



2012 Annual Report

About Us

PhilWeb Corporation is the leading gaming technology provider in the Asia Pacific Region.

We excel in the gaming industry by providing superior and innovative products with the highest standards of customer service. We are a lean organization, with just 300 employees at the end of 2012, and a highly productive one. We continue to establish strategic partnerships to ensure a fair, secure and legal gaming experience for our customers. We create a rewarding and dynamic work environment where we attract, retain and motivate highly competent, passionate and innovative people, and consistently deliver above-market value for our shareholders.

Today, PhilWeb serves 50,000 customers daily through our nationwide network of online cafés, mobile games and trading cards in the Philippines. We have also begun serving customers in Guam, Timor Leste and Cambodia. In 2013, the Company will open an e-Games site in Dili, Timor Leste. This will make the e-Games brand our first-ever international brand. We are also negotiating similar contracts in Nepal, Sri Lanka, Laos, Thailand, Mongolia and Myanmar as we go to press. By extending our reach to other countries within the Asia Pacific region, we continue to exponentially bring our growing customer base to new heights.

Annual Report 2012

Table of Contents

2	Letter to Shareholders
10	PhilWeb Management Team
12	PhilWeb Asia Pacific
	Timor Leste
	Cambodia
	Guam
	Outlook for 2013
20	e-Games
	Marketing Highlights
	Site Refurbishing
26	BigGame
28	e-Magine Gaming
	The Genesis Console
32	Premyo sa Resibo
33	Business Development
34	Corporate Services
	Finance
	Customer Services
	Information Technology
	Human Resources and Administration
38	Corporate Social Responsibility
39	Press Quotes
43	Disclosures
47	Board of Directors
52	Statement of Management's Responsibility
53	Report of Independent Auditors
55	Consolidated Statements of Financial Position
56	Consolidated Statements of Comprehensive Income
57	Consolidated Statements of Changes in Equity
58	Consolidated Statements of Cash Flows
60	Notes to the Consolidated Statements



L - R:
DENNIS O. VALDES (PRESIDENT) AND
ROBERTO V. ONGPIN (CHAIRMAN)

Letter to Shareholders

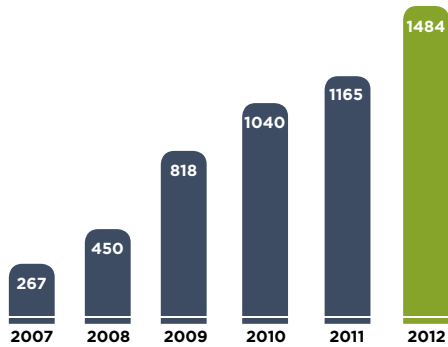
As we look back on 2012, we are pleased to note several bellwether events that contributed to making it a record-breaking year for your Company, PhilWeb Corporation. The most significant, of course, is the fact that we are now a true multinational corporation, with the realization of solid revenues from our Asia Pacific expansion.

Solid Revenues from Asia Pacific

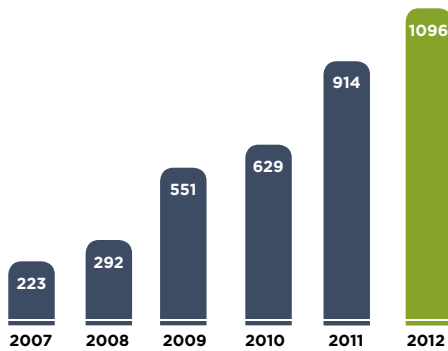
For the first time, we have generated meaningful revenues from three different countries aside from the Philippines – from our operations in Guam, Timor Leste and Cambodia. These current businesses include running a sweepstakes café in Guam and selling scratch cards in the latter two countries. Our successful strategy is built around finding strong, local business partners, who then provide the on-the-ground expertise and experience we need to be successful in the country.

Scratch cards have been an excellent foot-in-the-door strategy for PhilWeb as we expand overseas. While most regulatory environments are cautious about granting gaming licenses, they are more open to the fairly innocuous, low-key scratch card operations. Once sales ramp up and we start delivering regular revenues to the governments of the countries we operate in, regulators become more receptive to grant electronic gaming licenses. This is the

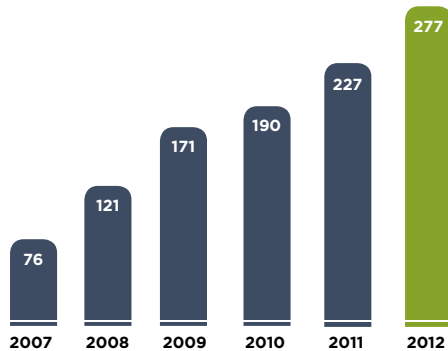




REVENUE
MILLIONS OF PESOS



NET INCOME
MILLIONS OF PESOS



E-GAMES CAFÉS

case, for example, in Timor Leste, where our successful scratch card business has prompted the government to grant us several licenses to operate e-Games cafés, the first of which will open in early 2013.

Record Financial Performance

With the contribution of Asia Pacific, your Company set new financial records in 2012. Revenues surged to a high of ₱1.5 billion, 27% more than the previous year. And for the first time ever, we made more than a billion pesos in Net Income, a total of ₱1.1 billion, 20% more than in 2011.

Our Balance Sheet remains as strong as ever, with over ₱1 billion in cash and no borrowings from banks. Our Retained Earnings grew to ₱2.1 billion, and because of this, we increased our dividend payout remarkably, paying a total of two ₱0.10 dividends and a 20% stock dividend as well.

Total dividends for 2012 equaled 48% of Net Income. It is clear that after three years of paying dividends, and with increasing payouts every year, that your Company is now a valuable stock to own on the Philippine Stock Exchange, one with a solid and increasing annual returns and the added potential for price appreciation.

Strong Core e-Games Business

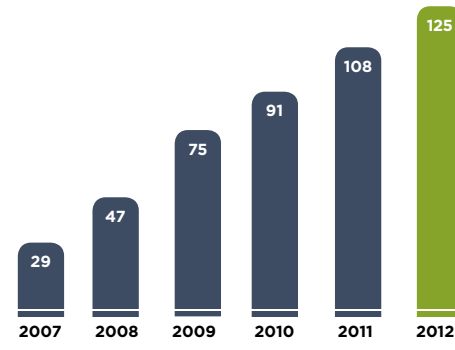
These unprecedented financial highs were delivered principally by solid results in our core e-Games business. We now have a total of 277 e-Games cafés, with the 50 approved by PAGCOR in 2012 matching the previous high last achieved in 2009. Your Company has always been a valued contributor to PAGCOR's revenues, remitting a record total

of ₱2 billion last year. No other service provider to PAGCOR contributes more to the gaming agency than PhilWeb. And as we have pointed out many times, all our contributions to PAGCOR come with no capital expenditures or operating expenses on their part. Every peso we give towards nation building flows directly to PAGCOR's bottom line.

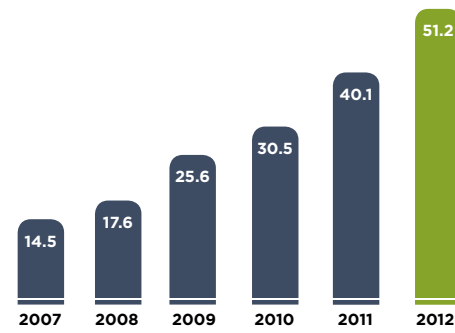
The e-Games division has beefed up its support to the 115 independent operators that run cafés. Aside from dedicated account managers, we provide the operators rebates based on their sales and various ways to beef up their marketing to players. Almost all e-Games operators are currently in the process of reinvesting in their cafés, expanding and refurbishing them to offer players a better gaming experience.

As a result of our continuous improvements to the e-Games network, total Gross Bets in 2012 surged to a record ₱125 billion, 16% greater than the previous year. We now have an average of 50,000 players per day across our network of 6,754 gaming terminals, one of the largest, linked networks of gaming terminals in the world. Each of these computers delivers an average Daily Terminal Win of ₱2,202 and in total, the network delivered a Casino Win of ₱4.7 billion.

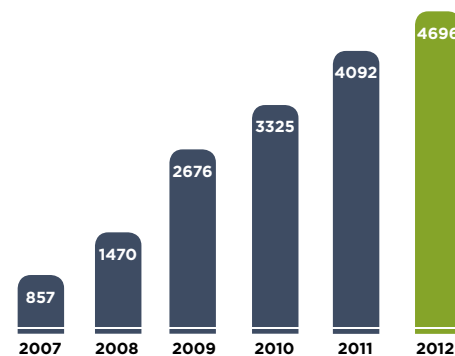
One of the ways in which we have further improved the gaming experience is by offering new gaming software to players. We now have access to close to a thousand different casino games from three of the top software vendors. Additionally we have been offering sports betting in more and more of the e-Games cafés, and this business trebled in volume in 2012.



GROSS BETS
BILLIONS OF PESOS



NUMBER OF PLAYERS
PER DAY IN THOUSANDS



CASINO WIN
MILLIONS OF PESOS

We continue to look for new ways to offer more gaming choices to our players and seek to make the entire experience more seamless as we move into 2013. All these improvements will also mean increases in Gross Bets and the Daily Terminal Win, thus improving the businesses of the e-Games operators, of your Company and of PAGCOR.

Exciting New Business in Gaming Terminals



The formation of our latest subsidiary, e-Magine Gaming Corporation, is another milestone targeted at improving our e-Games business, but more importantly, increasing our push into overseas markets. The e-Magine concept is simple: to integrate into the computer gaming terminal, a bill acceptor to accept cash, a ticket-in, ticket-out printer to enable quicker cash in-out, and a card reader to track players and their loyalty points. The resulting gaming terminal becomes a powerful, all-in-one gaming device, and delivered at a low cost due to our labor savings in the Philippines.

The significance of e-Magine Gaming is that we have ventured beyond our software core and moved into the dedicated, bespoke-design, hardware world for the first time ever. The new company has already been granted Income Tax Holiday status from the Philippine Export Zone Authority or PEZA, and has two working prototypes starting production, the Genesis 101 and 102. Both prototypes were enthusiastically received when introduced to e-Games operators and potential customers from Brazil and Macau. The first shipments should be accomplished by early 2013.

Continuing Partnership with Bureau of Internal Revenue

While we surge forward into new overseas markets, we do not forget that it is the home shores of the Philippines that nurtured us. One of our flagship products, the mobile game Premyo Sa Resibo or PSR as it is fondly known, continues to serve as a key program of the Bureau of Internal Revenue.

PSR is the BIR's positive reminder to all consumers to ask for official receipts, by giving those who text in their receipt details a corresponding number of raffle tickets. Since 2006, PSR has generated 189 million total text entries from over 27 million official receipts, representing 1.8 million registered businesses. The program has given away over ₱185 million in prizes. With the continued support of our telco partners, Smart, Globe and Sun, we believe PSR will remain a key program of the BIR in the years to come.

New Product with Philippine Basketball Association

We also launched a new product in September 2012, trading cards featuring twenty of the All Stars of the Philippine Basketball Association. The PBA Trading Card offers buyers a quality memento of their favorite star and at the same time, a chance to win up to one million pesos as a promotion. The cards are selling at a brisk pace and are now available in over 500 retail stores nationwide, including Mini Stop convenience stores and various online websites.

Farewell to a Valued Partner

2012 also marks the year that a valued partner, the ePLDT group, chose to divest their shareholdings in PhilWeb, as they were on the acquisition and investment trail in media and needed to raise funds for these investments. Based on their original investment in your Company, the ePLDT exit locked in their profits at six times the original investment. In June, your Board decided that PhilWeb Corporation would purchase ePLDT's entire stake over four semi-annual tranches, the last ending in December 2013, all at a price of ₱10.70 per share, which represented a 14% discount to the market price at that time.



As it is such a large deal, it is important to examine the impact of the ePLDT transaction on our financial statements. PhilWeb had a total of 1.5 billion outstanding shares prior to the ePLDT divestment. If we assume that your Company were to purchase the entire ePLDT stake, the total outstanding shares would be reduced to 1.1 billion.

The impact on our Earnings Per Share would be an accretion from a pre-ePLDT EPS of ₱0.72 per share to a post-ePLDT EPS of ₱0.98 per share, or an additional 36%. As we consider the EPS potential in 2013, we should consider the natural growth of our core business and of our dramatic gains in Asia Pacific and in new businesses. All these add up to an exciting future for your Company in the coming years.

New investors in PhilWeb

Subsequent to the ePLDT deal, your Company was offered by two international investment banks, UBS and Religare, to re-sell a portion of our treasury shares to foreign investors. In October 2012, we acceded to sell a total of US\$50 million worth of shares at a price of ₱15.00 per share. Since then, the share price of your Company has been under pressure, and because the Board feels that your Company's share price remains undervalued, we initiated a share buyback program which is still currently in place.

With our excellent financial results, we have also attracted the attention of several multinational companies. These companies have expressed interest in investing into your Company, and we are currently assessing the different possible new investors.

With the frenetic pace of expansion we have been going through over the past years, it is with some pleasure that we note that, once again, PhilWeb was recognized by Forbes Asia magazine in its Best Under a Billion list. This list is their annual count of the 200, best-performing, publicly listed companies in Asia Pacific with sales under US\$1 billion. No other Philippine company has made it to the Forbes list for three years in a row. We were also one of only three companies given a special award – for being the Most Profitable of the 200 – and again, we received this special award for the third year in a row, an unprecedented feat according to the magazine’s editors.

In closing, we would like to thank our supportive Board of Directors, who consistently spur us to towards realizing our vision – to be the dominant gaming solutions provider in the Asia Pacific region – and more so, our stockholders, who unfailingly trust us to deliver results for them. We look forward to continuing to serve you this year and for many more years.

30 January 2013



ROBERTO V. ONGPIN
Chairman



DENNIS O. VALDES
President

PhilWeb Management Team





L - R: DENNIS O. VALDES (PRESIDENT), BRIAN K. NG (SVP, E-GAMES), MICHAEL T. GRANDINETTI (PRESIDENT, PHILWEB ASIA PACIFIC), JOE PISANO (PRESIDENT, E-MAGINE GAMING), BENJAMIN G. PARUNGO III (AVP, PREMIO SA RESIBO AND BUSINESS DEVELOPMENT), ZALDY M. PRIETO (SVP AND CFO), MARRIANA H. YULO (SVP AND GROUP CFO), ALBERT T. DELA CRUZ (SVP AND CTO), CARLA S. VARGAS-NUYDA (AVP, HUMAN RESOURCES AND ADMINISTRATION), GINA D. PINZA (AVP, CUSTOMER SERVICES), ATTY. CLIBURN ANTHONY A. ORBE (VP, VISAYAS AND MINDANAO), ATTY. RODOLFO MA. A. PONFERRADA (SVP AND LEGAL COUNSEL), MARIA LOURDES ARROYO-DE GUZMAN (SVP AND GROUP INTERNAL AUDITOR)

PhilWeb Asia Pacific

PhilWeb Asia Pacific (PWAP) was incorporated in 2010 with a mandate to take the existing profitable businesses of PhilWeb Corporation, and duplicate them with local partners in the Asia Pacific region. This mandate has quickly expanded to provide other products that are not currently offered by PhilWeb. Most notable among these products are scratch cards.

2012 can be characterized as a year of significant growth for PWAP, as it completed its first full year of operations. In 2012, the Company contributed 9% to PhilWeb's overall revenue. It also solidified its presence in the Asia Pacific region with its Timor Leste, Cambodia and Guam operations.

For 2013, PWAP is continuing its expansion efforts with its Scratch and Win cards and e-Games casinos. New businesses for 2013 are planned in Indonesia, Thailand and Laos, as well as Nepal, Mongolia and Myanmar. PWAP expects to submit license applications for various products in these countries no later than the first quarter of the year.

**THE PWAP TEAM**

L - R: MICHAEL T. GRANDINETTI (PRESIDENT, PHILWEB ASIA PACIFIC),
MARIE ABIGAEL A. GATDULA (AVP, SCRATCH AND MOBILE),
SCOTT A. SPROULE (SVP AND AREA HEAD),
ANTONIO K. GARCIA (SVP AND AREA HEAD)



TIMOR LESTE

As small as Timor Leste is, PWAP did tremendous business there in 2012. The Company sold 4.6 million Scratch and Win cards, proving that there is a tremendous market despite its small population of only 1.1 million people. In the scratch cards industry, the per capita consumption is usually 1.4 cards. The total annual card sales in Timor Leste show that the country's per capita scratch card consumption is 4.02, or 2.9 times the industry average.

Scratch and Win

Scratch and Win cards is one of PWAP's main business drivers in 2012. The concept is simple. For each country, two to three scratch-and-win games are designed based on that country's traditions, hobbies and pastimes. The cost per card is around US\$1 and all a player needs to do is scratch the shaded game area to win instantly. Depending on the game mechanics, players can win instantly and redeem their winning tickets for cash, motorcycles and other exciting prizes. There are tremendous advantages to a scratch card game. They are readily available in numerous points of sale and prizes are given to winners instantly.

In 2013, PhilWeb is launching a new US\$2 card which promises to provide more winners and larger prizes.

In March 2013, PWAP will launch its first ever e-Games casino in Dili, the capital of Timor Leste. With 86 electronic gaming terminals, Timor Leste residents will be able to experience the excitement and thrills of online casino gaming.



Kick for Gold, an instant mobile raffle game, will be launched alongside the e-Games casino in Dili. Participants can join via SMS by sending a message to a designated access number to get a chance to win great prizes such as cash, prepaid load, mobile phones or a motorcycle.

Expansion in other parts of Timor Leste is also part of PWAP's 2013 plans. The Company has identified several places along the border with Indonesia that can accommodate e-Games cafés. When launched, these new e-Games casinos will help bring in new customers.



MAZY V. TAYAMEN (AVP AND GM - TIMOR LESTE)



e-Games Dili



The year 2013 will be a busy time for PhilWeb Asia Pacific, as the first ever e-Games café will be launched in Timor Leste within the second quarter of the year.

The e-Games Dili café requires the player to apply for an exclusive membership before playing. One will be required to obtain a membership card with an application of US\$25 as betting credit. Similar to e-Games cafés found in the Philippines, payouts and rewards can be immediately redeemed by the players. Cashiers and Gaming Assistants will render all necessary assistance to the players and cater to each client's gaming needs and requests. A customer service hotline will also be available 24/7 to address technical concerns and extend service to other game-related issues.

As the e-Games café will be the first of its kind to open within Timor Leste, it is strongly believed that revenues within the first few years will yield more than favorable results. The second e-Games café will open in Oecusse, which happens to be in close proximity to Indonesia. This poses an excellent opportunity to attract Indonesian players to the café as well.

PhilWeb Asia Pacific is positive that Timor Leste e-Games would be met with much success and greatly contribute to the future of e-Games as an international brand.



CAMBODIA

In October 2011, PhilWeb Cambodia entered into a joint venture agreement with Atomik Lottery Co., Ltd. to provide instant win scratch cards and lottery products in the Kingdom of Cambodia.

Cambodia was an obvious choice for PhilWeb Asia Pacific. The country has a population of 16 million people, and its rapidly growing economy makes it an excellent opportunity for expanding PWAP's Instant Scratch and Win business. PWAP used its experience in Timor Leste to facilitate business processes and operations in Cambodia, resulting in a smooth and successful launch.

In March 2012, Gold Scratch 'N Win was launched with two US\$1 scratch cards, Cash Fighter and Money Harvest. Both cards experienced modest growth in 2012.

For 2013, PWAP will launch all new scratch cards that will be sold at lower price points and come with bigger and better rewards for lucky players.



Scratch Cards

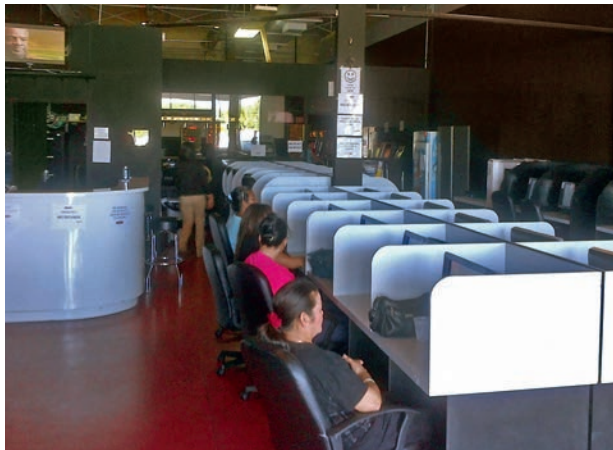




GUAM

PhilWeb Asia Pacific's Guam operations began in October 2011 through its 51% owned subsidiary, Guam Sweepstakes Corporation. PWAP patterned its Sweeps Center after popular sweepstakes products such as McDonald's Monopoly game, Reader's Digest and others.

In 2012, The Sweeps Center continued to maintain its strong market presence. By renovating and redesigning the site's interiors, and introducing VIP booths and lounge chairs, the Company saw a significant increase in player volume. Encouraged by this surge in numbers, PWAP is planning to open up another Sweeps Center in 2013.



L - R:
KYHONG PENG (GM - CAMBODIA) AND
DANNY PAYUMO (GM - GUAM)

OUTLOOK FOR 2013

In 2012, PWAP was able to contribute 9% to the overall revenue and earnings of PhilWeb Corporation. The Company believes that it can continue growing and substantially increase its contributions to the Company in 2013.

To achieve this, PWAP will continue to build relationships with other potential business partners throughout the region, concentrating on its scratch card and e-Games café businesses.

Priorities in 2013:

- Gain entry and establish new businesses in a minimum of two countries
- Expansion, not only in scratch-and-win card operations, but with e-Games casino operations as well
- Create and sell scratch-and-win cards that can be bundled with a particular country's leading domestic brands such as gas companies, grocery stores, food chains and telecommunication companies



LAOS

For 2013, PhilWeb Asia Pacific's plans remain on target. The Company is currently in the process of securing an e-Games license through the Lao Ministry of Planning and Investment. PWAP's goals are to commence operations within the year and target different locations along the border of Laos and Thailand.

JAMES LEE (GM - LAOS)



INDONESIA

One exciting new product in PWAP's development pipeline is a collectible soccer trading card with a scratch card component. The chosen team for this promo is Persatuan Sepak Bola Indonesia Bandung (PERSIB), one of Indonesia's largest football clubs. Each trading card will feature a short biography and career highlights of PERSIB's most prominent players. Aside from being highly collectible, the scratch card aspect gives consumers a chance to win cash prizes, meet and greet their favorite players and score free tickets to live games.



OTHER COUNTRIES

PhilWeb Asia Pacific is always looking for countries to expand its operations. In 2013, the Company has targeted Thailand, Myanmar, Palau, Nepal, Sri Lanka and Mongolia as new areas of opportunity.



e-Games

In 2003, we received a license from the Philippine Amusement and Gaming Corporation (PAGCOR) to launch e-Games stations, which are Internet cafés exclusively dedicated to casino games. With technology provided by PhilWeb, patrons can choose from close to a thousand casino games, including baccarat, blackjack, various slot machine games, video poker and others. Most e-Games cafés operate on a 24/7 basis.

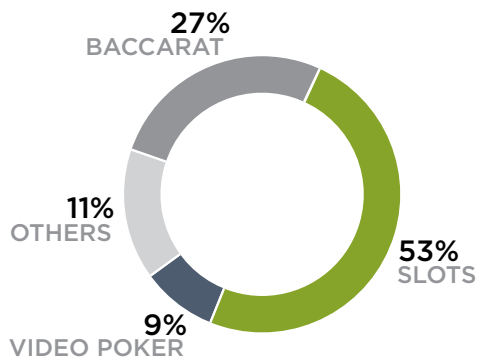
There are now 277 e-Games cafés all over the country, with the majority owned and operated by entrepreneurs. These e-Games Operators handle day-to-day operations and get a commission based on the casino winnings of the café.



2012 marked another milestone year for e-Games. From 227 e-Games stations, the Company was able to add 50 new sites, bringing up the nationwide count to 277.

As a result of additional sites, the total gaming terminal network in 2012 reached 6,754, a 26% increase from the previous year. e-Games hit averages of 50,000 players per day and ₱2,202 in Daily Terminal Win. In total, the network delivered a Casino Win of ₱4.7 billion, an increase of 15% from 2011. e-Games remains a valued contributor to PAGCOR's revenue, remitting a record total of ₱2 billion last year.

2012 GAME DISTRIBUTION



The game distribution for the past year is split into four major categories: slots games, baccarat games, video poker games and others. Slots made up more than half of PhilWeb's game distribution with a 53% market share in 2012, which shows that slots are the preferred choice for majority of e-Games customers. Meanwhile, Baccarat was the second highest at 27%. Video poker encompassed 9% of the total game distribution, while other games took up the remaining 11%.

In 2012, several improvements were made to ensure that the quality, service integrity and reliability of e-Games stations and their systems were enhanced. Gaming software was updated and training programs for Gaming Assistants were redesigned to focus on customer care and client interaction. Steps were also taken to uplift the image of cafés and attract new players, such as creating a better gaming environment, developing faster and more efficient tools and processes, and providing bigger opportunities and rewards to players.



L - R: BRIAN K. NG (SVP, E-GAMES), SAMUEL A. DELA CUESTA (AVP, E-GAMES OPERATIONS), RONALD M. CUEVAS (AVP, E-GAMES OPERATIONS QUALITY), MA. TERESITA R. GONZALES (AVP, E-GAMES ROLLOUT)



For 2013, e-Games' main goal is to continue improving the player experience. This will be achieved by moving away from terminal-based game play to account-based game play. The Company has also invested in new software and tools, which will improve Player Membership Management and Rewards Redemption processes. These will be rolled out in the third quarter of 2013.

Aside from this, e-Games will continue to enhance its image by moving away from the Internet café setting and into a more casino-like environment. Expansion is also underway, with plans to target previously untapped locations and demographics.

MARKETING HIGHLIGHTS

Loyalty Program and VIP Raffle Promo

e-GAMES

RIDE IN STYLE THIS CHRISTMAS

GRAND PRIZE
2012 Mitsubishi Pajero BK Diesel 4WD

GET 1 RAFFLE COUPON FOR EVERY 50 POINTS EARNED IN YOUR VIP REWARDS CARD

MAJOR PRIZES
2 Ultra Men's Tech Smart Watches
Our Smooth Bezel Black Desktop

MINOR PRIZES
4 Ultra Samsung S3 Smart 32GB TV
4 Ultra MacBook Air 13"
3 Ultra iPhones 4
3 Ultra iPads
3 Ultra Galaxy Note

CONSOLATION PRIZE
30000 Bet Vouchers

*Prizes. Representations of prize items may differ from actual product specifications, sales, colors, etc.

E-GAMES CHRISTMAS RAFFLE PROMO

The e-Games Loyalty Program entitles its members to exciting rewards and exclusive privileges. This past year, two successful raffle promos were held, wherein players received one raffle ticket for every 50 points earned on their VIP Rewards Card. During the Summer e-Games Raffle, one lucky winner got to drive away in a brand-new Subaru Forester 2.5 XT, while other winners took home an assortment of prizes such as smart phones, tablets, digital cameras and bet vouchers. The year-end Christmas e-Games Raffle, which had over 700,000 entries, awarded a 2013 Mitsubishi Pajero to another lucky player.

With e-Games transitioning from terminal-based game play to account-based play, the loyalty management system will be undergoing changes in 2013. This

move promises a more rewarding and exhilarating playing experience for its members. e-Games will also switch to a direct-to-player marketing strategy which focuses on bringing greater rewards and privileges. The VIP Rewards Card which has over 60,000 regular card holders, will slowly evolve into a full-fledged e-Games Membership Card, acting as both a player's identification card and a passport to a bigger and better rewards program.

Marketing Events

2012 proved to be a busy year for e-Games, with numerous sponsored events held across the nation. These events were aimed at spreading awareness about e-Games and attracting the attention of new players.

One popular event was the Pacific Extreme Combat (PXC) - Mixed Martial Arts (MMA) event, with the final showdown taking place at the Araneta Coliseum. e-Games also participated in a number of festivals, namely the Annual Hot Air Balloon Festival in Clark Air Field, Pampanga, and the MassKara Festival in Bacolod.

There were also a number of on-site activations that took place at establishments that were in close proximity to an e-Games station. During these events, players got the chance to experience a virtual casino first-hand. Limited edition e-Games merchandise were also distributed as primary promotional materials.



PXC EVENT SPONSORSHIP



VIBRANT VEGAS LAUNCH PARTY

e-Games Malabon



The e-Games Malabon café, located in Tinajeros, Malabon, first opened its doors on August 13, 2007. Last July 19, 2012, the site was renovated in line with the vision of giving its customers “a high-class casino experience”.

Customers will notice a marked difference once they enter. Gone is the row seating configuration characteristic of a neighborhood internet café. In its place are comfy lounge chairs and tables, ergonomically designed table tops and chairs, and rich, wooden panel interiors.

As a result of the site refurbishing, e-Games Malabon increased its Casino Win and player traffic remarkably.

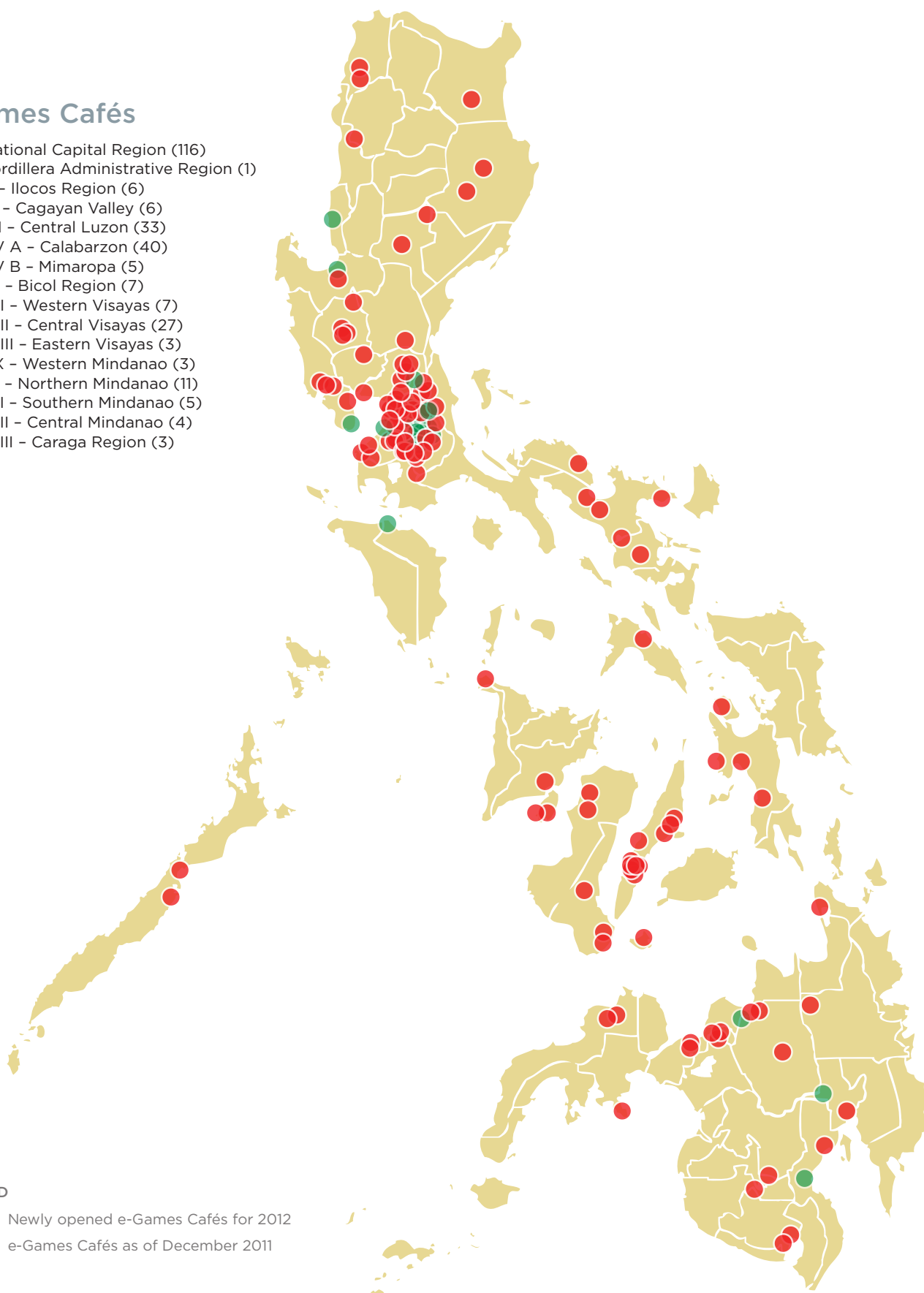
The e-Games Malabon café won the “Most Improved e-Games site for 2012” during the recently held Quarterly Operators Meeting.

SITE REFURBISHING

e-Games is going through a sea change. For a long time, most e-Games sites were set up to evoke a neighborhood internet café feel. For the past year, various e-Games sites have been redesigned to reflect the maturing taste of the Filipino player. Their walls are now covered in wood and classier paneling; hard, uncomfortable chairs have been replaced with plush lounge sofas; and embedded monitors and cool, mood lighting exude a touch of Vegas. As the times evolve and individual tastes mature, the Company has taken steps to keep up with these changes by pushing for new and innovative concepts that can add value to the players’ gaming experience.

e-Games Cafés

- NCR - National Capital Region (116)
- CAR - Cordillera Administrative Region (1)
- Region I - Ilocos Region (6)
- Region II - Cagayan Valley (6)
- Region III - Central Luzon (33)
- Region IV A - Calabarzon (40)
- Region IV B - Mimaropa (5)
- Region V - Bicol Region (7)
- Region VI - Western Visayas (7)
- Region VII - Central Visayas (27)
- Region VIII - Eastern Visayas (3)
- Region IX - Western Mindanao (3)
- Region X - Northern Mindanao (11)
- Region XI - Southern Mindanao (5)
- Region XII - Central Mindanao (4)
- Region XIII - Caraga Region (3)



LEGEND

- - Newly opened e-Games Cafés for 2012
- - e-Games Cafés as of December 2011

BigGame, Inc.

BigGame, Inc. (BGI) is a wholly owned subsidiary of PhilWeb Corporation. It owns and operates 16 e-Games stations, making it one of the largest operators in the business.

BGI's network of cafés functions as our main “Research and Development” laboratory. Whenever we come up with new games, strategies and other innovative ideas, these are tried and tested within BGI sites. 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 by the operators, the BGI café in question becomes the standard by which other BGI and e-Games cafés will follow. Due to this rigorous process, BGI has continued to bring in improved gaming configurations and upgrades for the Company's various services and amenities.



BIGGAME

PAULO J. PEREZ (AVP, BIGGAME)

2012 was a productive year for BigGame.

BigGame delivered top-line revenue of ₱183 million in 2012, 29% more than in 2011. Additional sites in La Union, Pasig (Semicon), Parañaque (Jaka) and along Macapagal Boulevard in Pasay contributed to the increase of BGI cafés from 12 to 16 in 2012. Apart from these, various sites have also undergone renovations and expansions, such as those in Morato, Parkmall and Pandacan. Overall, these increased BGI's total gaming terminals by 33%.

Some of the innovative ideas which were tested in BGI sites are the following:

- Gaming on Craps Tables, which further enhances the café's casino feel, still proved to be popular as players would still frequent these tables. BGI plans to complement these with customized, ergonomic chairs designed to provide more comfort and convenience to the players.
- Lounge chairs with dedicated tables for terminals have also been well-received as they contributed a large percentage in the daily revenue of the sites. With more

accurate data tracking, we calculated that the Daily Terminal Win from this lounge-chair set-up was well over 50% more than the Daily Terminal Win from a standard cubicle.

- For improved VIP treatment, recliners and two-seater sofas have been introduced in BGI Morato. A special menu is also being offered in existing VIP booths.
- To attract player groups, the VIP Barkada Room will soon be launched in the BGI network. The private area will comfortably seat a party of eight persons and will come with a mini-bar, television and fridge. Eventually, other amenities such as a DVD player and tablet computers will be installed as well.

By feeding the positive results of the enhancements mentioned above quickly to operators during quarterly conferences, the ideas are being implemented system-wide at a much faster pace, and thereby contributing faster to total e-Games revenues.

In order to expand its market base and attract new players, BGI was aggressive in its marketing stance for 2012. Referral programs, loading promos and activation schemes were some of its marketing activities. BGI also plans on strengthening its partnership with different establishments to offer more special deals and promos to its loyal players as part of its player retention program.

For 2013, BGI will continue its expansion across the country. New sites are expected to be added over the course of the year. Refurbishing of sites will also be one of the primary objectives of BGI, a move which includes offering new gaming configurations to further enhance comfort while playing, thus encouraging more player involvement.

BGI Morato



Located in Quezon City, BGI Morato has become the biggest and most innovative BGI site to date. From a mere 59 gaming terminals, BGI Morato has undergone two site renovations and more than doubled its number of terminals in just half a year, bringing its total number of terminals to 135.

The addition of recliners with 32-inch TV screens, as well as coffee-table-type seating arrangements, made the environment within BGI Morato become less of an internet-café and more of a first-class casino. Since its first implementation, players became more enthusiastic to get into the VIP rooms and are also encouraged to play longer than they usually do. This proves that players are greatly affected not just by the big payouts of the games, but also by their gaming environment. The enhanced player experience gave BGI Morato a significant increase in revenue in 2012. With this in mind, BigGame, Inc. is currently applying this refreshing change into other BGI sites nationwide.

e-Magine Gaming

e-Magine Gaming is the newest subsidiary of PhilWeb Corporation. The Company's primary purpose is to develop and manufacture gaming terminals with integrated software and hardware. Launched in 2012, e-Magine will strengthen PhilWeb's international revenues and support its local and Asia Pacific businesses.



The Company was formed to address the rise in demand for new devices with integrated software for electronic games from casino operators. The Company had reached a turning point, technology-wise, to build the hardware that would go along with the licensed software that it was distributing throughout its numerous online gaming businesses.

e-Magine follows a three-tiered business model. The Company will develop and manufacture different models of certified gaming hardware and software solutions; it will design and build gaming terminals based on local and foreign needs; and it will create products that will increase casino revenue. In terms of quality, e-Magine's products will be at par with those of its international counterparts while being offered at a lower price point.

With the formation of e-Magine, local and international casinos can benefit from the Company's expertise in hardware and software solutions.

e-Magine's gaming terminals will be manufactured locally, as the Company has received its accreditation from the Philippine Export Zone Authority (PEZA).



L - R: JOE PISANO (PRESIDENT, E-MAGINE GAMING), PAOLO AMBROSI (VP AND GM), FERDIMARK L. MARIANO (VP, SALES AND MARKETING)

THE GENESIS CONSOLE

The Genesis is e-Magine's initial foray into the world of hardware design and development. It is a compact gaming console which can be easily set up on a bar counter or tabletop. With a touch-screen console, players can easily select their desired game. Ticket-In, Ticket-Out technology minimizes the need for an attendant since the machine readily accepts money and tickets. Operators also benefit, as there will be less manpower required and the console can automatically reject counterfeit bills. With all these features, the Genesis is a bold leap forward for e-Magine and the gaming industry.

The Genesis will be initially rolled out in the e-Games Dili café in Timor Leste. PhilWeb Asia Pacific will be a key partner in distributing the Genesis machine in the region. Additionally, the gaming terminal will also be tested in PhilWeb's BigGame cafés.

With interest coming from overseas markets, the Company is looking into the customization of its product based on client-specific needs. Aside from the two initial models, the company is currently developing a third model that will be much smaller and have a different exterior.



HIGHLIGHTS OF 2012

e-Magine marked two significant milestones in 2012. The first was the establishment of the business as another revenue stream for PhilWeb Corporation and the second was the development of the Genesis console. After months of research and testing, the Company was able to showcase the product during the latest e-Games Operators' Meeting and demonstrate how it will ultimately change the way people play.

THE FUTURE OF E-MAGINE

In 2013, e-Magine will be faced with bigger challenges, given the completion of the Genesis console. The Company will be constructing a new plant to handle all its manufacturing requirements. Biñan, Laguna has been identified as the Company's chosen site. Aside from this, e-Magine is looking to build a new workforce and will be hiring aggressively to meet its staffing requirements. Also in the pipeline is the development of a new console, which will complement the existing Genesis hardware.

e-Magine's long-term vision is to make hardware that will last a long time and provide hours of gaming enjoyment to its end users. e-Magine's Sales and Marketing team can capitalize on its innate knowledge of existing PhilWeb products and tie it in with the new hardware when selling to prospective gaming establishments.

PEZA CERTIFICATION



E-MAGINE GAMING CORPORATION IS OFFICIALLY REGISTERED AS AN ECOZONE EXPORT ENTERPRISE BY THE PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA).

Premyo sa Resibo

Premyo sa Resibo (PSR) is the longest-running, SMS-based raffle program in the Philippines. Launched in 2006, the program, in partnership with the Bureau of Internal Revenue (BIR), encourages proper tax declaration from local establishments and professionals.



In order to join, consumers are asked to **text in their Official Receipt details** (TIN#, OR# and OR amount) to PhilWeb's special access numbers. Each valid transaction serves as a raffle entry to the PSR draws, during which the texter can win prizes up to a million pesos.

PhilWeb submits all the information gathered to the BIR for validation and cross-referencing with their list of registered establishments. This helps determine the legitimacy of receipts being issued to consumers nationwide.

In 2012, PSR received over nine million SMS entries, from over 900,000 official receipts representing over 100,000 establishments. Since its inception, the program has received 189 million SMS entries and given out ₱185 million in prizes.

FLORENTINO B. MAURICIO (CONSULTANT,
PREMYO SA RESIBO)

Business Development

As part of our vision to be the leading gaming technology provider in the region, PhilWeb continues to seek out new business opportunities with new partners in order to expand its existing catalogue of services.

In 2012, the Company teamed up with the Philippine Basketball Association (PBA) to offer the first Official PBA Trading Cards. Established in 1975, the PBA is Asia's oldest professional league. The last time PBA cards were released was ten years ago, making this 2013 set a timely collector's item. Globally, collecting trading cards of professional sports athletes is a lucrative practice. A good example of this is Michael Jordan's 1983 rookie card, which is currently valued at US\$80,000.

To get customers excited, each trading card comes with a chance to win instant prizes, with amounts ranging from ₱100 to ₱1,000,000. Over ₱20,000,000 in prize money will be given away, and one out of every six cards has a chance of winning. PBA Trading Cards are currently available in over 500 stores nationwide. The Department of Trade and Industry (DTI) regulates this promotion.



**BENJAMIN G. PARUNGO III (AVP,
PREMYO SA RESIBO AND BUSINESS
DEVELOPMENT)**

Corporate Services

FINANCE

The Finance Department's main objective is to develop and implement financial systems and internal control policies which would help the Company keep track of critical financial reports coming in from the Company's various revenue groups. With regard to e-Games, the department is responsible for ensuring that all receivables from e-Games cafés are collected and all receipts are recorded in a timely and accurate manner. e-Games operators are reminded to deposit their gross hold (GH) to a PhilWeb-nominated bank account or have their GH picked up by authorized riders.

To be able to keep track of new businesses developed by PWAP in other countries, the department is currently utilizing a customized financial software to gain real-time access to financial information on all of PWAP's offshore companies.

CUSTOMER SERVICES

The Customer Services Department of the Company is composed of two working groups, the Contact Center and Field Support, which attend to clients' needs 24/7, both locally and internationally.

The Contact Center responds to technical and daily operational issues of e-Games operators, and provides assistance to players regarding gaming-related concerns. The group makes use of all communication channels possible to respond to these queries and consistently meets stringent service level targets. In 2012, the Contact Center division has been able to streamline a lot of processes by narrowing them down to services that give more value for customers. Standardized processes have also been made to

cater to BigGame, Inc.'s needs and weekly calibrations have been enhanced in order to develop the processes, soft skills and overall system performance of the Company's revenue groups.

Meanwhile, the Field Support group has played a vital role in e-Games' expansion throughout the country. In 2012, the group has been able to install 1,464 terminals, bringing the total number of e-Games terminals to 6,754 nationwide. In addition to this, the group also supports the corrective and preventive maintenance of gaming and Point of Sale terminals in e-Games stations nationwide.



L - R:
ZALDY M. PRIETO (SVP AND CFO),
CLARIVIC S. VILLANUEVA (AVP, FINANCE),
GINA D. PINZA (AVP, CUSTOMER SERVICES)

For 2013, Customer Services is planning on putting up a satisfaction survey which will serve as the voice of the customers. This move will serve as a baseline for determining processes which are most important to customers, thereby increasing productivity. Also, preventive maintenance will be able to reach out to provincial sites. New processes and support systems will be made available to e-Games' international sites, in addition to the continuous improvement of training and various performance metrics already utilized by the Company.

INFORMATION TECHNOLOGY

PhilWeb's Information Technology division has three departments - Development, Infrastructure, and Network Operations Center (NOC) and Service Delivery. The IT Development Department is responsible for coding and programming all proprietary software used by PhilWeb's gaming products. One crucial software is Kronus, which enables efficient cash management in all 277 e-Games in the network. Kronus is a POS system which loads the terminals with player credits.

Another important component of PhilWeb's IT division is its NOC. This 24/7 group is manned by highly skilled individuals who respond to different IT problems, from network related issues to software concerns. They are the first line of support. Specific problems are handled by subject matter experts, which are then escalated accordingly.

The Quality Assurance Team, which is also part of the NOC and Service Delivery Department, is responsible for testing all of PhilWeb's software before they are released to the different e-Games cafés, scratch and mobile operations and The Sweeps Center.

The PhilWeb IT division also helps put together new devices such as e-Magine's gaming terminal. They also handle development for PWAP's products, such as Kick for Gold and The Sweeps Center.



ALBERT P. DELA CRUZ (SVP AND CTO)

HUMAN RESOURCES AND ADMINISTRATION

In 2012, the Human Resources and Administration Department grew with the Company. With a bigger team, the department has spent the past year ensuring that the Company's employees receive efficient compensation and benefits services and greater opportunities for growth. The past year saw an improvement in employee health benefits, most notable of which has been allowing married employees to register their parents as beneficiaries of their health plan. A new employee orientation program was conceptualized, wherein lectures are held to inform new hires about the various processes, benefits and opportunities within the Company, and to help them assimilate into the Company's culture.

To drive the Company's growth in and out of the Philippines, PhilWeb's Management Trainee Program actively searches for and develops young talent into exceptional business leaders. Management Trainees undergo a year-long rotational program where they are exposed to different types of operations, management viewpoints, and company practices and policies that affect each phase of the business. Already on its fifth year, the program has successfully launched the careers of some of PhilWeb's leaders.

In addition to these, there has also been a significant increase in the number of employee cooperatives targeted to empower the members of staff and encourage them to take on bigger tasks both inside and outside the Company. Interdepartmental processes, specifically that with the department's Purchasing section, have become more streamlined and overall efficiency among the Company's staff members has been increased. Various operations have been, and are continuously being, improved in order to better cater to the demands of the growing Company.



CARLA S. VARGAS-NUYDA (AVP, HR AND ADMINISTRATION)

Corporate Social Responsibility

The Company recognizes that its primary responsibility is to its stakeholders. This responsibility extends beyond financial results, and includes its social responsibility to the community at large.

As PhilWeb grows and delivers profits to its stakeholders, it also amasses resources that can make a positive difference in the lives of the less privileged. In 2012, the Company continued to explore ways in which it can impact the community it serves for the better. By being responsible corporate citizens, the management is confident that PhilWeb can be a positive force in transforming society.

PHILWEB FOUNDATION, INC.

PhilWeb established the PhilWeb Foundation in June 2010, with the commitment of donating one percent of the Company's annual profit to the Foundation.

The Foundation aims to create nationwide sustainable programs focused on alleviating poverty, improving standards and accessibility to education, and improving the welfare of deserving communities.

In August 2012, rains brought about by the southwest monsoon or "*hanging habagat*" caused extensive damage across Metro Manila and its outlying provinces. In late 2012, strong Tropical Cyclone Bopha (PAGASA name: Pablo) brought a state of calamity to the southern Philippine island of Mindanao. The Foundation quickly responded to those affected by both calamities by donating food, clothes, blankets, first aid kits and clean water for immediate relief efforts. Additional donations were also collected from PhilWeb

employees through the Human Resources Department.

In 2012, the PhilWeb Foundation also sponsored two students and provided them with scholarships to the University of the Philippines. These two scholars have been provided their full tuition and living allowance. The Foundation will continue to support these young, talented individuals and will enroll them in PhilWeb's Management Training Program upon graduation.

In 2013, the Foundation plans on expanding the scholarship program to other schools. Fifteen desktop computers have already been donated to the Balesin Integrated School, a school situated in Balesin Island in Quezon province.

The PhilWeb Foundation recognizes that education can change lives, and thus is dedicated to its educational scholarship programs.

Press Quotes

PhilWeb 2011 Net Income Surges by 45%

February 14, 2012

PhilWeb Corporation, the country's first and largest listed online technology firm, reported a record net income of ₱914 million, 45% greater than 2010's ₱708 million. The surge of profit was made possible with the strong growth of its core e-Games café business as well as its new endeavors in the Asia Pacific region. It has been the sixth year in a row that the Company has reported net income growth which is just shy of reaching the billion peso mark.

The Company has gained recognition for being part of Forbes Asia magazine's 2011 Best Under a Billion list. PhilWeb has also garnered attention for being one of the most significant contributors of revenue to PAGCOR.

PhilWeb declares dividends

February 17, 2012

PhilWeb Corporation, the regional gaming solutions provider, announced on February 16, 2012 that its Board of Directors had approved two dividends. The first is a cash dividend of ₱0.10 per share, payable on March 16, 2012 to stockholders of record as of March 1, 2012. The total dividend will be ₱126 million.

The Board also declared a 20% stock dividend, payable in May 30, 2012, with the total stock dividend of 252 million shares. These shares will be taken from the existing unissued shares of the Company.

Ongpin-led PhilWeb's Q1 profit jumps 40%

ABS-CBNnews.com

April 19, 2012

PhilWeb Corporation, the country's first and largest listed online technology firm, reported a net income of ₱243 million, a 40% growth from 2011, in the first quarter of 2012. The Company's unaudited financial statements for the first quarter posted revenues of ₱343 million which is 25% higher than the previous year. Operating income has also reached an all-time high according to President Dennis Valdes. The strong first quarter results are attributed to the growth of e-Games café network, pushing into new markets (specifically the Asia Pacific region), and investments in ISM Corporation and Acentic GmbH.

Companies' governance efforts recognized

Business World Online

May 30, 2012

PhilWeb Corporation was honored with a silver citation in Institute of Corporate Directors' (ICD) Corporate Governance Scorecard. Silver citations hold scores of 90-94% and are scored based on shareholder rights, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and board responsibilities.

PhilWeb Receives "Silver" Citation in 2012 ICD Corporate Governance Awards

June 1, 2012

Filipino companies that practice good corporate governance and proper disclosure of policies to their stakeholders are honored annually in the Corporate Governance Awards. PhilWeb Corporation, the leading regional gaming provider, was given a Silver Award for Corporate Governance by the Institute of Corporate Directors. PhilWeb Corporation, a first time awardee, merited an overall average score of 90.03%.

ePLDT sells PhilWeb equity for ₱4.275B

GMA News
July 11, 2012

A signing of share purchase agreement amounting to ₱4.257 billion transpired between PhilWeb Corporation and Philippine Long Distance Telephone Company (PLDT) on July. ePLDT, Inc., a PLDT wholly owned unit, will hand over 27% equity or 397.892 million shares in PhilWeb. PhilWeb's cash on hand is sufficient to pay for the acquired shares.

This agreement stemmed from ePLDT Inc.'s decision of wanting to realize its profits which made over 660% return for the past six years. Both companies will however maintain their relationship and will continue to work together in mutually beneficial projects.

PhilWeb to infuse ₱100 million into new manufacturing unit

By: Cliff Harvey C. Venzon
Business World Online
August 5, 2012

PhilWeb Corporation will invest ₱100 million in a new venture that aims to create gaming terminals for its local network of e-Games cafés and international business undertakings. The planned gaming terminals will integrate all its gaming software while enhancing security and functionality in the gaming experience. PhilWeb has also hired Joseph Pisano as President, who is a gaming veteran that currently stands as the President of Jade Entertainment and Gaming Technologies, Inc. PhilWeb President Dennis Valdes expresses his enthusiasm over the new ventures as they will improve the overall gaming experience.

PhilWeb Nets ₱681M, Up 24%

Manila Bulletin

November 4, 2012

PhilWeb Corporation, the country's first and largest listed online technology firm, reported a net income of ₱681 million for its first three quarters, which is 24% higher than the previous year. The increase in net income was due to the excellent performance of the Company's e-Games cafés.

PhilWeb Asia Pacific Corporation, a subsidiary of PhilWeb Corporation, makes up 8% of the Company's total revenue of ₱1.08 billion. PhilWeb President Dennis Valdes believes that PWAP will be the forerunners of revenue growth in the years to come. In addition, Michael Grandinetti, President of PWAP, mentioned the construction and expansions being done in the different countries of the Asia Pacific region for PWAP. They envision an increase in growth for PWAP for 2013 and in years to come.

PhilWeb announces share buyback

GMA News Online

November 22, 2012

Internet-gaming company, PhilWeb Corporation has declared a buyback program of its shares. The Company is at a favorable position where their stocks are trading at low levels and they can gather all available shares in order to enhance shareholder value. The PhilWeb Management will also take responsibility in handling the buyback, from timing to the number of shares and its prices. With the Company's excess cash yielding relatively low results and the Company's continued growth it is seen that the buyback is the most practical course of action.

Disclosures

Feb. 15, 2012

The Company's Board of Directors declared a cash dividend of ₱0.10 per share, payable on 16 March 2012, to shareholders of record as of 1 March 2012. The total dividend payment will amount to ₱126,155,597.10, based on the total 1,261,555,971 outstanding shares of stock of the Company.

The Company has informed the Exchange that Mr. Michael T. Grandinetti has been elected as director of PhilWeb during the regular meeting of the Company's Board of Directors.

April 19, 2012

During the meeting of the Stock Option Plan Committee of PhilWeb Corporation ("WEB"), the Committee approved the awarding to selected officers and employees of options to subscribe to a total of 8,900,000 WEB common shares at a price of ₱14.00 per share, equivalent to a 14% discount over the average closing price of WEB common shares for the thirty trading days preceding the grant, exercisable in accordance with the Company's Stock Option Plan.

The stockholders, representing not less than two-thirds (2/3) of the outstanding capital stock, approved the declaration of a twenty percent (20%) stock dividend payable on 30 May 2012 to shareholders of record as of 4 May 2012. The 252,311,194 shares of stock to be issued to the stockholders under the stock dividend declaration will be taken from the existing unissued shares of the Company.



**L - R:
ATTY. RODOLFO MA. A. PONFERRADA (SVP AND LEGAL COUNSEL) AND
ATTY. RAYMUND S. AGUIÑO (AVP, LEGAL)**

July 10, 2012

ePLDT, Inc. (ePLDT), a wholly owned subsidiary of Philippine Long Distance Company (PLDT), and PhilWeb have informed the Exchange that ePLDT and PhilWeb signed a Share Purchasing Agreement covering 397,892,307 common shares of PhilWeb, representing approximately 27% of the then outstanding capital of PhilWeb.

Atty. Rodolfo Ma. A. Ponferrada was elected by the Executive Committee of the Board of Directors to replace and serve the unexpired term of Atty. Cliburn Anthony A. Orbe as Corporate Secretary, Executive Committee Secretary and Compliance Officer. Atty. Orbe has taken on the role of Vice President - Visayas/Mindanao to oversee PhilWeb Corporation's business in the Visayas and Mindanao regions. Atty. Raymund S. Aquino was elected as Deputy Compliance Officer. Attys. Ponferrada and Aquino were also elected as Corporate Information Officers.

Sept. 24, 2012

The Company's Board of Directors declared a cash dividend of ten centavos (₱0.10) per share, payable on 15 October 2012, to shareholders of record as of 8 October 2012.

Oct. 18, 2012

The Company disclosed to the Exchange the following transactions agreed upon the morning of 18 October 2012:

1. PhilWeb Casino Corporation ("PCC"), a wholly owned subsidiary of the Company, acquired 93,457,944 shares of the Company at a price of ₱10.70 per share. These shares comprise the first tranche of shares that the Company acquired from ePLDT,

Inc. (“ePLDT”) last 13 July 2012, also at ₱10.70 per share. The sales will be transacted at the facilities of the Exchange as soon as the approval for the special block sales is obtained.

2. PCC, on behalf of the Company, accelerated the acquisition of the second tranche of shares from ePLDT. Under the Share Purchase Agreement dated 10 July 2012 between the Company and ePLDT, the acquisition of the second tranche of shares (also numbering 93,457,944 shares of the Company at the same price of ₱10.70 per share) was scheduled to be made on 12 December 2012. The sale will be transacted at the facilities of the Exchange as soon as the approval for the special block sale is obtained.
3. The Company and PCC entered into a Placement Agreement with UBS AG and Religare Capital Markets (Hong Kong) Limited acting as placement agents for the sales of 137,500,000 shares of the Company to qualified buyers at a price of ₱15.00 per share or a total aggregate price of ₱2,062,500,000. The sale by PCC, as the selling shareholder, to the qualified buyers procured by the placement agents will be transacted at the facilities of the Exchange as soon as the closing of the aforementioned transactions of PCC with the Company and ePLDT has completed and the approval for the special block sale for the 137,500,000 shares to be sold to qualified buyers as described in this item (3) is obtained.
4. PCC is expected to earn a gain from the sale to the investors procured by the placement agents. PCC is likewise expected to declare

the gain as dividends to the Company as soon as practicable and subject to available unrestricted retained earnings.

Nov. 22, 2012

The Company disclosed to the Exchange that during the recent Board Meeting, the Corporation approved a share buy-back program. The Board of Directors delegated the timing, the acquisition prices and other terms of the buy-back to what the management may deem appropriate and beneficial for the Company. The Company shall report to the Exchange each time it acquires shares under this program.

Nov. 26, 2012

PhilWeb wrote to the Exchange in response to the latter's letter dated 23 November 2012 regarding the Board approval of buy-back program. On the information being requested, the Company's Board of Directors delegated the determination of the parameters of the buyback to the Company's executive committee. The timing, amount of shares, acquisition price and the duration of the buyback will be determined in accordance with what is beneficial to the Company.

Board of Directors

ROBERTO V. ONGPIN was elected Director and Chairman of the Board in January 2000, the year he founded the Company. He is the Chairman of the following Philippine listed Corporations: ISM Communications Corporation, Alphaland Corporation and Atok-Big Wedge Co., Inc., and is a Director of San Miguel Corporation, Ginebra San Miguel, Inc., PAL Holdings, Inc. and Petron Corporation. Mr. Ongpin is also a Director of Philippine Airlines, Inc. and Top Frontier Investment Holdings, Inc. He is also Chairman of Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc. and Alphaland Marina Club, Inc. In Hong Kong, he is a Non-Executive Director of Shangri-La Asia Limited and the Deputy Chairman of the South China Morning Post, both listed on the Hong Kong Stock Exchange. He is also the Chairman of Acentic GmbH (Germany) and a Non-Executive Director of Forum Energy PLC (London). Mr. Ongpin joined SGV & Co. in 1964 and was Chairman and Managing Partner of the firm from 1970 to 1979. He served as the Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. Mr. Ongpin graduated cum laude in Business Administration from the Ateneo de Manila University, is a Certified Public Accountant and has an MBA from the Harvard Business School.

ERIC O. RECTO was elected Vice Chairman in July 2006 after having been President and Director of the Company since March 2005. He is the Chairman of the Philippine Bank of Communications, the Vice Chairman of Alphaland Corporation, The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Marina Club, Inc. and Atok-Big Wedge Co., Inc.; the President of Petron Corporation and ISM Communications Corporation; a Director of the Manila Electric Company and San Miguel Corporation; and a Member of the Board of Supervisors of Acentic GmbH. Prior to joining the Company, Mr. Recto served for three years as an Undersecretary of the Department of Finance of the Philippine Government in charge of handling both the International Finance Group and the Privatization Office. Before his work with the government, he was the CFO of Alaska Milk Corporation and prior to that, Belle Corporation. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines as well as an MBA from the Johnson School, Cornell University.

RAY C. ESPINOSA was elected Vice Chairman of the Company in June 2006. He is President and CEO of Mediaquest Holdings, Inc., ABC Development Corporation (TV5), Mediascape, Inc. (Signal TV), Nation Broadcasting Corporation and other subsidiaries of Mediaquest Holdings, Inc. He is also a member of the Board of Trustees of the PLDT Beneficial Trust Fund. He is also a Director of the Philippine Long Distance Telephone Company (PLDT), Manila Electric Co., Meralco PowerGen Corporation and Metro Pacific Investments Corporation, an Independent Director of Lepanto Consolidated Mining Company. He also serves as General Counsel of Manila Electric Company and Head of Regulatory Affairs and Policy of Philippine Long Distance Telephone Company. Prior to joining the PLDT group in 2000, Mr. Espinosa was a law partner in SyCip Salazar Hernandez & Gatmaitan from December 1982 to June 2000, the largest law firm in the Philippines, and was a member of the firm's Executive Committee. He was a law lecturer in Ateneo de Manila School of Law from 1983 to 1985 and in 1989. Mr. Espinosa finished his Bachelor of Laws degree at the Ateneo de Manila University (and graduated Salutatorian of his graduating class) and his Master of Laws degree at the University of Michigan Law School. After finishing his Master of Laws degree, he worked as a foreign associate in Covington & Burling from September 1987 to August 1988, the largest law firm in Washington, D.C., USA. He placed first in the Philippine Bar examinations of 1982.

DENNIS O. VALDES was elected Director of the Company in July 2006. He is the President of the Company, a Director of ISM Communications Corporation, and serves as Director and Treasurer 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 is the Chairman and President of Alsons Consolidated Resources, Inc., Alto Power Management Corp., Alsons Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc., among others. He is a Director of Holcim Philippines and DBP-Daiwa Securities Corp. He studied at

the Ateneo de Manila University, the Columbia University Graduate School of Business, and the Harvard Business School. He was formerly the Chairman of the Manila Economic and Cultural Office (MECO) and served the Philippine government in various capacities as Undersecretary for Industry and Investments, Department of Trade and Industry, Vice Chairman and Managing Head of the Board of Investments, and Special Envoy of the President of the Philippines to APEC.

RAMON S. ANG was elected Director of the Company in November 2001. He is currently the Vice Chairman, President and COO of San Miguel Corporation, the Chairman and CEO of Petron Corporation and the Vice Chairman of the Manila Electric Company (MERALCO). He holds the positions of Chairman, President or Director of over 35 companies related to or subsidiaries of San Miguel Corporation, and is also the Chairman of Liberty Telecoms Holdings, Purefoods-Hormel Company, Inc., Philippine Diamond Hotel & Resort, Inc., Magnolia, Inc. and Cyber Bay Corporation. He is also an Independent Director of Alphaland Corporation. He was previously the CEO of Paper Industries Corporation of the Philippines (PICOP) and the Executive Managing Director of Northern Cement Corporation, among others. He has a BS degree in Mechanical Engineering from Far Eastern University.

BENITO R. ARANETA was elected Independent Director of the Company in March 2003. He is the Director of the Araneta Properties, Inc., Southeast Asia Cement Corp., and Honda Philippines, Inc.

ROBERT CREAGER was elected Director of the Company in February 2010. He is currently a Member of the Board of Supervisors of Acentic GmbH, a company registered in Germany, but headquartered in the U.K. which was acquired by PhilWeb and ISM Communications Corporation in December 2009. Acentic is an international provider of digital and internet protocol converged services to hotels, tourism facilities, and healthcare premises, as well as high-speed internet access (HSIA) in many of the world's leading hotel chains including Accor, Dorint, Intercontinental Hotel Group, Hilton, Hyatt, Maritim, Marriott, Movenpick and Starwood in more than 30 countries in Europe, Middle East and Africa. Mr. Creager was the founder of MagiNet Corporation, currently known as DoCoMo Intertouch, which is the largest provider of in-room interactive television and HSIA services for the hospitality industry in Asia. He also served as the Executive Vice President of TVU Networks Corporation and was formerly the CEO of AMG Media Vision Inc.

CRAIG EHRLICH was elected Director of the Company in May 2002. He is the former longtime Chairman of the GSM Association (GSMA), a global trade association. He is a Board Member of the International Telecommunications Union (ITU), Bharti Airtel, India's largest (by market capitalization) telecommunications company, the Chairman of Carmel Ventures Asia, and the Founding Chairman of Novare Technologies Ltd., a Hong Kong software development company. He was the former group Managing Director of Sunday Communications Limited, a Hong Kong mobile operator. In the Philippines, he is the Director and Vice Chairman of ISM Communications Corporation. Mr. Ehrlich, a Hong Kong resident since 1987, holds a BA degree from the University of California in Los Angeles, a Masters degree from Occidental College, and a postgraduate fellowship with the Coro Foundation. Craig is also a member of UCLA/Peking University Joint Research Institute Advisory Committee and a Founding Chairman of the Centre for Global Management at the UCLA Anderson School.

MARIO J. LOCSIN was elected Director of the Company in January 2000. He is also currently the Executive Vice President and Director of ISM Communications Corporation, Vice Chairman and Director of the Philippine Bank of Communications, Director of Alphaland Corporation and Atok-Big Wedge Co., Inc. He is also President of Inpilcom, Inc. as well as Independent Director of Alphaland Balesin Island Club, Inc. and The City Club at Alphaland Makati Place, Inc. In the past, he served as the President and COO of Eastern Telecommunications Philippines, Inc., President of Atok-Big Wedge Co., Inc., a Director of Belle Corporation, APC Group, Southwest Resources, Philippine Long Distance Telephone Co. and Pilipino Telephone Co., as well as a Director, Executive Vice President and COO of Philippine Airlines. Mr. Locsin is a consultant of Acentic Asia Ltd. He holds a degree in LIA-Honors Math from De La Salle University and a degree of Masters in Business Administration from the University of San Francisco.

MARIO A. ORETA was elected Independent Director of the Company in March 2005. He is also the President and Director of Alphaland Development, Inc., Alphaland Balesin Island Resort Corporation, Alphaland Makati Place, Inc., Alphaland Makati Tower, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Marina Corporation, Alphaland Marina Club, Inc., Aklan Boracay Properties, Inc., Alphaland Heavy Equipment Corporation, and Alphaland Property Management Corporation, the Vice Chairman of Alphaland Reclamation Corporation; and Chief Operating Officer of Jet Eagle International Limited, Inc. He is the

Chairman of Major Holdings, Inc., Major Properties, Inc., and Major Homes, Inc. He is also a Director of ISM Communications Corporation, and Atok-Big Wedge Co., Inc., Toyota Pasong Tamo, Inc. and Toyota Global City. Mr. Oreta graduated with honors from the Ateneo de Manila University with a degree in Bachelor of Laws and immediately joined the law firm of Siguion Reyna, Montecillo and Ongsiako. He was also the Founder and Managing Partner of Tanjuatco 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 Itogon-Suyoc Resources, Inc., and Vice President and Director of ISM Communications Corporation. He was a Director of 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.

DELFIN J. WENCESLAO, JR. was elected Director of the Company in May 2004. He is presently the Chairman and President of D.M. Wenceslao & Associates, Inc., Aseana Holdings Inc., the President and Director of Bay Dredging, Inc., and Bay Resources and Development Corporation, the Managing Director of R-I Consortium, and a Director of Private Infrastructures Development Corp. (PIDC), Alphaland Corporation, and Atok-Big Wedge Co., Inc. He is also the Chairman of the Capitol Jaycee Senate Foundation and the Katipunan ng Mamamayan ng Bagong Parañaque. Mr. Wenceslao graduated from the Ateneo de Manila University with a Bachelor of Science degree in Economics (1964) and earned his MBA and DBA from the Pamantasan ng Lungsod ng Maynila.

MICHAEL T. GRANDINETTI was elected Director of the Company in February 2012. Mr. Grandinetti is currently the President of PhilWeb Asia-Pacific Corporation. He was a director of eTelecare International (Philippines) and SPI Technologies (Philippines). He is a U.S. Certified Public Accountant and is a member of the American Institute of Certified Public Accountants.



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

The management of PhilWeb Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.


KPMG – Manabat Sanagustin & Co., the independent auditors, appointed by the stockholders has examined 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 examination.



ROBERTO MONGPIN
Chairman



DENNIS O. VALDES
President



ZALDY M. PRIETO
SVP & Chief Finance Officer



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Branches: Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, 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, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PhilWeb Corporation and Subsidiaries as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

A handwritten signature in black ink, appearing to read 'Arthur Z. Machacon', written over a circular stamp or seal.

ARTHUR Z. MACHACON

Partner

CPA License No. 0090279

SEC Accreditation No. 1189-A, Group A, valid until February 15, 2015

Tax Identification No. 164-607-040

BIR Accreditation No. 08-001987-29-2011

Issued November 3, 2011; valid until November 2, 2014

PTR No. 3669515MC

Issued January 2, 2013 at Makati City

February 11, 2013

Makati City, Metro Manila

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	<i>Note</i>	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	4	P1,052,170,913	P900,669,483
Accounts receivables - net	5, 15	266,820,041	228,753,540
Inventories	6	9,948,126	3,343,922
Notes receivables	7, 9	497,215,526	269,342,991
Prepaid expenses and other current assets	8	104,048,307	67,389,874
Total Current Assets		1,930,202,913	1,469,499,810
Noncurrent Assets			
Investments in associates	9	1,073,067,311	1,664,795,008
Noncurrent receivable	9	486,000,000	-
Property and equipment - net	10	280,576,031	216,981,199
Deferred tax assets	14	2,797,794	4,148,209
Other noncurrent assets	11	42,458,993	35,580,345
Total Noncurrent Assets		1,884,900,129	1,921,504,761
		P3,815,103,042	P3,391,004,571
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	12	P254,565,832	P173,266,792
Noncurrent Liabilities			
Retirement benefits liability	20	18,749,552	13,759,358
Operators' deposits	21	48,300,000	42,300,000
Total Noncurrent Liabilities		67,049,552	56,059,358
Total Liabilities		321,615,384	229,326,150
Equity			
Capital stock	16	1,388,913,231	1,111,482,037
Surplus from write-down of capital stock	16	341,433	341,433
Additional paid-in capital	16	1,081,495,933	536,154,223
Stock options reserve		4,422,064	-
Retained earnings		2,073,440,049	1,509,777,252
Cumulative translation adjustment		(3,168,962)	-
Treasury stock	16	(1,060,476,020)	(126,492)
		3,484,967,728	3,157,628,453
Non-controlling interest		8,519,930	4,049,968
Total Equity		3,493,487,658	3,161,678,421
		P3,815,103,042	P3,391,004,571

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	<i>Note</i>	2012	2011	2010
REVENUES				
Internet application services		P1,161,787,503	P993,400,836	P896,855,047
Commission		183,311,753	142,183,577	142,998,688
Scratch cards		138,490,667	29,483,300	-
		1,483,589,923	1,165,067,713	1,039,853,735
OPERATING EXPENSES				
Salaries and benefits	<i>15, 17, 20</i>	151,846,106	119,649,548	92,341,048
Depreciation and amortization	<i>10</i>	96,727,428	79,227,049	80,255,411
Outsourced services		85,321,188	65,106,440	53,437,837
Rental	<i>19</i>	60,201,799	40,575,558	45,656,035
Utilities and communications		58,186,003	44,061,893	40,246,520
Representation and entertainment		50,124,463	53,137,694	51,172,851
Supplies		28,719,474	8,572,286	7,616,792
Operator incentives and commissions		24,647,224	4,615,783	3,525,778
Impairment losses	<i>8</i>	19,145,556	4,455,336	18,455,454
Professional fees		16,744,483	18,144,594	19,805,853
Advertising and promotion		15,893,244	4,207,256	10,900,029
Taxes and licenses		15,025,769	11,606,034	10,461,508
Donation & sponsorship		9,541,315	10,275,141	3,375,225
Miscellaneous		207,839	4,204,319	773,776
		632,331,891	467,838,931	438,024,117
OPERATING INCOME		851,258,032	697,228,782	601,829,618
OTHER INCOME (CHARGES)				
Gain on sale of equity investment	<i>9</i>	181,242,227	-	-
Equity in net earnings of associates	<i>9</i>	39,906,058	182,222,663	4,106,742
Interest income	<i>7</i>	36,644,180	44,130,837	35,066,148
Interest expense	<i>13</i>	-	(1,026,432)	(14,069,119)
Miscellaneous - net		126,000	(411,105)	2,052,041
		257,918,465	224,915,963	27,155,812
INCOME BEFORE INCOME TAX		1,109,176,497	922,144,745	628,985,430
INCOME TAX EXPENSE	<i>14</i>	12,889,548	8,070,075	-
NET INCOME		1,096,286,949	914,074,670	628,985,430
OTHER COMPREHENSIVE LOSS				
Foreign exchange translation adjustment		(3,168,962)	-	-
TOTAL COMPREHENSIVE INCOME		P1,093,117,987	P914,074,670	P628,985,430
Net Income Attributable to:				
Equity holders of the Parent Company		P1,092,991,987	P915,695,014	P628,985,430
Non-controlling interest		3,294,962	(1,620,344)	-
		P1,096,286,949	P914,074,670	P628,985,430
EARNINGS PER SHARE:				
Basic	<i>18</i>	P0.7411	P0.6049	P0.4179
Diluted		0.7411	0.6049	0.4179

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31						
Note	2012		2011		2010	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK						
Authorized						
Common shares - P1 par value	2,600,000,000		2,600,000,000		2,600,000,000	
Issued and outstanding						
Common shares at beginning of year	1,048,063,685	P1,048,063,685	1,047,730,351	P1,047,730,351	1,011,130,315	P1,011,130,315
Stock dividends	252,311,194	252,311,194				
Issuances of common shares	50,240,000	50,240,000	333,334	333,334	36,600,036	36,600,036
Common shares at end of year	1,350,614,879	1,350,614,879	1,048,063,685	1,048,063,685	1,047,730,351	1,047,730,351
Subscribed						
Subscribed shares at beginning of year	213,618,780	63,418,352	213,952,114	63,625,018	238,618,780	63,418,352
Issuance of common shares (net of subscription)	(50,240,000)	(25,120,000)	(333,334)	(206,666)	(24,666,666)	206,666
Subscribed shares at end of year	163,378,780	38,298,352	213,618,780	63,418,352	213,952,114	63,625,018
	1,513,993,659	1,388,913,231	1,261,682,465	1,111,482,037	1,261,682,465	1,111,355,369
SURPLUS FROM WRITE-DOWN OF CAPITAL STOCK						
	16	-	341,433	-	341,433	-
ADDITIONAL PAID-IN CAPITAL						
Balance at beginning of year	-	536,154,223	-	535,660,889	-	506,280,305
Additions during the year	16	-	545,341,710	-	493,334	29,380,584
Balance at end of year	-	1,081,495,933	-	536,154,223	-	535,660,889
STOCK OPTIONS RESERVE						
Balance at beginning of year		-		-		22,584,066
Cost of stock option	16	4,422,064		-		-
Exercised		-		-		(22,005,051)
Forfeited/expired		-		-		(579,015)
Balance at end of year		4,422,064		-		-
RETAINED EARNINGS						
Balance at beginning of year		1,509,777,252		846,393,432		343,240,264
Cash dividends	16	(277,017,996)		(252,311,194)		(125,832,262)
Stock dividends	16	(252,311,194)		-		-
Net income		1,092,991,987		915,695,014		628,985,430
Balance at end of year		2,073,440,049		1,509,777,252		846,393,432
CUMULATIVE TRANSLATION ADJUSTMENT						
		-	(3,168,962)	-	-	-
TREASURY STOCK - At cost						
Balance at beginning of year	16	(126,492)	(126,492)	(126,492)	(126,494)	(126,494)
Acquisition during the year		(227,001,188)	(2,540,791,229)	-	-	-
Reissuance of shares		137,500,000	1,480,441,701	-	-	-
Balance at end of year		(89,627,680)	(1,060,476,020)	(126,492)	(126,492)	(126,494)
NON-CONTROLLING INTEREST						
Balance at beginning of year		-	4,049,968	-	2,200,000	-
Increase in non-controlling interest		-	1,175,000	-	3,470,312	-
Net income (loss) for the year		-	3,294,962	-	(1,620,344)	-
Balance at end of year		-	8,519,930	-	4,049,968	2,200,000
		-	P3,493,487,658	-	P3,161,678,421	P2,495,824,629

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	<i>Note</i>	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P1,109,176,497	P922,144,745	P628,985,430
Adjustments for:				
Depreciation and amortization	<i>10</i>	96,727,428	79,227,049	80,255,411
Impairment losses		19,145,556	4,455,336	18,455,454
Retirement benefits cost	<i>20</i>	4,990,194	4,909,761	3,075,953
Loss (gain) on disposals of property and equipment		(126,000)	(352,817)	833,125
Gain on sale of equity investment	<i>9</i>	(181,242,227)	-	-
Equity in net earnings of associates	<i>9</i>	(39,906,058)	(182,222,663)	(4,106,742)
Interest income		(36,644,180)	(44,130,837)	(35,066,148)
Interest expense		-	1,026,432	14,069,119
Unrealized foreign exchange loss (gain)		467,689	-	(4,654,781)
Cost of stock option	<i>17</i>	4,422,064	-	-
Operating income before working capital changes		977,010,963	785,057,006	701,846,821
Increase in:				
Receivables		(38,534,190)	(75,779,305)	(82,262,101)
Inventories		(6,604,204)	(3,343,922)	-
Prepaid expenses and other current assets		(55,803,989)	(26,794,174)	(26,562,026)
Increase (decrease) in:				
Accounts payable and accrued expenses		69,759,907	50,276,981	(15,403,645)
Cash generated from operations		945,828,487	729,416,586	577,619,049
Interest received		36,644,180	44,130,837	35,066,148
Interest paid		-	(1,026,432)	(14,069,119)
Net cash provided by operating activities		982,472,667	772,520,991	598,616,078
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	<i>10</i>	(160,322,260)	(104,745,052)	(74,199,285)
Proceeds from disposal of:				
Property and equipment		126,000	5,710,507	1,165,542
Equity investment	<i>9</i>	81,000,000	-	-
Decrease (increase) in:				
Notes receivable		(713,872,535)	266,905,000	(472,471,984)
Investments in associate		728,707,020	(6,999,900)	(658,432,096)
Other assets		(6,878,648)	(7,475,362)	13,972,311
Net cash provided by (used in) investing activities		(71,240,423)	153,395,193	(1,189,965,512)

Forward

		Years Ended December 31		
	<i>Note</i>	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in notes payable	<i>13</i>	P -	(P138,856,600)	P143,966,585
Proceeds from subscriptions to and issuances of common stock		570,461,710	620,004	43,603,220
Increase in operators' deposits	<i>21</i>	6,000,000	6,000,000	3,500,000
Increase in non-controlling interest	<i>9</i>	1,175,000	3,470,312	2,200,000
Acquisition of treasury shares	<i>16</i>	(1,060,349,528)	-	-
Cash dividends paid	<i>16</i>	(277,017,996)	(252,311,194)	(125,832,262)
Net cash provided by (used in) financing activities		(759,730,814)	(381,077,478)	67,437,543
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		151,501,430	544,838,706	(523,911,891)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<i>4</i>	900,669,483	355,830,777	879,742,668
CASH AND CASH EQUIVALENTS AT END OF YEAR	<i>4</i>	P1,052,170,913	P900,669,483	P355,830,777

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

PhilWeb 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 “PhilWeb.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 “PhilWeb.Com, Inc.” to “PhilWeb 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, which were all incorporated in the Philippines (PH), and special purpose entities (SPEs) incorporated in the British Virgin Islands, (collectively referred to as a the “Group”):

Subsidiaries	Line of Business	Date and Place of Incorporation
Wholly owned:		
PhilWeb Convergence Corporation	Internet access provider	September 6, 2000, PH
PhilWeb Cyberworld Corporation ^(a)	Operates internet cafes and kiosks	July 6, 2000, PH
PhilWeb Software Corporation ^(a)	Computer software programming and development services	April 3, 2000, PH
BigGame, Inc.	Operates internet casino station operations.	February 11, 2005, PH

Subsidiaries	Line of Business	Date and Place of Incorporation
Premyo sa Resibo, Inc.	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
PhilWeb Casino Corporation ^(a)	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
e-Magine Gaming Corporation ^(b)	Develops technology for the gaming industry.	May 8, 2007, PH
PhilWeb Leisure & Tourism Corporation ^(a)	Establishes, operates, and maintains leisure and tourism-oriented activities.	June 6, 2007, PH
PhilWeb Tourism and Entertainment Corporation ^(a)	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
PhilWeb International Gaming Corporation ^(c)	Engages in international gaming ventures including all forms of gaming which are legal in the countries in which it operates.	November 18, 2009, PH
PhilWeb Homeplay, Inc. ^(a)	Operate, as may be permitted by law, on-line websites and internet casinos	October 23, 2009, PH
PhilWeb Mobile Lottery Corp. ^(a)	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
PhilWeb Asia-Pacific Corp.	Engage in international gaming ventures including all forms of gaming which are legal in countries in which it will operate.	July 13, 2010, PH

Subsidiaries	Line of Business	Date and Place of Incorporation
PhilWeb (Cambodia) Ltd. ^(a)	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 café and other games of chance as they become legally available in the kingdom of Cambodia.	June 2, 2010, Cambodia
PhilWeb 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
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 cafés in October 2011.	May 20, 2011, Guam
Gold Scratch and Win Co., Ltd.	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
Best Choice Holdings, Inc. ^(a)	Engages to purchase, own, and hold stocks of other corporations and to do every act and thing covered generally by the denomination "holding corporation".	September 11 2012, PH
30% owned with control:		
Major Games and Amusement Corporation ^(d)	Establishes, operates and provides consultancy services with regards to amusement, recreational, gaming and gaming equipment facilities and enterprises of every kind and nature.	July 29, 2008, PH

Special Purpose Entities	Purpose
Immediate Focus Investments Limited ^(e) Leadwood Investments Limited ^(e) Now Gain Investments Limited ^(e) Nottendale Investments Limited ^(e)	Holds 2.285 billion shares of ISM Communications Corporation (ISM) which represents 1.19% ownership interest in ISM
Uscon Limited ^(f)	Holds 5.429 billion shares of ISM which represents 2.83% ownership interest in ISM

(a) Not in commercial operations as of December 31, 2012.

(b) Formerly PhilWeb Gaming Solutions Corporation (PGSC), change in registered business activity and business name were approved by SEC on July 17, 2012 and December 17, 2012, respectively.

(c) Currently the parent company of PhilWeb Asia Pacific Corporation.

(d) Became a subsidiary effective January 1, 2012. See Note 9.

(e) Acquired in 2007.

(f) Acquired in 2009.

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

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements as of and for the years ended December 31, 2012, 2011 and 2010 were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on February 11, 2013, respectively, as authorized by the BOD of the Parent Company. This is presented and also approved by the Parent Company's Audit Committee on February 1, 2013.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when control commences until the date when control ceases.

Special Purpose Entities

The Group has a number of SPEs 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 profit or loss and net assets not held by the Group and are presented in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the Group's equity attributable to equity holders of the Parent Company.

Transactions Eliminated on Consolidation

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The financial statements of the subsidiaries and SPEs are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis of accounting.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest peso unless otherwise stated.

Use of Estimates and Judgments

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

However, uncertainty about these estimates and judgments could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liabilities in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Group's consolidated financial statements is included in the following discussion:

Estimating Allowance for Impairment of Receivables and Other Current Assets

The Group maintains an allowance for impairment losses at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The review is accomplished using a combination of specific and collective assessment. 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 the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

As of December 31, 2012 and 2011, allowance for impairment losses on receivables amounted to P0.7 million (see Note 5). As of December 31, 2012 and 2011, allowance for impairment losses on input tax amounted to P76.9 million and P57.8 million, respectively (see Note 8). There is no impairment loss on inventory in 2012 and 2011.

Estimating Allowance for Impairment Losses on Non-financial Assets

The Group assesses impairment of non-financial 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.

Other assets from discontinued operations were fully provided with allowance for impairment loss amounting to P61.6 million as of December 31, 2012 and 2011 (see Note 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 net book value of the Group's property and equipment as of December 31, 2012 and 2011 amounted to P280.6 million and P217.0 million, respectively (see Note 10).

Estimating Realizability of Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets 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 reviews its projected performance in assessing the sufficiency of future taxable income.

The Group's deferred tax assets amounted to P2.8 million and P4.1 million as of December 31, 2012 and 2011, respectively. On the other hand, temporary differences relating to unrecognized deferred tax assets amounted to P157.0 million, P141.5 million and P123.5 million as of December 31, 2012, 2011 and 2010, respectively (see Note 14).

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 the consolidated statement of comprehensive income amounted to P4.4 million and nil for the years ended December 31, 2012 and 2011, respectively (see Note 16).

Operating Leases

The Group has entered into various lease agreements as lessee. 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 P60.2 million, P40.6 million, and P45.7 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 19).

Retirement Benefits Liability

The determination of the Parent Company's retirement liability and employee benefits is dependent on selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates, expected return on plan assets and salary increase rates. Actual results that differ from the Parent Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized income/expense and recorded asset/liability in such periods.

As of December 31, 2012 and 2011, retirement benefits liability amounted to P18.7 million and P13.8 million, respectively. Retirement benefits cost for the years ended December 31, 2012, 2011 and 2010 amounted to P5.0 million, P4.9 million and P3.1 million, respectively (see Note 20).

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 its 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 the Group's financial position (see Note 24).

3. Summary of Significant Accounting Policies

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

Adoption of New and Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the amendments to PFRS 7 below starting January 1, 2012 and accordingly, changed its accounting policies.

- *Disclosures - Transfers of Financial Assets* (Amendments to PFRS 7), require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

The adoption of these amendments to PFRS 7 did not have a material effect on the consolidated financial statements. Additional disclosures required by the amendments PFRS 7 were included in the consolidated financial statements, where applicable.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statement and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

The Group will adopt the following new or revised standards and amendments to standards in the respective effective dates:

To be Adopted in January 1, 2013

- *Presentation of Items of Other Comprehensive Income* (Amendments to PAS 1). The amendments:
 - require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
 - do not change the existing option to present profit or loss and other comprehensive income in two statements; and
 - change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. These amendments are effective for annual periods beginning on or after July 1, 2012 with earlier application permitted and are applied retrospectively.

- *Disclosures: Offsetting Financial Assets and Financial Liabilities* (Amendments to PFRS 7). These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:
 - offset in the statement of financial position; or
 - subject to enforceable master netting arrangements or similar agreements.

They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. These amendments will be effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- *PFRS 10 Consolidated Financial Statements*

PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.

An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

PFRS 10 supersedes PAS 27 (2008) *Consolidated and Separate Financial Statements* and Philippine Interpretation SIC-12 *Consolidation - Special Purpose Entities*. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *PFRS 11 Joint Arrangements*

PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It:

- distinguishes joint arrangements between joint operations and joint ventures; and
- always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation.

The Group may need to reclassify its joint arrangements, which may lead to changes in current accounting for these interests.

PFRS 11 supersedes PAS 31 *Interests in Joint Ventures* and Philippine Interpretation SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

▪ *PFRS 12 Disclosure of Interests in Other Entities*

PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures.

This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

▪ *PFRS 13 Fair Value Measurement*

PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

▪ *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to PFRS 10, PFRS 11, and PFRS 12)*

The amendments simplify the process of adopting PFRSs 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PAS 19 *Employee Benefits* (Amended 2011)

The amended PAS 19 includes the following requirements:

- actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
- expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

This amendment is effective for annual periods beginning on or after January 1, 2013 and is applied retrospectively with early adoption permitted.

- PAS 27 *Separate Financial Statements* (2011)

PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PAS 28 *Investments in Associates and Joint Ventures* (2011)

PAS 28 (2011) supersedes PAS 28 (2008) *Investments in Associates*. PAS 28 (2011) makes the following amendments:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

To be Adopted on January 1, 2014

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to PAS 32). These amendments clarify that:

- An entity currently has a legally enforceable right to set-off if that right is:
 - not contingent on a future event; and
 - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
- Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
 - eliminate or result in insignificant credit and liquidity risk; and
 - process receivables and payables in a single settlement process or cycle.

These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

To be Adopted on January 1, 2015

- PFRS 9 *Financial Instruments (2010)*, PFRS 9 *Financial Instruments (2009)*

PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

PFRS 9 (2010 and 2009) are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

The Group will assess the impact of the new or revised standards and amendments to standards on the consolidated financial statements upon adoption on their respective effective dates.

Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments comprise of cash and cash equivalents, accounts receivables, notes receivable, other assets, accounts payable and accrued expenses, 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 at trade date, i.e., the date that the Group commits itself to purchase or sell the asset.

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.

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, or available-for-sale (AFS) financial assets, as appropriate. The Group determines the classification of its financial assets and financial liabilities upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as of December 31, 2012 and 2011.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are recognized in profit or loss. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

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.

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 the consolidated statements of comprehensive income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks and is stated at its face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

The Group's cash and cash equivalents, accounts receivable, notes receivable and other noncurrent assets are included under this category (see Notes 4, 5, 7 and 11).

Other Financial Liabilities

This category pertains to financial liabilities that are not designated as at FVPL at the inception of the liability. This includes liabilities arising from operations or borrowings. These are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Classified under this category are the Group's accounts payable and accrued expenses, notes payable, and operators' deposits (see Notes 12, 13 and 21).

Derecognition of Financial Assets and Financial Liabilities

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

- the 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, cancelled or 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.

Inventories

Scratch cards of PhilWeb 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 net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

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 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. 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 they 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:

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

The useful lives and depreciation and amortization method 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 group of financial assets is impaired. A financial asset or 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 loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in profit or loss. Interest income continues to be recognized based on the effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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 was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If a future write-off is later recovered, any amounts formerly charged are recognized in profit or loss.

Non-financial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell 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. 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.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recognized in profit or loss. However, the increase in the carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

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 20 and 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 on the face of the consolidated statements of comprehensive income. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net on non-controlling interest in the subsidiaries of the associates. 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.

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative consolidated statements of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative period and show the results of discontinued operation separate from the results of continuing operation.

Capital Stock

Capital Stock composed of common stock is classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Non-controlling Interest

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 non-controlling interests are based on proportionate amount of the net assets of the subsidiary.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments.

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. Information on operating segments is presented in Note 23 to the consolidated financial statements.

Share-based Transactions

The Parent Company has a stock option plan for directors, officers and other key employees, 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 they are 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 reflects 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, as 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.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. 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.

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. Description of the Group's revenues are as follows:

Internet Application Service Income

Internet application service 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 net winnings from the sports betting and internet casino operations. For sports betting, net winnings is derived after deducting from gross bets the payout to winners, commissions to gaming operators, franchise taxes and software licensing fees. For internet casino, net winnings is derived after deducting from casino winnings the commissions to gaming operators, franchise taxes and software licensing fees. Also included in revenues are the software licensing fees the Parent Company receives from sports betting.

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 the Group's consolidated statements of comprehensive income.

Scratch Cards

Revenue from scratch cards is recognized when sold.

Commission Income

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

Interest Income

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 is recognized when earned.

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, 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 of 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 other comprehensive income, and presented in the "cumulative translation adjustment" in the consolidated statements of changes in equity.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided using the balance sheet liability method. 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.

Retirement Benefits

The Group accrues retirement benefits expense based on the provisions of Republic Act (R.A.) 7641. The Parent Company'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.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

In calculating the Group's obligation in respect to the plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, if any, of the previous period, the portion is recognized in the consolidated statements of comprehensive income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Earnings Per Share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company 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. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Provisions and Contingencies

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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 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.

4. Cash and Cash Equivalents

This account at December 31 consists of:

	2012	2011
Cash on hand and in banks	P797,743,477	P153,647,531
Short-term investments	254,427,436	747,021,952
	P1,052,170,913	P900,669,483

Cash in banks earns annual interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn annual interest at the prevailing short-term investment rate.

5. Accounts Receivable

This account at December 31 consists of:

	<i>Note</i>	2012	2011
Trade receivables		P87,394,464	P22,616,844
Claims from telecommunication companies		4,144,606	4,584,141
Receivable from PAGCOR		43,393,406	43,393,406
Receivables from PeGS operations		22,076,407	18,300,181
Advances to a related party	15	24,675,025	61,468,162
Advances to officers and employees		2,502,088	1,252,003
Advances to customers/suppliers		83,306,535	77,811,293
		267,492,531	229,426,030
Allowance for impairment losses		(672,490)	(672,490)
		P266,820,041	P228,753,540

Trade receivables are generally on a 30-day credit term.

Claims from telecommunication companies represent the amounts collectible for the Premyo sa Resibo's share in the value of the text entries of customers. These are short-term in nature and are recognized at fair value which approximates their amortized costs.

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. As at December 31, 2012, PAGCOR has not yet completed its review of the documentation.

Receivables from PeGS operations pertain to uncollected grosshold (cash) from PeGS operators. These are collected and deposited in the Parent Company's bank account the banking day following the reporting date.

6. Inventories

This account at December 31 consists of:

	2012	2011
Scratch cards - at cost	P8,251,317	P3,343,922
Gaming terminals - at cost	1,696,809	-
	P9,948,126	P3,343,922

Scratch card inventory includes purchase price and direct costs of scratch and win cards.

Cost of gaming terminals pertains to the cost of direct materials of gaming terminals such as computer box, monitors, bill validators and other computer parts.

7. Notes Receivable

This account at December 31, 2012 consists of notes receivable from third parties amounting to Euro 3.9 million and US\$0.95 million or equivalent to P215.2 million, and P39.0 million, respectively, and P243 million pertaining to the current portion of the receivables arising from sale of investment in Acentic as at December 31, 2012 (see Note 9). As at December 31, 2011, the balance consists of Euro 3.9 million and US\$1.0 or equivalent to P224.3 million, and P45.0 million, respectively.

- The Euro loan bears an interest of 90-day Euro LIBOR plus 550 basis points (bps). On October 18, 2011, Euro 4.2 million was paid by the borrower. The remaining balance will mature on December 23, 2013.
- The Dollar loan represent various drawdowns from the US\$1.5 million credit line extended by the Parent Company to a third party which bears interest at 7% per annum, payable in one year from drawdown date, inclusive of a one year grace period on the principal. Each drawdown is evidenced by a secured promissory note executed by the borrower in favor of the Parent Company.

The Company collected P6.0 million which is equivalent to US\$145.7 thousand and P13.8 million which is equivalent to US\$315 thousand in 2012 and 2011, respectively.

The interest income earned on the notes receivable amounted to P16.7 million, P29.5 million and P28.3 million for the years ended December 31, 2012, 2011 and 2010, respectively, as shown as “interest income” in the consolidated statements of comprehensive income.

8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2012	2011
Input value-added tax (VAT) , net of allowance for impairment losses	P64,897,788	P46,301,820
Prepaid rent	12,622,080	5,799,544
Prepaid license	10,817,960	5,651,404
Prepaid insurance	4,882,912	3,049,178
Other prepaid expenses	10,707,969	6,140,250
Other current assets	119,598	447,678
	P104,048,307	P67,389,874

The movements of the allowance for impairment losses in respect of input VAT during the year are as follows:

	Amount
Balance at January 1, 2011	P53,295,506
Impairment losses on input VAT	4,455,336
Balance at December 31, 2011	57,750,842
Impairment losses on input VAT	19,145,556
Balance at December 31, 2012	P76,896,398

9. Investments in Associates

This account at December 31 consists of:

	2012				Total
	ISM	Acentic	Alphaforce	Magcor	
Percentage ownership	24.3%	-	40.0%	-	
Cost of investment:					
Balance at beginning of year	P542,952,113	P658,432,096	P3,999,900	P3,000,000	P1,208,384,109
Investments	-	-	-	-	-
Disposal/transfer	-	(658,432,096)	-	(3,000,000)	(661,432,096)
Balance at end of year	542,952,113	-	3,999,900	-	546,952,013
Accumulated equity in net earnings (losses):					
Balance at beginning of year	463,358,491	(6,614,103)	(209,471)	(124,018)	456,410,899
Equity in net earnings (losses) for the year	63,031,932	(23,060,220)	(65,654)	-	39,906,058
Disposal/transfer	-	29,674,323	-	124,018	29,798,341
Balance at end of year	526,390,423	-	(275,125)	-	526,115,298
	P1,069,342,536	P -	P3,724,775	P -	P1,073,067,311
	2011				Total
	ISM	Acentic	Alphaforce	Magcor	
Percentage ownership	24.3%	32.5%	40.0%	30.0%	
Cost of investment:					
Balance at beginning of year	P542,952,113	P658,432,096	P -	P -	P1,201,384,209
Investments	-	-	3,999,900	3,000,000	6,999,900
Balance at end of year	542,952,113	658,432,096	3,999,900	3,000,000	1,208,384,109
Accumulated equity in net earnings (losses):					
Balance at beginning of year	338,602,508	(64,414,272)	-	-	274,188,236
Equity in net earnings (losses) for the year	124,755,983	57,800,169	(209,471)	(124,018)	182,222,663
Balance at end of year	463,358,491	(6,614,103)	(209,471)	(124,018)	456,410,899
	P1,006,310,604	P651,817,993	P3,790,429	P2,875,982	P1,664,795,008

Investment in ISM

On July 2, 2001, the Parent Company entered into a Memorandum of Agreement (MOA) with ISM, wherein ISM appointed the Parent Company to manage the transformation of ISM from a mining company to a company engaged in information technology, multimedia, telecommunications, and other similar industries, including the identification and negotiation with potential investors who will infuse the necessary capital or assets for projects in such industries. In order to generate investor confidence in the new corporate direction of ISM, the Parent Company subscribed to 12,000,068,290 unissued shares of ISM at its par value of P0.01 per share, for which the Parent Company made a partial payment of twenty five percent (25%) on such subscription.

On February 16, 2009, the Parent Company exercised its right to subscribe to 1 share for every 1.92 common shares of ISM held. The subscription payment amounted to P166,225,645 which covers 16,622,564,499 shares of ISM. This subscription increased the Parent Company's holdings in ISM from 24.5 billion shares or 19.41% in 2008 to 41.1 billion shares or 21.47% in February 2009.

On June 1, 2009, the Parent Company purchased 5,428,740,000 common shares of ISM 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 brought the holdings of the Parent Company to ISM from 41.1 billion shares or 21.47% to 46.6 billion shares or 24.30%.

On May 27, 2010 ISM, with the approval of Securities and Exchange Commission changed the par value of its stock from P0.01 to P1.00 per share. Consequently the total number of shares held by the Parent Company was reduced to 466 million shares which still represent 24.30% of ISM outstanding shares.

ISM is listed on the PSE and the fair value of the Group's investment is P1.2 billion based on its closing price of P2.59 per share at the reporting date.

On December 30, 2010, ISM sold its 100% equity interest in AGNP to Vega Telecom, Inc., a domestic company. Since AGNP owns 40% of ETPI, the transaction led to ISM losing its 40% equity interest in ETPI. Consequently, ISM's shareholding has been reduced to 37.70% from 77.70% of the total outstanding shares of ETPI of prior year. This transaction resulted to a net gain in ISM of P269 million.

On October 20, 2011, the remaining stock of 37.70% of ISM in ETPI was sold by ISM to San Miguel Equity Security for a total consideration of P1,508 million. Gain on sale of investment amounted to P267 million.

Investment in Acentic

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 Sarl (LBC Capital), Host Union International Limited and ISM.

On January 11, 2010, the Parent Company completed the acquisition on 32.5% of Acentic GmbH, a Germany based company engaged in hotels and other multi-dwelling establishment through Host Union International Limited in the amount equivalent to P658 million. The transaction was funded on the same date.

The above investment was presented as held for sale in 2010 following the commitment of the Group's management on June 16, 2010, to a plan to sell the assets. Efforts to sell the investment have commenced, and a sale was expected by 2011. Nevertheless, on November 14, 2011, the BOD approved to keep the above investment and withdrew the previous authorization to sell due to economic slowdown in Europe. As a result, the investment ceased to be classified as held for sale and its carrying amount was remeasured using the equity method of accounting. The difference between the remeasured equity amount and the carrying amount of the investment amounted to P80.1 million and is included as reduction in equity in net earnings of associates in the consolidated statements of comprehensive income.

On November 15, 2012, the Parent Company executed an investment agreement with Pure Corporate Investments Ltd. (PCIL), a company organized and existing under the laws of the British Virgin Islands, where 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 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 in equal installments over 3 years starting December 27, 2013. The current and noncurrent portion of the said receivables amounting to P243 million and P486 million, respectively, is included in “Notes receivable” and “Noncurrent receivable”, respectively, in the consolidated statements of financial position. The gain on disposal of the said investment amounting to P181.2 million is recognized as income in the statement of comprehensive income of PCIL and is reflected as “other income” in the consolidated statements of comprehensive income.

Investment in Major Games Amusement Corporation (MAGCOR)

On January 1, 2012, PhilWeb Corporation and MAGCOR, a 30% associate of the Parent Company, entered into agreement where the former will manage and render oversight services to the operations of the latter. This 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, this 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, even though the former owns only 30% of the latter. As a result, MAGCOR became a subsidiary of the Parent Company effective January 1, 2012 and is included in the consolidated financial statements as of December 31, 2012.

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

	2012			
	ISM	Acentic	Alphaforce	Magcor
Total assets	P4,954,265,868	P -	P22,443,138	P -
Total liabilities	465,977,494	-	12,984,789	-
Total revenue	-	-	68,035,874	-
Net income (loss) attributable to equity holders	259,390,665	-	(164,135)	-

	2011			
	ISM	Acentic	Alphaforce	Magcor
Total assets	P5,398,504,252	P2,552,516,721	P12,965,149	P24,464,662
Total liabilities	1,169,606,543	1,825,560,631	3,488,827	24,628,056
Total revenue	-	2,308,533,099	6,558,516	-
Net income (loss) attributable to equity holders	513,399,109	177,846,673	(523,678)	(413,394)

10. Property and Equipment

The movements and balances of this account (in thousands) as of 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
Gross carrying value:							
January 1, 2010	P246,920	P106,618	P101,197	P45,117	P13,296	P23,168	P536,316
Additions	64,301	10,786	11,131	8,572	959	8,996	104,745
Disposals	(3,014)	(10,123)	-	(3,065)	-	(1,484)	(17,686)
December 31, 2011	308,207	107,281	112,328	50,624	14,255	30,680	623,375
Additions	39,183	62,809	26,860	26,637	673	4,160	160,322
Disposals	-	-	-	-	-	(4,472)	(4,472)
December 31, 2012	347,390	170,090	139,188	77,261	14,928	30,368	779,225
Accumulated depreciation and amortization:							
January 1, 2010	169,073	44,432	69,432	28,764	8,227	19,567	339,495
Depreciation and amortization for the year	28,711	17,830	19,305	7,399	2,149	3,833	79,227
Disposals	(2,778)	(797)	(5,004)	(2,377)	-	(1,372)	(12,328)
December 31, 2011	195,006	61,465	83,733	33,786	10,376	22,028	406,394
Depreciation and amortization for the year	38,426	29,136	17,034	8,221	2,797	1,113	96,727
Disposals	-	-	-	-	-	(4,472)	(4,472)
December 31, 2012	233,432	90,601	100,767	42,007	13,173	18,669	498,649
Net carrying value:							
December 31, 2011	P113,201	P45,816	P28,595	P16,838	P3,879	P8,652	P216,981
December 31, 2012	P113,958	P79,489	P38,421	P35,254	P1,755	P11,699	P280,576

11. Other Noncurrent Assets

This account at December 31 consists of:

	2012	2011
Advances for projects	P5,315,972	P10,222,064
Rental and other deposits	42,521,220	30,736,480
	47,837,192	40,958,544
Less allowance for impairment loss	(5,378,199)	(5,378,199)
	42,458,993	35,580,345
Other assets from discontinued operations	61,590,318	61,590,318
Less allowance for impairment loss	(61,590,318)	(61,590,318)
	-	-
	P42,458,993	P35,580,345

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 its amortized cost as the impact of discounting is not material.

Other assets from discontinued operations represent 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 loss on these assets.

12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	2012	2011
Accounts payable - trade	P211,783,090	P122,933,384
Accrued expenses and other payables	42,221,838	46,540,800
Commissions payable	560,904	3,792,608
	P254,565,832	P173,266,792

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

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

	2012	2011
Due to government agencies	P16,232,787	P14,207,421
Manpower services	14,709,875	5,454,867
Utilities and communications	3,865,819	2,882,563
Contractors	2,557,580	11,754,319
Ads and promo	1,987,070	2,875,118
ISBS operators advance payment	1,448,783	6,810,440
Audit fees	1,273,500	1,203,210
Travel expenses	146,424	1,352,862
	P42,221,838	P46,540,800

Commissions payable represents unpaid commission earned by Internet Sports Betting Station (ISBS) Operators. The commission is calculated as a percentage of gross bets.

ISBS Operators advance payment account represents deposits from operators for betting credit fund.

13. Notes Payable

The Parent Company had unsecured short-term notes payable to the Bank of Commerce bearing an interest of 5% per annum. These were paid on January 28, 2011, hence, there are no balance as of December 31, 2012 and 2011.

The Parent Company recognized nil, P1.0 million and P14.1 million interest expense in 2012, 2011 and 2010, respectively.

14. Income Taxes and Registration with the Board of Investments (“BOI”) and Philippine Economic Zone Authority (PEZA)

- a) Effective March 14, 2001, the Parent Company was registered with the BOI as a new IT service firm, providing Internet services and other IT-related services on a pioneer status. As a BOI-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 BOI-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 BOI registration. In 2008, the Parent Company has complied with all the requirements of the BOI.

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.

On November 29, 2012, the Philippine Economic Zone Authority (PEZA) approved the application for registration of e-Magine Gaming Corporation (formerly PhilWeb Gaming Solutions Corporation), a subsidiary of PhilWeb Corporation, as an Ecozone Export Enterprise to develop and manufacture electronic machines at the Laguna Technopark - Special Economic Zone. Under the PEZA registration agreement, the Company’s projects shall be entitled to four (4) years Income Tax Holiday from start of commercial operations.

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

	2012	2011	2010
Current tax expense	P11,539,132	P12,218,284	P -
Deferred tax expense (benefit)	1,350,416	(4,148,209)	-
	P12,889,548	P8,070,075	P -

The Group's deferred income tax assets consist of allowance for impairment losses of input VAT amounting to P2.8 million as of December 31, 2012; while as of December 31, 2011, deferred income tax assets comprise of allowance for impairment losses of input VAT and accrued expenses amounting to P2.8 million and P1.3 million, respectively.

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

	2012	2011	2010
Allowance for impairment loss	P75,690,581	P75,690,581	P75,690,581
NOLCO	62,064,020	52,090,552	43,652,263
Retirement benefits liability	18,749,552	13,759,358	8,849,597
Unrealized foreign exchange loss (gain)	467,689	-	(4,654,781)
	P156,971,842	P141,540,491	P123,537,660

Details of NOLCO as of December 31 are as follow:

Incurred In	Amount	Expired/ Applied	As of December 31, 2012	Available Until
2009	P14,810,382	(P14,810,382)	P -	2012
2010	18,848,595	(2,687,458)	16,161,137	2013
2011	18,980,376	-	18,980,376	2014
2012	26,922,507	-	26,922,507	2015
	P79,561,860	(P17,497,840)	P62,064,020	

- d) The reconciliation between the income tax expense computed at the statutory tax rate and income tax expense presented in the consolidated statements of income for the years ended December 31 follows:

	Note	2012	2011	2010
Income tax expense at statutory rate		P332,752,949	P276,643,424	P188,695,629
Adjustments resulting from:				
Income tax holiday on BOI - registered operations		(257,741,636)	(225,167,296)	(182,798,996)
Unrecognized deferred income tax assets arising from temporary differences and NOLCO		4,629,405	5,400,849	(6,377,060)
Tax effects of:				
Equity in net earnings of associates	9	(11,971,817)	(54,666,799)	(1,232,023)
Interest/other income not subject to corporate tax		(65,365,922)	(6,586,208)	(10,519,844)
Non-deductible expenses		10,586,569	12,446,105	12,232,294
Income tax expense		P12,889,548	P8,070,075	P -

15. Related Party Transactions

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

In 2012, 2011 and 2010, ISM recognized administrative expenses amounting to P9.0 million, P13.7 million and P13.0 million, respectively. The Parent Company bills ISM for the latter's share in administrative expenses which include salaries of common personnel, rental, communication and utility expenses. The total amount of outstanding receivables from ISM as of December 31, 2012 and 2011 is P24.7 million and P61.5 million, respectively, included in receivables. These are unsecured and payable on demand.

Compensation and short-term employee benefits of key management personnel of the Group in 2012, 2011 and 2010 amounted to P69.1 million, P66.3 million and P57.6 million, respectively. The Group has no other key management compensation relating to post-employment benefits or other long-term benefits for the years ended December 31, 2012, 2011 and 2010.

16. Equity

Common Stock

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

	2012	2011
Balance at beginning of year	P1,261,682,465	P1,261,682,465
Stock dividends during the year	252,311,194	-
Issued shares at end of year	1,513,993,659	1,261,682,465
Less treasury shares	(89,627,680)	(126,492)
Issued and outstanding shares at end of year	P1,424,365,979	P1,261,555,973

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.

Surplus from Write-down of Capital Stock

This represents the excess of the total reduction in par value of the common stock of the Parent Company over the accumulated deficit balance in connection with the quasi-reorganization completed in 1984.

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.

The options outstanding at December 31, 2010 have an exercise price in the range of P1.30 to P2.48 per share.

The weighted average share price at the date of exercise for share options exercised in 2010 was P1.8696 per share.

On April 19, 2012, the Stock Option Plan Committee of PhilWeb Corporation 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.

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 granted in 2012 is as follows:

Expected volatility	16.40%
Risk-free interest rate	2.56%
Expected life option	3 years

Expected volatility is estimated by considering average share price volatility.

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

	2012		2011		2010	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	-	P -	-	P -	12,247,334	P1.869604
Granted	8,900,000	-	-	-	-	-
Exercised	-	-	-	-	(11,933,334)	-
Forfeited/expired	(600,000)	-	-	-	(314,000)	-
Options outstanding, end of year	8,300,000	P -	-	P -	-	P -
Options exercisable, end of year	-	P -	-	P -	-	P -

Share-based payment charged to operations, included under "salaries and benefits" account in the consolidated statements of comprehensive income amounted to P4.4 million in 2012.

Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2012, 2011 and 2010 follow:

Date Approved	Per Share	Total Amount	Stockholders of Record Date	Date Paid/Issued
August 19, 2010	P0.10	P125,832,262	September 3, 2010	September 20, 2010
April 13, 2011	0.10	126,155,597	April 28, 2011	May 13, 2011
September 7, 2011	0.10	126,155,597	September 21, 2011	October 04, 2011
February 15, 2012	0.10	126,155,597	March 1, 2012	March 16, 2012
September 24, 2012	0.10	150,862,399	October 8, 2012	October 15, 2012

On April 19, 2012, the Parent Company's Board of Directors approved the declaration of twenty percent (20%) stock dividends payable on May 30, 2012 to shareholders of record as of May 4, 2012. The 252.3 million shares of stock to be issued to the stockholders under the stock dividend declaration will be taken from the existing unissued shares of the Parent Company.

Treasury Stock

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

	2012	2011
Balance at beginning of year	P126,492	P126,492
Purchase during the year	227,001,188	-
Sale during the year	(137,500,000)	-
Balance at end of year	P89,627,680	P126,492

- 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 to be completed in 2012; while the other remaining two tranches representing 211.0 million shares for a purchase price of P10.7 per share are expected to be completed before the end of 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 comprise the first tranche of shares the Parent Company acquired from ePLDT last 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.

- b. On November 21, 2012, the BOD approved the creation of a share buyback program. During the year, the Parent Company acquired 40.1 million of its common shares at a total cost of P531.6 million which has been accounted for as treasury shares.

17. Salaries and Benefits

This account consists of:

	<i>Note</i>	2012	2011	2010
Salaries and wages		P142,433,848	P114,739,787	P89,265,095
Retirement benefits cost	20	4,990,194	4,909,761	3,075,953
Cost of stock option	16	4,422,064	-	-
		P151,846,106	P119,649,548	P92,341,048

18. Earnings Per Share

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

	2012	2011	2010
Net income attributable to equity holders of the parent	P1,092,991,987	P915,695,014	P628,985,430
Weighted average number of shares outstanding	1,474,759,576	1,513,867,167	1,505,177,966
Basic/dilutive EPS	P0.7411	P0.6049	P0.4179

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.

There were no potential dilutive shares as of December 31, 2012, 2011, and 2010.

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.

Total rentals recognized in profit or loss for the years ended December 31, 2012, 2011 and 2010 amounted to about P60.2 million, P40.6 million, P45.7 million, respectively.

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

	2012	2011	2010
Less than one year	P38,532,516	P37,231,028	P25,601,993
Between one and five years	65,639,965	65,970,156	58,979,953
	P104,172,481	P103,201,184	P84,581,946

20. Retirement Benefits

The Parent Company accrues retirement benefits for its employees in compliance with Republic Act 7641 “Philippine Retirement Law” which requires a company to pay a minimum retirement benefit to employees who retires after reaching the mandatory age of 65 years old or the optional retirement age of 60 years old, with at least five (5) years of service to the Parent Company.

The reconciliation of the present value of the defined benefit obligation to the recognized liability included under “Noncurrent liabilities” section of the consolidated statements of financial position is as follows:

	2012	2011
Present value of defined benefit obligation	P25,731,172	P15,307,736
Unrecognized actuarial loss	(6,981,620)	(1,548,378)
Recognized liability for defined benefit obligation	P18,749,552	P13,759,358

The movements in the present value of defined benefit obligation are shown below:

	2012	2011
Present value of the defined benefit obligation at the beginning of year	P15,307,736	P13,802,769
Current service cost and interest cost (see below)	4,989,565	4,777,432
Actuarial (gain) loss	5,433,871	(3,272,465)
Present value of the defined benefit obligation at the end of year	P25,731,172	P15,307,736

The retirement benefits cost recognized in profit or loss and included under “Salaries and benefits” consists of:

	2012	2011	2010
Current service cost	P3,910,370	P3,682,872	P2,302,318
Interest cost	1,079,195	1,094,560	726,513
Actuarial loss recognized for the year	629	132,329	47,122
	P4,990,194	P4,909,761	P3,075,953

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2012	2011	2010
Discount rate	6.11%	7.05%	7.93%
Future salary increases	5.00%	5.00%	6.00%

The historical information of the amounts for the current year and for the four previous annual periods is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	P25,731,172	P15,307,736	P13,802,769	P7,828,808	P3,840,570
Experience adjustments on plan liabilities - loss (gain)	5,495,370	6,675,100	(927,806)	395,376	712,801

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. This deposit shall be returned to the operator after the termination of the contract. The carrying amount of operator's deposit approximates its amortized cost as the impact of discounting is not material.

22. Financial Risk and Capital Management

Financial Instruments

The Group's principal financial instruments consist of cash and cash equivalents, accounts receivables - net, notes receivables, other noncurrent assets, accounts payables and accrued expenses, notes payable, due to suppliers and operators' deposits.

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

- a. *Credit Risk* is the risk arising from inability of a debtor to make payments when receivables are due. 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 of December 31, 2012 and 2011.

The carrying amount of receivables represents the Group's maximum exposure to credit risk in relation to financial assets. The maximum exposure to credit risk is summarized below:

	Note	2012	2011
Cash in bank and cash equivalents (net of cash on hand)		P1,047,975,488	P897,160,374
Accounts receivables - net	5	266,820,041	228,753,540
Notes receivable	7	497,215,526	269,342,991
Noncurrent receivables	9	486,000,000	-
Other noncurrent assets	11	42,458,993	35,580,345
		P2,340,470,048	P1,430,837,250

The aging of accounts receivables as of December 31 is as follows:

	2012		2011	
	Gross Amount	Impairment	Gross Amount	Impairment
Current	P94,420,940	P -	P21,126,857	P -
Past due 0-30 days	27,104,814	-	24,640,740	-
Past due 31-60 days	2,722,160	-	2,474,691	-
More than 60 days	143,244,617	672,490	181,183,742	672,490
	P267,492,531	P672,490	P229,426,030	P672,490

- b. *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 of December 31, 2012 and 2011 are 7.6:1 and 8.5:1, respectively. The current liabilities of the Group are expected to be paid within one year.

	As of December 31, 2012			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense ^(a)	P238,333,045	P238,333,045	P238,333,045	P -
Operator's deposits	48,300,000	48,300,000	-	48,300,000

	As of December 31, 2011			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense ^(a)	P159,059,371	P159,059,371	P159,059,371	P -
Operator's deposits	42,300,000	42,300,000	-	42,300,000

(a) Due to government agencies are excluded.

- c. *Market Risk* is the risk that changes in market prices primarily foreign exchange rates, will affect the Group's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign Exchange Risk is the risk that changes in foreign exchange rates will affect the Group's income.

The Group's exposure to foreign exchange risk is minimal and limited to its US dollar denominated receivable amounting to \$0.9 million and \$1.4 million as of December 31, 2012 and 2011.

The US dollar exchange rate as of December 31, 2012 and 2011 are US dollar 1 = P41.19 and 1 = P43.84, respectively.

Sensitivity Analysis

A 10% strengthening of the Philippine peso against US dollar as at December 31, 2012 and 2011 would have decreased the equity and profit by P3.7 million and P6.1 million, respectively.

A 10% weakening of the peso against US dollar as at December 31, 2012 and 2011 would have had the equal but opposite effect, on the basis that all other variables remain constant.

Fair Values

The fair values of the Group's financial instruments approximate their carrying amounts as of reporting date because of their relatively short-term nature. In the case of long-term receivables, the fair value of P484.5 million 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.

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 Group defines capital as total equity, which includes capital stock, surplus from write-down of capital stock, additional paid-in capital, stock options outstanding and retained earnings, net of treasury stock.

There were no changes in the Group's capital management during the year.

The Group is not subject to externally imposed capital requirement.

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 being PAGCOR's partner in the internet gaming business.

In 2012 and 2011, the Group launched scratch cards or instant-win type product in Cambodia and Timor-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 2011.

The Group's Chairman of the BOD reviews internal management reports on a monthly basis.

Analysis of financial information by geographical segment in 2012 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
Net revenues				
External revenue	P1,345,099,256	P138,490,667	P -	P1,483,589,923
Operating expenses	(514,841,706)	(117,490,185)	-	(632,331,891)
Interest income	41,108,179	193,796	(4,657,795)	36,644,180
Interest expense	-	(4,657,795)	4,657,795	-
Others	181,368,227	-	-	181,368,227
Income before income tax	1,052,733,956	16,536,483	-	1,069,270,439
Income tax expense	8,571,004	4,318,544	-	12,889,548
Segment profit	1,044,162,952	12,217,939	-	1,056,380,891
Equity in net earnings of associates	39,906,058	-	-	39,906,058
Consolidated profit	P1,084,069,010	P12,217,939	P -	P1,096,286,949
Other information				
Additions to property and equipment	P148,835,749	P11,486,511	P -	P160,322,260
Depreciation and amortization	93,982,811	2,744,617	-	96,727,428
Assets and liabilities				
Current assets	1,644,490,881	149,956,359	135,755,673	1,930,202,913
Noncurrent assets	1,873,413,618	11,486,511	-	1,884,900,129
Total assets	P3,517,904,499	P161,442,870	P135,755,673	P3,815,103,042
Current liabilities	P228,745,769	P161,575,736	(P135,755,673)	P254,565,832
Noncurrent liabilities	67,049,552	-	-	67,049,552
Total liabilities	P295,795,321	P161,575,736	(P135,755,673)	P321,615,384

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 its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

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INDEPENDENT PUBLIC ACCOUNTANTS

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BANK OF MANDIRI
CAMBODIAN PUBLIC BANK
CANADIA BANK PLC
FIRST HAWAIIAN BANK
MAYBANK
METROPOLITAN BANK AND TRUST COMPANY
PHILIPPINE BANK OF COMMUNICATIONS
PHILIPPINE NATIONAL BANK
SECURITY BANK & TRUST CORPORATION
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STOCK TRANSFER SERVICE AGENT

AB STOCK TRANSFERS CORPORATION

PHILWEB CORPORATION IS LISTED ON THE PHILIPPINE STOCK EXCHANGE.
TICKER SYMBOL: WEB



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