300,175)	-	-	-
Best Choice Holdings, Inc.	6,941,510	-	-	-	6,941,510	-	6,941,510
e-Magine Gaming	36,138,197	1,089,999	-	-	37,228,196	-	37,228,196
Total	252,283,387	10,729,363	(21,585,052)	(176,562,683)	64,865,015	-	64,865,015

**PHILWEB CORPORATION AND SUBSIDIARIES SCHEDULE H- CAPITAL STOCK  
DECEMBER 31, 2016**

Description	Number of Shares Authorized	Number of Shares Issued	Number of Shares Subscribed	Treasury Shares	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by		
							Affiliate	Directors, Officers and Employees	Others
Common shares	2,600,000,000	1,353,453,745	163,378,780	(354,621,621)	1,162,210,904	0	-	38,346,011	1,123,864,893
Total	2,600,000,000	1,353,453,745	163,378,780	(354,621,621)	1,162,210,904	0	-	38,346,011	1,123,864,893

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

	Years Ended December 31	
	2016	2015
<b>Statements of Financial Position</b>		
Financial Assets	317,921,025	737,544,824
Total Assets	648,366,801	1,580,166,741
Current Liabilities	359,639,162	610,798,305
Total Liabilities	402,467,732	682,740,875
Retained Earnings	1,856,644,010	2,617,356,756
Stockholders' Equity - Parent	246,606,171	896,540,536
Book Value Per Share	0.21	0.66
<b>Statements of Financial Performance</b>		
Operating Revenue	1,019,726,562	1,667,610,476
Other Revenue	13,661,275	51,445,374
Gross Revenue	1,033,387,837	1,719,055,850
Operating Expense	676,313,684	650,347,733
Other Expense	648,816,161	25,141,489
Gross Expense	1,325,129,845	675,489,222
Net Income Before Tax	(291,742,008)	1,043,566,628
Income Tax Expense	5,949,850	173,940,595
Net Income After Tax	(297,691,858)	869,626,033
<b>Net Income Attributable to Parent</b>		
Equity Holder	(296,099,426)	870,165,159
Earnings Per Share (Basic)	(0.25)	0.74
Earnings Per Share (Diluted)	(0.25)	0.74

		Years Ended December 31	
Financial Ratios	Formula	2016	2015
<b>Liquidity Analysis Ratios:</b>			
Current Ratio or Working Capital Rat	Current Assets/Current Liabilities	0.88	1.21
Quick Ratio	(Current Assets- Inventory- Prepayments)/Current Liabilities	0.81	1.06
Solvency Ratio	Total Assets/Total Liabilities	1.61	2.31
<b>Financial Leverage Ratios</b>			
Debt Ratio	Total Debt/Total Assets	0.62	0.43
Debt to Equity Ratio	Total Debt/Total Stockholders' Equity	1.64	1.76
Interest Coverage	Earnings Before Interest and Taxes (EBIT)/Interest Charges	(46.84)	45.92
Asset to Equity Ratio	Total Assets/Total Stockholders' Equity	2.64	1.76
<b>Profitability Ratio</b>			
Gross Profit Margin	Sales-Cost of Goods Sold or Cost of Service/Sales	0.34	0.61
Net Profit Margin	Net Profit/Sales	(0.29)	0.52
Return on Assets	Net Income/Total Assets	(0.46)	0.55
Return on Equity	Net Income/Total Stockholders' Equity	(1.21)	0.97
Price/Earnings Ratio	Price Per Share/Earnings Per Common Share	(41.58)	31.13



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the separate financial statements of PhiiWeb Corporation (the "Company") as at and for the year ended December 31, 2016, on which we have rendered our report dated April 13, 2017.

Our audit was made for the purpose of forming an opinion on the basic separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic separate financial statements taken as a whole.

### R.G. MANABAT & CO.

ADOR C. MEJIA  
Partner  
CPA License No. 0029620  
SEC Accreditation No. 0464-AR-2, Group A, valid until April 30, 2017  
Tax Identification No. 112-071-634  
BIR Accreditation No. 08-001987-10-2016  
Issued April 12, 2016; valid until April 11, 2019  
PTR No. 5904935MD  
Issued January 3, 2017 at Makati City

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International") a Swiss entity

PRC-80A Accreditation No. 0003, with extended validity until April 30, 2017 pursuant to Board Resolution No. 37 s. of 2017  
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017  
IC Accreditation No. F-2014/014-R, valid until August 26, 2017  
SSP Accredited, Category A, valid until December 17, 2017

PHILWEB CORPORATION  
The Penthouse, Alphaland Southgate Tower  
2258 Chino Roces Avenue corner EDSA, Makati City  
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

*(Figures based on Company's  
audited financial statements as at  
and for the year ended  
December 31, 2016)*

<u>Unappropriated Retained Earnings, as adjusted to  available for dividend distribution, January 1,  2015</u>	<u>P1,103,574,394</u>
Net Income based on the face of AFS	P130,280,801
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net income actually earned during the year	130,280,801
Less: Dividend declarations during the year	573,909,652
<b>TOTAL RETAINED EARNINGS, December 31, 2016  AVAILABLE FOR DIVIDEND</b>	<b>P659,945,543</b>