

SEC Number 39121  
File Number \_\_\_\_\_

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**PHILWEB CORPORATION**

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(Company's Full Name)

**The Penthouse, Alphaland Southgate Tower  
2258 Chino Roces Avenue corner EDSA, Makati City**

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(Company's Address)

**338-5599**

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(Telephone Number)

**December 31**

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(Fiscal Year Ending)  
(month & day)

**SEC Form 17-A (Annual Report)**

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Form Type

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Amendment Designation (if applicable)

**December 31, 2015**

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Period Ended Date

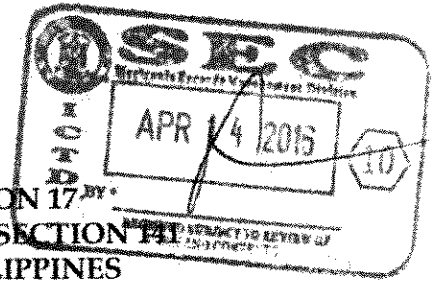
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(Secondary License Type and File Number)

SEC FORM 17-A

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



1. For the fiscal year ended December 31, 2015
2. SEC Identification Number 39121 3. BIR Tax Identification No. 000-141-527-000
4. Exact name of issuer as specified in its charter PhilWeb Corporation
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office: The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City
8. Registrant's telephone number (632) 338-5599 Zip Code 1232
9. Former name, former address, and former fiscal year, if changed since last report \_\_\_\_\_.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

<u>Title of each Class</u>	<u>Number of shares of common stock and amount of debt outstanding</u>
Common P1.00 par value	1,434,537,580 (net of treasury shares)

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

12. Indicate whether the issuer:

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

Yes

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

Yes

## Part I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

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

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

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

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

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

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

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

### **PAGCOR e-Games cafés**

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

There are now 268 operating e-Games cafés across the country, majority of which are owned and operated by independent operators. These e-Games Operators handle day-to-day operations and get a commission based on the casino winnings of the café.

### **Operator Partnerships**

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

### **Content and Services**

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

providing a new user experience, PhilWeb also worked with PAGCOR to revise the progressive seed contribution system, which ensures a fair apportioning of the cost of the jackpot contribution between the different stakeholders.

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

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

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

## **Marketing**

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

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

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

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

The e-Games nationwide network grew by 24 new locations in 2015, bringing the total operating e-Games to 268. Most of the e-Games are in the National Capitol Region and across Luzon, to include Quezon Province, Batangas and within the Balesin Island resort, where there were no e-Games previously. These new sites, as well as expansion activities from existing operators, brought the total number of installed e-Games gaming terminals to 8,839, a nearly 8% increase from the previous year.

### **BigGame, Inc.**

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

In 2015, BigGame added six locations to its network, bringing the total number of BigGame sites to 23. Total number of gaming terminals grew by 10.4% to 1,225 in 2015. BigGame continued in its pioneering efforts, by obtaining regulatory approvals to establish e-Games in greenfield locations, namely in Tanauan City, Batangas Province and Alphaland's Balesin Island resort located in Quezon Province. BigGame also acquired the existing e-Games operations of two locations in Paranaque, NCR, and one each in Cebu Province and Camarines Sur. Apart from these new additions, BigGame, Inc. management proceeded with various improvements to the existing gaming sites, with the objective of enhancing the player experience. These were conducted in its Mindanao Avenue (Quezon City), Sucat (Parañaque), and Crossroads (Cebu City) branches. These sites have shown increases in gaming revenue since they were relaunched to the public.

## **Best Gaming Experience**

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

## **BigGame in 2016**

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

## **e-Magine Gaming Corporation**

e-Magine Gaming Corporation is a subsidiary of PhilWeb Corporation. The Company's primary purpose is to develop and manufacture gaming terminals. Launched in 2012, e-Magine's goal is to strengthen PhilWeb's revenues and support its local business operations.

## **2015 Highlights**

e-Magine continued to build on the previous year's success by developing and deploying more advanced gaming terminals that allow users to play multiple types of games.

A total of 578 new Genesis 103 Terminals were deployed in 46 e-Games and BigGame outlets nationwide. These terminals are advanced, yet user-friendly consoles with touch screen terminals, bill validators, ticket printers, magnetic and RFID card readers.

The group continues to develop new designs that complement changing and varied preferences of players and operators. Dual screen units for instance, give players more information, can stream live content, and will eventually let them play games on two screens. The new terminals are also capable of deploying multiple types of games such as Casino, Bingo, Sports Betting, and Virtual Sports on the same terminal.

The small footprint of terminals will further enable operators to redesign outlets and maximize space by installing more terminals in the same floor area, giving their outlets a more modern look.

All of e-Magine's terminals are certified by Gaming Labs International, making them fully compliant with PAGCOR Gaming Standards. PAGCOR requires all local operators to comply with GLI certification or other equivalent testing laboratories. e-Magine's certification gives them a competitive advantage in the industry, as it further expands.

## Corporate Services

### **Finance**

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

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

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

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

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

### **Legal**

The Legal Department ensures that the interests of the Company as well as its subsidiaries and affiliates are fully protected. Likewise, it makes certain that the Company observes all laws, rules and regulations relevant to the operation of its

business and that it complies with all the reportorial requirements of various government offices and agencies such as, but not limited to, the Securities and Exchange Commission, the Philippine Stock Exchange, the Board of Investments and the Philippine Economic Zone Authority. In the same manner, the Legal Department manages and oversees the Company's dealings with concerned local government units with respect to the issuances of permits and licenses.

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

### **Customer Support**

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

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

### **Information Technology**

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

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

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

The Service Delivery Department is responsible for the implementation and management of quality IT services. Guided by industry best practices, the group manages delivery of services through the disciplines of Project Management and Service Management. In line to its vision to ensure quality, the team also has a Quality Assurance unit which conducts testing on home grown software prior to customer endorsement in order to ensure that business requirements are met.

The Service Support Department is charged with providing first level technical support and ensuring that IT services are available 24/7 to both internal and external customers of the Company. There are two groups under this department: a) the Technical Support team, which monitors and performs first level troubleshooting on services pertaining to PhilWeb's corporate & casino infrastructure and B) Field Support, which is tasked to provide first level troubleshooting for e-Games sites. Tickets reported by site personnel and operators are first escalated to this team for validation and resolution.

### **Highlights in 2015**

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

### **2016 Goals**

For the past two years the group has been aligning its processes and methods with the rest of the PhilWeb operations team to provide a better gaming experience to its customers. While this effort is ongoing, the group is also looking at additional technological improvements that will further streamline IT operations.

## **Information Security**

In June 2015, PhilWeb transformed the Security and Compliance Group into the Information Security Group. The Group provides guidance on securing and protecting the privacy of information, and ensures that the institution maintains appropriate operational controls, standards, processes and Information security policies. The Information Security Group reports directly to the Office of the President.

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

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

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

## **Goals and Objectives**

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

Information Security plays a vital role in:

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

## **Information Security Teams**

### *Network Security*

The Network Security Team is largely responsible for ensuring proper perimeter security such as firewall and intrusion prevention systems. The rise of these systems provides adequate control over the gaming environment and enforces security protection from intrusion, and other malicious activity.

The Network Security team provides services focused on the following areas:

- Maintenance and implementation of Perimeter Security defense such as firewall, IPS, IDS.
- Implementation and maintenance of PhilWeb's network security policies and ensuring security of traffic that passes through the network environment.
- Design and improvement of network security to ensure a secured gaming environment.

### *Security Engineering*

The Security Engineering team is responsible for PhilWeb's Access Management provisioning and access review, application security, as well as Information Security policy and standards.

The Security Engineering team provides the following services to PhilWeb:

- Provide Continuous manual monitoring of incidents/events
- Security Incident Response Management
- Provisioning and De-provisioning of network and application accounts
- Recertification of Restricted and Privilege access of PhilWeb's IT systems and gaming environment
- Provides security update to Support groups
- Provides Internal DNS Management

### **Highlights in 2015**

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

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

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

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

## **Human Resources and Administration**

### **Organization Structure**

PhilWeb's Human Resources and Administration Department was re-structured in June of 2015 to streamline the functions and provide more focus of its deliverables, hence, Human Resources and Administration, became two separate teams: Human Resources Team and Administration team. Despite the separation of functions, the two teams continued to work cooperatively and supported each other for the welfare of the company and its employees.

### **The Human Resources Team**

#### *Recruitment & Selection*

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

New hires Orientation covering the Company's Vision, Mission and Core Values, Culture and History of PhilWeb, the Organization Chart, Policies and Procedures and Code of Conduct as well as explanation on their Employment Contract - is given prior to turnover to the department. Technical orientation is handled by the respective department.

#### *Compensation and Benefits*

The Human Resources Team ensured that compensation and benefits were given at a timely manner, and professional and personal growth were charted through competency and performance - based Performance Evaluation/Appraisal. Corresponding rewards and compensation are fairly given. Benchmarking is done within the similar business models to ensure that our compensation policy and structure are within the market offering.

The Year 2015 marked the 15th year of PhilWeb in the business. During the Company's anniversary, employees were recognized for their dedicated service and loyalty rendered to the Company.

#### *Workplace Learning & Development*

For continual professional and personal development as well as enhance their skills in their own fields to deliver the excellent service to the Company, 23 employees underwent workplace learning and development programs. Learning was shared and cascaded to their respective team members.

Aligned with the Company's core value of Customer Focus, 142 e-Games staff underwent the Customer Service Training to further accommodate the needs of the players, and improve player retention and acquisition.

## *Employee Engagement*

In addition to workplace learning and development interventions as tool for workforce retention and engagement, the Human Resources Team maintained its health and wellness programs. Regular general assemblies and other means of communication are undertaken to get the workforce pulse as regards their health and wellness needs to be able to develop programs that will be more responsive to their interest and needs.

## **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.

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

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

As we did in 2014, the employees were grouped into two, but this time, one group was composed of the PhilWeb executives. Each group contributed to Haribon's "Road to 2020 Movement" by participating in the Haribon's nursery activities, i.e., sifting soil, packing soil in plastic bags for seedlings, pruning and transferring seedlings, tree-planting activities and hiking.

All activities were led by Forest rangers of Haribon Foundation's "Bahay Punlaan", in Caliraya, Laguna.

Furthermore, as PhilWeb grows and delivers profit to its stakeholders, we continue to share our resources and propagate its advocacy to bring computer literacy and education to the less privileged of our society even to the farthest and remote areas. Consistent with the government's endeavor of inclusive growth, the donation does not end in the delivery of the hardware but comes with related trainings and applications on the use of computers.

In 2015, PhilWeb donated desktop computers to 14 schools nationwide, namely:

- 1) Childhope Asia Inc.
- 2) Tanay Ville Elementary School
- 3) Lorenzo A. Ramos Elementary School
- 4) Manhain Elementary School
- 5) Don Domingo Capistrano Memorial Elementary School

- 6) Rawang Elementary School
- 7) Doña Paz Tanjuatco Elementary School
- 8) Mace Learning Center, Inc.
- 9) ERDA Tech Foundation, Inc.
- 10) Sioco Cariño Elementary School
- 11) Mariano Sabarino Elementary School
- 12) San Pascual Elementary School
- 13) Toybongan Elementary School
- 14) Poyopoy Elementary School

Logistics and planning were spearheaded by the Administration Team.

The Administration Team, on the other hand, which handles Purchasing and Logistics, Safety and Security and Office Facilities & Equipment Management - did their share in the timely delivery of their services, ensured that needs of the company were met and repairs and preventive maintenance on the equipment were planned and executed with the least downtime to the Company.

Moreover, the Administration Team undertook cost-savings measures, without sacrificing the quality of its deliverables.

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

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

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

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

Capitalizing on its Internet technology experience, PhilWeb in early 2003 made a deliberate decision to focus on Internet gaming. It established partner relationship with leading software providers in addition to establishing its own gaming software capability. Recognizing PhilWeb's extensive knowledge in Internet technology, software development and expertise and its nationwide marketing distribution network, PAGCOR signed a Memorandum of Agreement with PhilWeb in November 2002, engaging the latter as its technology service provider and marketing consultant for Internet sports betting. Subsequently, PhilWeb and PAGCOR likewise entered into

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

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

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

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

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

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

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

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

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

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

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

1. Basketball Jackpot and device (Registration No. 4-2014-00005227 dated 18 September 2014)
2. e-Casino Filipino (Registration No. 4-2014-00005231 dated 16 October 2014)
3. Playaway and device (Registration No. 4-2014-005403 dated 16 October 2014)
4. PhilWeb Corporation (Registration No. 4-2010-006766 dated 19 May 2011)
5. e-pitaka and device (Registration No. 4-2014-00005230 dated 7 August 2014)
6. Premyo Sa Resibo (Registration No. 4-2014-00004755 dated 27 November 2014)

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

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

1. Premyo Sa Resibo (Registration No. 0-2006-174 dated 26 May 2006)
2. BasketballJackpot.net Program Source Code (Registration No. 0-2006-3055 dated 20 October 2006)
3. Txtingo Super Singko Program Source Code (Registration No. 0-2008-393 dated 17 October 2008)
4. Resibonanza Program Source Code (Registration No. 0-2009-159 dated 12 March 2009)
5. Station Manager PAGCOR E-Games Station POS System Source Code (Registration No. N2010-23 dated 19 February 2010)
6. PAGCOR E-City POS Station Manager Source Code (Registration No. N2010-118 dated 1 October 2010)
7. Dashboard (Registration No. N2013-112 dated 4 October 2013)
8. PBA Trading Cards TMS (Registration No. N2013-113 dated 4 October 2013)
9. Loyalty System (Registration No. N2013-114 dated 4 October 2013)
10. Kick for Gold Betting and Admin System (Registration No. N2013-115 dated 4 October 2013)
11. Spyder Client (Registration No. N2013-116 dated 4 October 2013)
12. Spyder Server (Registration No. N2013-117 dated 4 October 2013)
13. E-City Launchpad (Registration No. N2013-118 dated 4 October 2013)
14. Kronus Admin (Registration No. N2013-119 dated 4 October 2013)
15. Kronus Alerts (Registration No. N2013-120 dated 4 October 2013)
16. Kronus Cashier (Registration No. N2013-121 dated 4 October 2013)
17. Kronus Prepaid Accounting System (Registration No. N2013-122 dated 4 October 2013)
18. Membership Admin (Registration No. N2013-123 dated 4 October 2013)
19. Membership Portal (Registration No. N2013-124 dated 4 October 2013)
20. MIS Tool (Registration No. N2013-125 dated 4 October 2013)
21. TMS - Indonesia (Registration No. N2013-126 dated 4 October 2013)
22. Voucher/Stacker Management System (Registration No. N2013-127 dated 4 October 2013)
23. TMS - Cambodia (Registration No. N2013-128 dated 4 October 2013)
24. TMS - Timor Leste (Registration No. N2013-129 dated 4 October 2013)

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

#### Pending Applications for Registration of Trademarks

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

1. Gold Master Brand Logo (Application No. 4-2012-011523)
2. Vibrant Vegas Logo (Application No. 4-2012-009142)
3. Magic Macau Logo (Application No. 4-2012-009141)
4. Gold Lotto 6/49 (Application No. 4-2012-00011661)
5. Genesis (Application No. 4-2013-00011661)

#### The Company has a registration for Industrial Design and Utility Model

1. Computer-Based Automated Terminal (Industrial Design) Registration No. 3-2013-001325 dated 14 October 2015)
2. Automated Terminal (Utility Model) Registration No. 2-2013-000658 dated 27 May 2015)

### Pending Applications for registration of Industrial Design

The Company has two (2) pending applications for industrial design with the IPO:

1. Printed Surface Ornamentation Applied to an e-Games membership Card Design (Application No. 3-2014-000864)
2. Printed Surface Ornamentation Applied to an e-Games Club Platinum Card (Application No. 2-2014-000865)

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

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

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

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

### Costs and Effects of Compliance with Environmental Laws

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

### Business Transactions with Related Parties

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

The Company has no material business transactions with related parties.

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

### Labor

The Company currently has 271 employees broken down as follows: 127 rank and file, 67 supervisors, 55 managers, 22 executives. There is no union and neither is there a collective bargaining agreement with its employees. There have been no strikes or

threats to strike in the past three years. Supplemental benefits given to employees include stock option plan to qualified employees, among others.

The Company does not expect any material change in the number of its employees over the next 12 months.

### **Material Events**

The significant contracts and commitments entered into by the Company as of December 31, 2015 are as follows:

- On December 17, 2010, Parent Company entered into an Omnibus Amended Intellectual Property License and Management Agreement (IPLMA) for PAGCOR E-Games with the Philippine Amusement and Gaming Corporation (PAGCOR) wherein the Parent Company grants an exclusive intellectual property license to PAGCOR for the use of its proprietary software system and collateral hardware necessary for PAGCOR to operate the Internet Casino or PAGCOR e-Games. This supersedes the June 1, 2006 IPLMA.
- On 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 of 32.5% of Acentic GmbH, a Germany based company engaged in hotels and other multi-dwelling establishment thru Host Union International Limited in the amount of 9,750,000 Euro.
- In September 2006, the Parent Company entered into a Deed of Sale with SIIS Investment Holdings Limited wherein the latter has offered to sell and the Company has agreed to buy full ownership of all four special purpose vehicles (SPV), companies incorporated under the laws of the British Virgin Islands. The SPVs will own and hold the 2,285,714,286 common shares of ISM Communications Corporation in equal share.
- On July 26, 2006, the Company secured an irrevocable domestic standby letter of credit from Bank of Commerce in favor of PAGCOR amounting to P17 million to guarantee PhilWeb Corporation's obligation on the Premyo sa Resibo program and its obligation on Internet casinos and Internet sports betting.
- In April 2006, the Parent Company entered into a Memorandum of Understanding with the Department of Finance, Bureau of Internal Revenues, and PAGCOR, whereby the Parent Company and PAGCOR will establish a nationwide text-based raffle program with prizes. This project is entitled "Premyo sa Resibo" which will encourage all purchasers of goods and services in the country to demand a official receipt for every purchase.
- On June 1, 2006, the Parent Company entered into an Intellectual Property License and Management Agreement (IPLMA) for Internet Casinos with

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

- On December 17, 2010, the Parent Company entered into an Omnibus Amended Intellectual Property License and Management Agreement for PAGCOR E-Games which supersedes the IPLMA, the Memorandum of Agreement dated November 28, 2002, Supplemental Agreement No. 1 dated March 18, 2003 and a Supplemental Agreement No. 2 dated June 30, 2003.

#### Subscription to ISM Communications Corporation Common Stock

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

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

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

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

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

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

#### **Other Material Contracts**

1. Contract of Lease with Alphaland Corporation for the lease of the Company's principal office premises located at The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue Extension cor. Epifanio de los Santos Avenue (EDSA), Makati City. The lease is effective for 5 years and may be renewed upon the mutual agreement of the parties.
2. Deed of Assignment dated January 18, 2000 between the Company and All-Acacia Resources, Inc. whereby the Company transferred all of its rights over its mining claims located in the Provinces of Samar and Surigao and all of its mining assets, both tangible and intangible, used in the Company's mining operations. In consideration therefore, All-Acacia agreed to assume all liabilities and obligations of the Company, including those relating to the assignment of advances from stockholders and/or deposits on subscriptions in excess of P18 million which had been agreed to be converted to equity of the Company, and arrange for the resignation, retirement or termination of all the Company's personnel relating to the mining business and pay their corresponding separation or retirement pay, as well as hold the Company free and harmless from any expense, liability or obligation arising from the operation of the Company as of the date of the Agreement.

#### **Item 2. Properties**

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

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

Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City. The lease term is from April 15, 2014 to April 14, 2019 for a monthly lease of P368,161.20. The lease agreement is for a period of five (5) years with an option to renew under mutually agreeable terms.

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

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

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

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

2. PhilWeb vs Sonia K. Pamatmat  
I.S. No. 07-J-8470  
Qualified Theft

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

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

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

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

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

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

Arvin Arcales filed an illegal dismissal case with a claim for separation pay, backwages and damages. The National Labor Relations Commission (NLRC) decided on September 24, 2012 that Arcales was validly terminated from employment and that he is not entitled to the award of separation pay, backwages, moral and exemplary damages and attorney's fees. Arcales filed a Petition for Certiorari with the Court of Appeals to contest the NLRC Resolution upholding the validity of his termination from employment. On July 27, 2015, the Court of Appeals issued a Resolution denying Arcales' petition.

5. PhilWeb vs. Eduveges O. Batalan  
NPS No. XV-05-INV-14B-0359  
Qualified Theft

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

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

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

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

PhilWeb discovered that Brinia A. Flojemon, whose employment has been terminated for cause, stole money from the company amounting to Php1,829,000.00 through unliquidated cash advances and allowances. Accordingly, PhilWeb filed a case for qualified theft against Flojemon. On August 18, 2014, the Office of the City Prosecutor of Makati issued a Resolution dismissing the complaint filed by PhilWeb. Accordingly,

PhilWeb seasonably filed a Motion for Reconsideration which was denied. On August 24, 2015, PhilWeb filed a Petition for Review with the Department of Justice.

8. PhilWeb Corporation vs. Playtech Software Limited  
Civil Case No. 14-116  
Makati RTC Branch 142

The parties entered into a Software License Agreement (SLA) on October 30, 2012. After the lapse of fourteen (14) months from the execution of the SLA, Playtech had yet to comply with its contracted obligations. Thus, on December 12, 2013, PhilWeb decided to terminate the SLA with immediate effect.

PhilWeb filed a case against Playtech with the Regional Trial Court of Makati on January 30, 2014 for damages and loss of revenue it caused by violating the provisions of the SLA. On November 17, 2014, the trial court dismissed the case against Playtech. On December 19, 2014, PhilWeb filed a Motion for Reconsideration. On March 27, 2015, the trial court granted our motion for reconsideration. This case was dismissed by the trial court on August 10, 2015.

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

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

10. PhilWeb Corporation and e-Magine Gaming Corporation vs. Paolo Ambrosi  
(Civil Case No. 14-1115)  
Complaint for Breach of Contract and damages with application for Temporary Restraining Order (TRO) and Injunction

The respondent is a former employee of PhilWeb and was assigned to work for e-Magine. Upon leaving PhilWeb and e-Magine, it was discovered that he disclosed and utilized for himself confidential information of PhilWeb and e-Magine.

The TRO was granted by the trial court. This case has already been settled amicably by the parties.

11. PhilWeb Corporation and e-Magine Gaming Corporation vs. Paolo Ambrosi  
(NPS No. XV-05-INV-14J-3850)  
Criminal case for Qualified Theft and Unfair Competition

The respondent is a former employee of PhilWeb and was assigned to work for e-Magine. Upon leaving PhilWeb and e-Magine, it was discovered that he stole and then disclosed and utilized for himself confidential information of PhilWeb and e-Magine.

This case has already been settled amicably between the parties.

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

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

PhilWeb challenged this ND and filed its Appeal Memorandum on 12 December 2011. On December 6, 2012, PhilWeb, received a copy of the Decision of the COA through Honorable Rufina S. Laquindanum dated 16 November 2012 denying its appeal and affirming the ND. Thereafter, PhilWeb filed its Petition for Review with the COA on 8 January 2013. On 8 May 2015, PhilWeb received a copy of the Decision of the COA dated 1 April 2015 dismissing its Petition for Review. On 19 May 2015, PhilWeb seasonably filed its Motion for Reconsideration. This Motion for Reconsideration is now pending resolution by the COA.

**Item 4. Submission of Matters to a Vote of Security Holders**

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

**Part II - OPERATIONAL AND FINANCIAL INFORMATION**

**Item 5. Market Price, Dividends and Related Stockholder Matters**

Market Information

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

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

	Price per Share	
	High	Low
2012		
First Quarter (ending March 2012)	13.90	12.70
Second Quarter (ending June 2012)	17.62	12.70
Third Quarter (ending September 2012)	17.00	12.24
Fourth Quarter (ending December 2012)	17.04	12.26
2013		
First Quarter (ending March 2013)	14.68	12.70

Second Quarter (ending June 2013)	15.80	14.00
Third Quarter (ending September 2013)	15.10	10.84
Fourth Quarter (ending December 2013)	11.24	8.40
2014		
First Quarter (ending March 2014)	8.96	5.02
Second Quarter (ending June 2014)	5.61	4.89
Third Quarter (ending September 2014)	5.45	4.40
Fourth Quarter (ending December 2014)	9.75	5.09
2015		
First Quarter (ending March 2015)	13.88	10.82
Second Quarter (ending June 2015)	22.35	13.56
Third Quarter (ending September 2015)	19.00	18.00
Fourth Quarter (ending December 2015)	23.10	18.76
2016		
First Quarter (ending March 2016)	28.00	20.00
April 12, 2016	21.95	21.90

### Dividends

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

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

### Holdings

There were 1,507 shareholders of record holding the Company's outstanding capital stock of 1,434,537,580 common shares as of March 31, 2016 net of treasury shares of 81,380,938.

### Top 20 Stockholders

The top 20 stockholders of record as of March 31, 2016 (based on total outstanding capital stock of 1,434,537,580 shares, net of treasury shares of 81,380,938 were:

Name of Stockholder	No. of Subscribed Common Shares	% to Total Outstanding
1. PhilWeb Casino Corporation	260,392,307	18.15%
2. PCD Nominee Corporation: Filipino - 109,834,539 Non-Filipino - 148,302,920	258,137,459	17.99%
3. Azurestar Corporation	147,868,248	10.31%
4. Compact Holdings, Inc.	95,574,500	6.66%
5. Dominion Equities, Inc.	90,842,400	6.33%
6. Deltaventure Resources, Inc.	90,001,797	6.27%
7. Elkhound Resources, Inc.	59,401,200	4.14%
8. Ang, Ramon S.	53,854,536	3.75%
9. Tocmo Realty Corporation	36,001,200	2.51%
10. Evermore Trading Limited	24,558,303	1.71%
11. Sunrise Sunset Island Corporation	24,001,200	1.67%
12. Bluesirius Holdings, Inc.	24,000,000	1.67%
13. Ongpin, Roberto V.	21,840,000	1.52%
14. HKPirate Holdings, Inc.	21,223,565	1.48%
15. Stargate Securities Holdings, Inc.	19,916,834	1.39%
16. Labilab Corporation	19,200,600	1.34%
17. Armada Resources & Development Corporation	18,000,000	1.25%
18. Goldenmedia Corporation	17,260,800	1.20%
19. Giantnova Holdings, Inc.	16,577,776	1.16%
20. Aquadisk Corporation	14,369,508	1.00%

### Recent Sales of Unregistered Securities:

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

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

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

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

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

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

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

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

### **The Company's Key Performance Indicators**

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

- 1.) The Company's Net Income margin for the aforementioned period was at 52%. Net Income of P869,626,033 divided by Net Revenues of P1,667,610,476.
- 2.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P1,200,758,970 or 2.1% higher compared last year.
- 3.) The increase in revenues in 2015 was 1.7%. It was computed by dividing the difference between 2015 and 2014 Revenue by 2014 Revenue.
- 4.) Operating Income margin was 61%. Operating Income of P1,017,262,743 divided by Net Revenues of P1,667,610,476.
- 5.) Current ratio was at 1.21:1.00. Current Assets of P737,544,824 divided by Current Liabilities of P610,798,305.
- 6.) Asset to equity ratio was at 1.76:1.00. Total Assets of P1,580,166,741 divided by Total Equity of P897,425,866.
- 7.) Debt to equity ratio was at 0.76:1.00. Total Liabilities of P682,740,875 divided by Total Equity of P897,425,866.
- 8.) The Return on Total Assets was 55%. Net Income of P869,626,033 divided by the Total Assets of P1,580,166,741.
- 9.) The Return on Equity was 97%. Net Income of P869,626,033 divided by the Total Equity of P897,425,866.

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

- 1.) The Company's Net Income margin for the aforementioned period was at 55%. Net Income of P903,875,688 divided by Net Revenues of P1,639,956,575.

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

For the year 2013, the Company's key performance indicators are the following:

- 1.) The Company's Net Income margin for the aforementioned period was at 14%. Net Income of ₱202,894,555 divided by Net Revenues of P1,493,699,764.
- 2.) The Company's Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA) was P985,634,920 or 2% higher compared last year.
- 3.) The increase in revenues in 2013 was 1%. It was computed by dividing the difference between 2013 and 2012 Revenue by 2012 Revenue.
- 4.) Operating Income margin was 44%. Operating Income of ₱654,715,723 divided by Net Revenues of ₱1,493,699,764.
- 5.) Current ratio was at 0.75:1.00. Current Assets of ₱1,063,149,112 divided by Current Liabilities of ₱1,412,294,548.
- 6.) Asset to equity ratio was at 3.71:1.00. Total Assets of P2,042,159,181 divided by Total Equity of P551,142,849.
- 7.) Debt to equity ratio was at 2.71:1.00. Total Liabilities of ₱1,491,016,332 divided by Total Equity of ₱551,142,849.

- 8.) The Return on Total Assets was 10%. Net Income of P202,894,555 divided by the Total Assets of P2,042,159,181.
- 9.) The Return on Equity was 37%. Net Income of P202,894,555 divided by the Total Equity of P551,142,849.

#### Performance for the Period Ended December 31, 2015

##### *Cash and Cash Equivalents*

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

##### *Receivables (net)*

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

##### *Inventories*

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

##### *Notes Receivable*

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

##### *Prepayments and Other Current Assets*

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

##### *Investment in Associates*

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

##### *Noncurrent Receivables*

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

### *Property and Equipment*

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

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

### *Deferred Tax Assets*

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

### *Other Noncurrent Assets*

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

### *Accounts Payable and Accrued Expenses*

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

### *Income tax payable*

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

### *Notes Payable*

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

### *Retirement Benefits Liability*

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

### *Operators' deposit*

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

### *Capital stock*

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

### *Additional paid in capital*

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

### *Retained earnings*

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

### *Treasury stock*

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

### *Income and Expenses*

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

### *Revenues*

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

### *Salaries and Benefits*

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

### *Depreciation and Amortization*

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

### *Outsourced Services*

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

#### *Rental*

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

#### *Utilities and Communications*

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

#### *Representation and Entertainment*

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

#### *Supplies*

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

#### *Operator Incentives and Commissions*

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

#### *Impairment Losses*

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

#### *Professional Fees*

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

#### *Advertising and Promotion*

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

#### *Taxes and Licenses*

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

#### *Miscellaneous*

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

*Equity in Net Earnings of Associates*

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

*Interest Income*

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

*Interest Expense*

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

Performance for the Year Ended December 31, 2014

*Cash and Cash Equivalents*

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

*Receivables (net)*

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

*Inventories*

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

*Notes Receivable*

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

*Prepayments and Other Current Assets*

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

### *Investment in Associates*

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

### *Noncurrent Receivables*

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

### *Property and Equipment*

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

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

### *Deferred Tax Assets*

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

### *Other Noncurrent Assets*

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

### *Accounts Payable and Accrued Expenses*

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

### *Notes Payable*

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

### *Retirement Benefits Liability*

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

### *Operators' deposit*

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

#### *Capital stock*

No significant movement for capital stock in 2014.

#### *Additional paid in capital*

No significant movement for additional paid in capital in 2014.

#### *Retained earnings*

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

#### *Treasury stock*

No movement for treasury stock in 2014.

#### *Income and Expenses*

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

#### *Revenues*

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

#### *Salaries and Benefits*

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

#### *Depreciation and Amortization*

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

#### *Outsourced Services*

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

#### *Rental*

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

#### *Utilities and Communications*

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

#### *Representation and Entertainment*

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

#### *Supplies*

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

#### *Operator Incentives and Commissions*

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

#### *Impairment Losses*

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

#### *Professional Fees*

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

#### *Advertising and Promotion*

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

#### *Taxes and Licenses*

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

#### *Miscellaneous*

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

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

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

#### *Interest Income*

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

#### *Interest Expense*

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

### Performance for the Year Ended December 31, 2013

#### *Cash and Cash Equivalents*

The cash and cash equivalents decreased by P710.2 million or 67% versus last year. The Company operations generated cash amounting to P801.6 million. In addition, the Company received P558.3 million proceeds from the sale of investment in ISM. Also, the Company availed loans of P1,200.0 million from local banks. The Company used its cash for CAPEX P98.7 million, dividends P267.7 million and payment for the acquisition of its own shares P2,881.3 million.

#### *Receivables (net)*

The receivables decreased by P13.0 million or 5% versus last year, mainly due to allowance provided for trade receivables of Asia-Pacific and other non-affiliated companies. It is partially offset of the increase in receivables from non-affiliates (Alphaland and Monfortino) and advances to suppliers of e-Magine.

#### *Inventories*

The increase in inventories amounting to P46.1 million or 463% mainly due to the gaming terminal cost of e-Magine Gaming Corporation.

#### *Notes Receivable*

The decreased in notes receivable of P184.3 million or 37% versus last year, was mainly due to amendment of payment terms of receivables from the sale of investment in Acentic.

#### *Prepayments and Other Current Assets*

Prepayments and other current assets decreased by P5.7 million or 5% versus last year mainly due to the decrease in prepaid others.

#### *Investment in Associates*

The decreased in investment in associates of P1,058.3 million or 99%, was mainly due to the sale of investment in ISM.

#### *Noncurrent Receivables*

Noncurrent receivables increased by P170.1 million or 35% versus last year, due to reclassification of current receivables in accordance with the amendment of payment terms of receivables from the sale of investment in Acentic.

#### *Property and Equipment*

The decreased in property and equipment of P34.2 million or 12% represents the total acquisitions of P97.7 million less depreciation amounting to P131.7 million.

The acquisitions mainly pertain to the expansions in Asia-Pacific (TeGS) and BGI operations.

#### *Deferred Tax Assets*

Deferred tax assets recognized amounting to P17.6 million represent the amounts of income taxes recoverable in future periods arising from deductible temporary differences.

#### *Other Noncurrent Assets*

Other noncurrent assets increased by P1.7 million or 4% mainly due to the increase in rental deposits as a result of business expansions.

#### *Accounts Payable and Accrued Expenses*

The decreased in accounts payable and accrued expenses by P42.3 million or 17% was mainly due to payment of unpaid acquisition of treasury shares pursuant to buyback program as approved by BOD last year.

#### *Notes Payable*

Notes payable amounts to P1,200.0 million pertains to the availment of loans during the year.

#### *Retirement Benefits Liability*

The increased in retirement benefits liability of P2.2 million or 9% represents additional provision for employees' retirement benefits.

#### *Operators' deposit*

The increased of operators' deposit of P2.5 million or 5% represents the cash received from operators upon opening of PeGS that serves as a bond/security in case the operators defaults from payments. This deposit is to be returned to the operators after termination of the contract.

#### *Capital stock*

No movement for capital stock in 2013.

#### *Additional paid in capital*

No movement for additional paid in capital in 2013.

#### *Retained earnings*

The increased in retained earnings of P12.5 million or 1% was attributable to the net income during the period, net of cash dividends.

#### *Treasury stock*

The increase in treasury shares of P2,881.3 million or 272% was due to the redemptions of e-PLDT held shares and shares bought from the market pursuant to the buyback program.

#### *Income and Expenses*

For the year ended December 31, 2013, the Company posted net income of P202.9 million. Revenues increased by 1%. Overall, the Company decreased its net income by 82% versus last year. Note however that EBITDA still increased by 2% as the net income includes one-time losses from the sale of investment in ISM amounting to P552.0 million and provision for impairment losses of P198.5 million.

#### *Revenues*

Total revenues increased by P10.1 million or 1%, to P1,493.7 million for year ended December 31, 2013 from P1,483.6 million registered last year. The increased was contributed by the PeGS business; however, it is mitigated by the decreased in revenue

from PhilWeb Asia-Pacific operation. PeGS improvement was contributed by the increase in number of sites, stations and higher amount of customer's deposits.

#### *Salaries and Benefits*

The decreased of P23.1 million or 15% was mainly due to the revised sharing agreement of common cost personnel.

#### *Depreciation and Amortization*

The increased of P35.0 million, or 36% in depreciation and amortization was due to increase in acquisition of additional servers, computer equipment and leasehold improvements related to the expansions in Asia-Pacific and BGI operations.

#### *Outsourced Services*

The increased in outsourced services of P8.9 million or 10% was primarily due to an increase in number of contracted employees and security personnel due to expansions of Asia-Pacific and BGI operations.

#### *Rental*

The increased of P10.7 million or 18% in rent was due to expansion of Asia-Pacific and BGI operations.

#### *Utilities and Communications*

The increased in utilities and communications of P12.6 million or 22% was due to additional power and utility requirements of expanded business operations.

#### *Representation and Entertainment*

Representation and entertainment increased by P6.9 million or 14% as a result of the expansion of BGI operations.

#### *Supplies*

Supplies slightly decreased by P2.3 million or 8%.

#### *Operator Incentives and Commissions*

The decreased of P14.7 million was mainly due to lower commissions provided to the distributors of scratch cards in the Asia-Pacific business operation.

#### *Impairment Losses*

The provision for impairment losses pertains to expired portion of excess input VAT and long outstanding receivables.

### *Professional Fees*

Professional fee decreased by P4.6 million or 28% mainly due reduction of technical consultant.

### *Advertising and Promotion*

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

### *Taxes and Licenses*

Taxes and licenses slightly decreased by P0.8 million or 5%.

### *Miscellaneous*

The decreased of P1.0 million or 10% was mainly due to decrease in other expenses of gaming operations.

### *Loss on Sale of Equity Investment*

The loss on sale of equity investment of P552.0 million pertains to the disposal of investment in ISM. While the sale resulted to a paper loss, based on acquisition cost the Company made a cash gain of P60.4 million.

### *Equity in Net Earnings of Associates*

Equity in net earnings of associates of P86.1 million mainly pertains to share in net income of investment in ISM before sale.

### *Interest Income*

The decreased of P14.1 million or 39% was mainly due to decreased in average cash deposits and short-term placements during the year.

### *Interest Expense*

Interest expense of P22.1 million was due to availment of loans.

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

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

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

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

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

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

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

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

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

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

**Item 7. Financial Statements**

See attached.

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

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

	2015	2014	2013
Audit and Audit-Related Fees	P1,262,150	P1,234,238	P1,161,045
Tax Fees	none	none	none
Other Fees	none	none	87,136
Total	P1,262,150	P1,234,238	P1,248,181

The auditor of the Company conducted its audit in accordance with the auditing standards generally accepted in the Philippines with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole conforms with the accounting principles generally accepted in the Philippines. They

performed tests of the accounting records and such other procedures, as they considered necessary in the circumstances to provide a reasonable basis for an opinion on the financial statements. They also assessed the accounting principles used and significant estimates made by the management and evaluated overall financial statements presentation.

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

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

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

### Part III - CONTROL AND COMPENSATION INFORMATION

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

Name	Age	Position/Citizenship/Period Served/Term of Office
Roberto V. Ongpin	79	Director & Chairman/Filipino/16 yrs./1 yr.
Anna Bettina Ongpin	51	Director/American/2 yrs./1 yr.
Dennis O. Valdes	54	Director & President/Filipino/10 yrs./1yr.
Tomas I. Alcantara	69	Director/Filipino/14 yrs./1 yr.
Crisanto Roy B. Alcid	46	Director/Filipino/1 yr./1 yr.
Edgardo J. Angara	81	Director /Filipino/2 yrs./1 yr.
Gregorio Ma. Araneta III	68	Director/Filipino/2 yrs./1yr.
Michael Angelo Patrick M. Asperin	57	Director/Filipino/2 yrs./1 yr.
Victor C. Macalincag	80	Director/Filipino/2 yrs./1 yr.
Edgar Brian K. Ng	46	Director/Filipino/2 yrs./1 yr.
Cliburn Anthony A. Orbe	42	Director/Filipino/2 yrs./1 yr.
Rafael B. Ortigas	44	Director/Filipino/12 yrs./1 yr.
Zaldy M. Prieto	41	Director & CFO/Filipino/2 yrs./1 yr.
Rodolfo Ma. A. Pongferrada	39	Director & Corporate Secretary/Filipino/3 yrs./1 yr.
Raymund S. Aquino	47	Assistant Corporate Secretary/Filipino/4 yrs./1 yr.

**Roberto V. Ongpin** was elected Chairman of the Company in January 2000, the year he founded the Company. He is also the Chairman of Alphaland Corporation and Atok-Big Wedge Co., Inc. 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.

**Anna Bettina Ongpin** was elected Director of the Company in August 2013 and Vice Chairperson in February 2016. She has more than 20 years of communications, marketing, project management, and operations experience in the management consulting and media fields. She has a bachelor's degree in Political Science from Wellesley College. She is also a Director of Alphaland Corporation and Atok-Big Wedge Co., Inc.

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

**Tomas I. Alcantara** was elected Independent Director of the Company in May 2002. He holds a Bachelor of Science degree in Economics from Ateneo de Manila University, a Masters in Business Administration degree from Columbia University, USA and attended the Advance Management Program of the Harvard Business School. Mr. Alcantara was Undersecretary for the Industry and Investment Group of the Department of Trade and Industry and the Vice Chairman and Managing Head of the Board of Investments from July 1986 to March 1995. He was also Special Envoy of the Philippine President to APEC in 1996. He is presently the Chairman and President of Alsons Consolidated Resources, Inc., and of several power and property development companies in the Alcantara Group. He is Chairman of Holcim Philippines, Inc. and Eagle Ridge Golf & Country Club, Inc.

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

**Gregorio Ma. Araneta III** was elected Independent Director of the Company in May 2014. He is the Chairman and Chief Executive Officer of Araneta Properties, Inc. since 2010. He is the Chairman and President of Gregorio Araneta, Inc., ARAZA Resources

Corporation, H. E. Heacocks Resources Corp., Gregorio Araneta Management Corporation, Gamma Properties Inc. and Carmel Development Inc. He is also the Chairman of Energy and Gas Holdings Inc. Mr. Araneta attended the University of San Francisco and the Ateneo de Manila University, where he received his degree in Bachelor of Arts in Economics.

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

**Victor C. Macalincag** was elected as Independent Director in May 2014. He is also currently an Independent Director of Crown Equities, Inc., Semirara Mining and Power Corporation, Republic Glass Holdings Corp., SEM-Calaca Power Corporation, ISM Communications Corporation, Asian Alliance Investment Corporation, One Wealthy Nation Fund (OWN), Inc., Alphaland Corporation and Atok-Big Wedge Corporation. He was the President of Trade & Investment Development Corporation of the Philippines which is presently known as PHILEXIM (formerly PhilGuarantee) from 1991 until his resignation in 2001. He was the Deputy Minister of Finance from 1981 to 1986 and Undersecretary of Finance from 1986 to 1991. He also held the position of National Treasurer from 1981 to 1988. Mr. Macalincag is a Certified Public Accountant. He has a Bachelor of Arts in Business Administration from the University of the East. He also earned a Master of Arts in Economics from the same university. He finished a fellowship program conducted by the Economic Development Institute of the World Bank, Washington D.C.

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

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

**Crisanto Roy B. Alcid** was elected Independent Director of the Company in April 2015. He is the President and Chief Operating Officer of Araneta Properties, Inc. while concurrently serving as Director and Executive Vice President of Gregorio Araneta, Inc., Carmel Development Corp., Gregorio Araneta Management Corporation, and Araza Resources Corporation. He is also a Director of Philippine Coastal Storage & Pipeline Corp. Before joining the Araneta Group, he was formerly connected with Ayala Land, Inc., Asiatrust Development Bank, and Citibank N.A. Mr. Alcid holds a Bachelor of Science Degree in Management Engineering from the Ateneo de Manila University and has completed the General Management Program at the Harvard Business School

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

**Rodolfo Ma. A. Ponferrada** was elected Director of the Company in April 2013 and Corporate Secretary of the Company in July 2012. He is also the Corporate Secretary of Alphaland Corporation and Atok-Big Wedge Co., Inc., and a member (representing the private sector) of the Board of Directors of the Social Housing Finance Corporation. He is a member of the Integrated Bar of the Philippines.

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

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

The following are the Company's independent directors:

1. Tomas I. Alcantara
2. Crisanto Roy B. Alcid

3. Edgardo J. Angara
4. Gregorio Ma. Araneta III
5. Victor C. Macalincag

### **Significant Employees**

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

### **Family Relationship of Directors and Officers**

Mr. Dennis O. Valdes is a nephew of Mr. Roberto V. Ongpin. Ms. Anna Bettina Ongpin is the daughter of Mr. Roberto V. Ongpin.

The Company does not know any other family relationship of directors and officers other than the ones provided.

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

1. Atty. Zenaida Ongkiko-Acorda, as attorney in fact of Atty. Mario E. Ongkiko and in behalf of Philex Mining Corporation vs. Roberto V. Ongpin, et al., SEC Case No. 11-166, pending before the Regional Trial Court of Pasig City, Branch 159, which involves a purported derivative suit filed on behalf of Philex Mining Corporation (Philex) in order to recover the "short-swing profits" which were allegedly realized from supposed transactions involving Philex shares. This case is in the discovery stage. A related Petition for Review on Certiorari is also pending before the Supreme Court in G.R. No. 204166, entitled Roberto V. Ongpin, et al. vs. Acorda, et al.;
2. People vs. Reynaldo G. David, et al., S.B.-13-CRM-0105 and S.B.-13-CRIM-0106, pending before the Third Division of the Sandiganbayan in connection with two loans obtained by Deltaventure Resources, Inc. from the Development Bank of the Philippines. The Informations in both cases, respectively, for violations of Section 3 (e) of R.A. No. 3019 were filed on 10 January 2013. The Motion to Quash the Informations was granted by the Third Division of the Sandiganbayan. The Ombudsman elevated the matter to the Supreme Court.
3. Alphaland Holdings (Singapore) Pte. Ltd. vs. Masrickstar Corporation, et. al. (Civil Case No. M-7565, Makati City RTC Branch 66) is a complaint for Interim Measure of Protection in Aid of Arbitration. The petitioner's application for a temporary restraining order or a temporary order of protection was denied for lack of merit by the RTC in an Order dated 22 January 2014. On 14 February 2014, the RTC issued an Order denying the petitioner's Motion for the issuance of an Order Enforcing Award No. 19 issued by the Emergency Arbitrator. On 19 February 2014, the RTC likewise issued an Order declaring Petitioner's Motion to Refer to Arbitration to have been rendered moot. The petitioner brought the case to the Court of Appeals on Certiorari where it is presently pending resolution. In view of the amicable settlement among the parties, the parties have withdrawn their respective claims.

4. NBI-Technical Intelligence Division, Intelligence Service, and Eduveges O. Batalan vs. Roberto V. Ongpin, Cliburn Anthony A. Orbe, Michael Angelo Patrick M. Asperin, et al. NPS Docket No. XVI-INV-14E-00168, is a complaint for Serious Illegal Detention, Grave Coercion and Robbery filed by former employee, Eduveges O. Batalan. The Preliminary Investigation has terminated and the matter has been submitted for the resolution of the Department of Justice panel created to conduct the preliminary investigation.

5. In Re: Philex Mining Corporation, SEC-EIPD Case No. 14-3044, the Enforcement and Investment Protection Division of the Securities and Exchange Commission found Mr. Roberto V. Ongpin liable for 174 counts of insider trading when, in the morning of 2 December 2009, he acquired a total of 45,964,500 shares of stock of Philex Mining Corporation from the open market. Mr. Roberto Ongpin has appealed the decision to the SEC En Banc. The appeal has been submitted for resolution.

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

**Item 10. Executive Compensation**

The aggregate amount of compensation paid by the Company to all of its directors and management as a group for fiscal years 2014 and 2015 were P46,084,346.00 and P45,336,000.00, respectively. The estimated aggregate compensation for 2016 is P47,602,800.00.

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

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

4. Rodolfo Ma. A. Ponferrada  
Senior Vice President  
(effective July 2012)
  
5. Zaldy M. Prieto  
Senior Vice President & CFO  
(effective November 2008)

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

2014	22,620,000	1,885,000	1,308,823
2015	25,080,000	2,090,000	1,454,500
2016 <sup>1</sup>	26,334,000	2,194,500	1,527,225

All Officers and Directors as a Group  
Unnamed

2014	46,084,346	3,835,222	1,970,588
2015	45,336,000	3,778,000	2,022,500
2016 <sup>2</sup>	47,602,800	3,966,900	2,123,625

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

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

Except for the chairman, the rest of the abovementioned executive officers have employment contracts with the Company.

There has been no change in control arrangements with the present management.

Warrants and Options Outstanding

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

On November 18, 2003, the Stock Option Committee approved the awarding to selected individuals who have helped develop the business of the Company over the past two

<sup>1</sup> Estimated figures

<sup>2</sup> Estimated figures

years option to subscribe to a total of One Billion Three Hundred Million (1,300,000,000) common shares at a price of P0.01 per share (the then prevailing market price was P0.012 per share).

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

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

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

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

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

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

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

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

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

As of March 31, 2016, PhilWeb Corporation knows of no one who beneficially owns more than 5% of its common stock except as set forth in the table below:

<i>Title of Class</i>	<i>Name and Address of Record Owner and Relationship with Issuer</i>	<i>Name of Beneficial Owner and Relationship with Record Owner</i>	<i>Citizenship</i>	<i>Amount and Nature of Record / Beneficial Ownership (indicate "r" or "b")</i>	<i>Percent Held</i>
Common	PhilWeb Casino Corporation The Penthouse, Alphaland	Dennis O. Valdes Proxy/Representative	Filipino	260,392,307 (r&b - direct)	18.15%

<i>Title of Class</i>	<i>Name and Address of Record Owner and Relationship with Issuer</i>	<i>Name of Beneficial Owner and Relationship with Record Owner</i>	<i>Citizenship</i>	<i>Amount and Nature of Record / Beneficial Ownership (indicate "r" or "b")</i>	<i>Percent Held</i>
Common	Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	147,868,248 (r&b - indirect)	10.31%
Common	Azurestar Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	90,842,400 (r&b - indirect)	6.33%
Common	Dominion Equities, Inc. The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	95,574,500 (r&b - indirect)	6.66%
Common	Compact Holdings, Inc. The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Avenue cor. EDSA, Makati City Stockholder	Roberto V. Ongpin Proxy/Representative	Filipino	90,001,797 (r&b - direct)	6.27%

## (2) Security Ownership of Management

As of March 31, 2016, the following are the details of the security ownership of Management based on total outstanding shares of 1,434,537,580:

<i>Title of Class</i>	<i>Name of Beneficial Owner</i>	<i>Citizenship</i>	<i>Number of Shares and Nature of Beneficial Ownership</i>	<i>Percentage of Ownership</i>
Common	Roberto V. Ongpin Chairman	Filipino	21,840,000 (direct) 745,739,396 (indirect)	1.52% 51.92%
Common	Anna Bettina Ongpin Vice Chairperson	American	100 (direct)	0.00%
Common	Dennis O. Valdes President	Filipino	2,533,200 (direct) 21,223,565 (indirect)	0.17% 1.48%
Common	Crisanto Roy B. Alcid Independent Director	Filipino	100 (direct)	0.00%
Common	Tomas L. Akantara Independent Director	Filipino	372,000 (direct)	0.03%
Common	Rafael B. Ortigas Director	Filipino	1,200 (direct)	0.00%
Common	Edgardo J. Angara Independent Director	Filipino	100 (direct)	0.00%
Common	Gregorio MA. Araneta III Independent Director	Filipino	100 (direct) 13,043,478 (indirect)	0.00% 0.91%
Common	Prieto, Zaldy M. Director/CFO	Filipino	553,100 (direct)	0.03%
Common	Rodolfo Ma. A. Ponferrada Director/Corporate Secretary	Filipino	2,36,000(direct)	0.02%

Common	Victor C. Macalincag Independent Director	Filipino	10,000 (direct)	0.00%
Common	Edgar Brian K. Ng Director/Senior Vice President	Filipino	151,500 (direct)	0.01%
Common	Gliborn Anthony A. Orbe Director/Vice President	Filipino	202,800(direct)	0.01%
Common	Michael Angelo Patrick M. Asperin Director	Filipino	1 (direct)	0.00%
Common	Raymund S. Aquino Asst. Corp Secretary	Filipino	14,866 (direct)	0.00%
Common	Antonio K. Garcia Senior Vice President	Filipino	15,000 (direct)	0.00%
Aggregate Ownership of Directors and Officers as a Group			805,956,506	56.18%

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

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

The Company's legal counsel is the law firm of Ponferrada Orbe & Altubar Law Offices where Atty. Rodolfo Ma. A. Ponferrada is a senior partner. Please also refer to Note Number 15 on Related Party Transactions of the enclosed Consolidated Financial Statements for the year 2015.

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

The Chairman, Mr. Roberto V. Ongpin directly and indirectly owns at least 53.44% of the Company's voting securities. No person, natural or juridical, owns more than 50% of the Company's voting securities.

#### Item 13. Corporate Governance

The Company through its Compliance Officer Atty. Rodolfo Ma. A. Ponferrada, has monitored the Company's compliance with SEC Memorandum Circular No. 2 dated April 15, 2002 and the relevant SEC Circulars on Corporate Governance and noted that no substantive or major deviations occurred. The Company's directors and officers have complied with the practice and policies contained in the Company's Manual on Corporate Governance. The Company has submitted its self-rating performance

assessment sheet in compliance with SEC requirements. All of the Company's directors and officers attended a seminar on corporate governance. The Company's new directors will be encouraged to attend seminars as well.

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

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

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

Please refer to the attached Annual Corporate Governance Report.

#### Part IV - EXHIBITS AND SCHEDULES

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

a. Exhibit

Exhibit A - Material Contracts

b. Reports on SEC Form 17-C

April 17, 2015

Announcement that the Company has declared a cash dividend of P0.15 per share which will be paid on May 21, 2015 to the holders of common stock of record as of May 7, 2015.

Announcement that the Annual Stockholders' Meeting for 2015 is on July 9, 2015 (Thursday) at 3 p.m. at The City Club at Alphaland Makati Place, Ayala Avenue, Makati City.

Announcement of the election of Mr. Crisanto Roy B. Alcid as a director of the Company.

June 3, 2015



Dennis O. Valdes  
Rodolfo Ma. A. Ponferrada (Secretary)

Nominations Committee: Gregorio Ma. Araneta (Chairman/Ind. Director)  
Tomas I. Alcantara (Independent Director)  
Anna Bettina Ongpin

Stock Option Committee: Roberto V. Ongpin (Chairman)  
Anna Bettina Ongpin  
Dennis O. Valdes

February 12, 2016

Announcement that the Annual Stockholders' Meeting for 2016 is moved to May 17, 2016 (Tuesday) at 5 p.m. at The City Club at Alphaland Makati Place, Ayala Avenue Extension corner Malugay Street, Makati City. The record date for stockholders who will be eligible and entitled to vote at the said meeting is 31 March 2016.

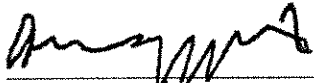
March 2, 2016


Press Release entitled: PhilWeb 2015 Performance Strong, Despite Competition.


**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on 13 April 2016.

By:

  
ROBERTO V. ONGPIN  
Chairman

  
DENNIS O. VALDES  
President


  
RODOLFO MA. A. PONFERRADA  
Corporate Secretary

  
ZALDY M. PRIETO  
SVP & Chief Finance Officer

**SUBSCRIBED AND SWORN** to before me this 13<sup>th</sup> day of April 2016 affiants exhibiting to me their Tax Identification Numbers, as follows:

Name	Tax Identification No.
Roberto V. Ongpin	130-725-714
Dennis O. Valdes	141-808-056
Rodolfo Ma. A. Ponferrada	215-793-472
Zaldy M. Prieto	193-976-155

Doc No. 267  
Page No. 5  
Book No. II  
Series of 2016.

  
CARLO ANTONIO A. BAUTISTA  
Appointment No. M-55  
Notary Public for Makati City  
Until December 31, 2016  
The Penthouse, Alphaland  
Southgate Tower, Makati City  
Roll No. 59384  
PTR No. 3330081; 01/07/2016; Makati City  
IBP No. 1018879; 01/07/2016; RSM  
AICLE No. IV-400117797 / TIN 408-377-800

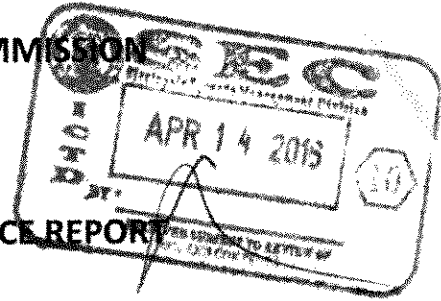
**EXHIBIT "A"**

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT



1. Report is Filed for the Year 2015
2. Exact Name of Registrant as Specified in its Charter PHILWEB CORPORATION
3. The Penthouse, Alphaland Southgate Tower,  
2258 Chino Roces Avenue corner EDSA, Makati City  
Address of Principal Office 1232  
Postal Code
4. SEC Identification Number 0000039121
5. [REDACTED] (SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number 000-141-527-000
7. (+632) 338-55-99  
Issuer's Telephone number, including area code
8. N/A  
Former name or former address, if changed from the last report

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## A. BOARD MATTERS

### 1) Board of Directors

Number of Directors per Articles of Incorporation	15
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Actual number of Directors for the year	14
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#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type (Executive (ED), Non-Executive (NED) or Independent Director (ID))	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual/Special Meeting)	No. of years served as director
Roberto V. Ongpin	ED	N/A		January 2000	11 August 2015	Annual Meeting	16
Anna Bettina Ongpin	NED	N/A		16 August 2013	11 August 2015	Annual Meeting	3
Dennis O. Valdes	ED	N/A		July 2006	11 August 2015	Annual Meeting	10
Tomas I. Alcantara	ID	N/A		May 2002	11 August 2015	Annual Meeting	14
Crisanto Roy B. Alcid	ID	N/A		April 2015	11 August 2015		1
Sen. Edgardo J. Angara	ID	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Gregorio Ma. Araneta III	ID	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Michael Angelo Patrick M. Asperin	NED	N/A		28 August 2014	11 August 2015	Annual Meeting	2
Victor C. Macalincag	ID	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Edgar Brian K. Ng	ED	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Rafael B. Ortigas	NED	N/A		April 2002	11 August 2015	Annual Meeting	14
Cliburn Anthony A. Orbe	ED	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Zaldy M. Prieto	ED	N/A		26 May 2014	11 August 2015	Annual Meeting	2
Rodolfo Ma. A. Ponferrada	ED	N/A		2 April 2013	11 August 2015	Annual Meeting	3

- (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

*The Board of Directors and Management of the Company recognize that good corporate governance is key to achieving the Company's objective of maximizing shareholder value. The institution of the Code on Corporate Governance seeks to provide the process and structure by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value through the enhancement of corporate performance and accountability.*

*Compliance with the Code of Corporate Governance is ensured by the Corporate Compliance Officer in*

coordination with the Chairman and President of the Company. Regular meetings are made between Management and the Board of Directors, to review and evaluate the Company's performance and address key policy matters. The Board is provided with timely and complete information for each meeting. Each director has direct access to the advice and services of management and the corporate secretary, and in appropriate circumstances, seek independent professional advice concerning the Company's affairs.

All directors are required to submit themselves for re-election every year. In consideration for their re-election, the nomination committee reviews and presents attendance and participation in meetings of the Company.

All directors are briefed by Management on the Company's business operations as well as a regular tour of the Company's manufacturing operations.

The audit committee first reviews the Company's audited financials, who then recommends approval from the board of directors before they are presented to the stockholders of the Company. It is also the audit committee which ensures independence and objectivity of the external auditors.

The Company is continually seeking measures of improving its corporate governance to further enhance corporate performance and accountability. The Directors and Management have been encouraged to regularly attend corporate governance seminars and corporate governance consultants on methods by which it can enhance its corporate performance and accountability.

Since its adoption, no deviation from the Company's Manual Code of Corporate Governance has been noted.

- (c) How often does the Board review and approve the vision and mission?

Since its adoption in 2010, the vision and mission have not been reviewed. It has been implemented thru its projects.

- (d) Directorship in Other Companies

- (i) Directorship in the Company's Group<sup>1</sup>

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

(ii) Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Roberto V. Ongpin	PhilWeb Tourism & Entertainment Corporation	Executive - Chairman
	Philweb International Gaming Corporation	Executive - Chairman
	Easy eBingo, Inc.	Executive - Chairman
	Philweb Mobile Lottery Corporation	Executive - Chairman
	PhilWeb Casino Corporation	Executive- Chairman
	PhilWeb Leisure & Tourism Corporation	Executive – Chairman
	Premyo Sa Resibo, Inc.	Executive - Chairman
Dennis O. Valdes	PhilWeb Tourism & Entertainment Corporation	Executive
	Philweb International Gaming Corporation	Executive
	Easy eBingo, Inc.	Executive

<sup>1</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

	PhilWeb Asia-Pacific Corporation	Executive – Chairman
	Philweb Mobile Lottery Corporation	Executive
	PhilWeb Casino Corporation	Executive
	e-Magine Gaming Corporation	Executive – Chairman
	PhilWeb Leisure & Tourism Corporation	Executive
	Best Choice Holdings, Inc.	Executive
	Go Biggame, Inc.	Executive - Chairman
	Biggame, Inc.	Executive - Chairman
	Premyo Sa Resibo, Inc.	Executive
<b>Edgar Brian K. Ng</b>	PhilWeb Mobile Lottery Corporation	Executive
	PhilWeb International Gaming Corporation	Executive
	BigGame, Inc.	Executive
	Easy e-Bingo, Inc.	Executive
	Go BigGame, Inc.	Executive
	e-Magine Gaming Corporation, Inc.	Executive
<b>Zaldy M. Prieto</b>	PhilWeb Tourism & Entertainment Corporation	Executive
	PhilWeb Asia-Pacific Corporation	Executive
	Premyo Sa Resibo, Inc.	Executive
	PhilWeb Mobile Lottery Corporation	Executive
	PhilWeb Leisure & Tourism Corporation	Executive
	PhilWeb International Gaming Corporation	Executive
	PhilWeb Casino Corporation	
	BigGame, Inc.	Executive
	Easy e-Bingo, Inc.	Executive
	Go BigGame, Inc.	Executive
	e-Magine Gaming Corporation, Inc.	Executive
<b>Rodolfo Ma. A. Ponferrada</b>	Metro Manila Jai-Alai Corporation	Executive
	Manila Bay Tourism & Jai-Alai Corporation	Executive
	Manila Cesta Holding Corporation	Executive

(iii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

(iv) Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
<b>Roberto V. Ongpin</b>	Atok-Big Wedge Co., Inc.	Executive - Chairman
<b>Dennis O. Valdes</b>	Atok-Big Wedge Co.	Non-Executive
<b>Tomas I. Alcantara</b>	Alsons Consolidated Resources, Inc.	Executive - Chairman
	Holcim Philippines, Inc.	Executive
	Philippine Bank of Communications	Independent
<b>Gregorio Ma. Araneta III</b>	Araneta Properties, Inc.	Executive – Chairman
<b>Victor C. Macalincag</b>	Crown Equities, Inc.	Independent
	Semirara Mining and Power Corporation	Non-Executive
	Republic Glass Holdings Corp.	Non-Executive

Anna Bettina Ongpin	Atok-Big Wedge Co.	Non-Executive
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(v) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Anna Bettina Ongpin	Roberto V. Ongpin	Daughter-father
Dennis O. Valdes	Roberto V. Ongpin	Nephew-uncle

(vi) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

	Guidelines	Maximum Number of Directorships in other companies
Executive Director	Under the Manual on Corporate Governance of the Company, the Board of Directors may impose guidelines for the number of directorships held by its members. To date, the Board has elected not to fix a maximum. However, one of the considerations for each nominee for election to Board is his/her directorship in other companies to guide the Board in determining whether the nominee will have the time to perform his/her functions as a director of the Company.	None
Non-Executive Director		None
CEO		None

(c) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Roberto V. Ongpin	21,840,000	745,739,396/ various companies	53.54
Dennis O. Valdes	2,443,200	21,223,565/HK Pirate Holdings Inc.	1.65
Anna Bettina Ongpin	100	-	-
Tomas I. Alcantara	372,000	-	0.03
Rafael B. Ortigas	1,200	-	-

Edgardo J. Angara	100	-	-
Gregorio Ma. Araneta III	100	13,043,578/Gregorio Araneta Inc.	0.91
Zaidy M. Prieto	190,700	-	-
Rodolfo Ma. A. Ponferrada	236,000	-	0.02
Victor C. Macalincag	10,000	-	-
Edgar Brian K. Ng	151,500	-	0.01
Cliburn Anthony A. Orbe	202,800	-	0.01
Michael Angelo Patrick M. Asperin	1	-	-
Crisanto Roy B. Alcid	100	-	-
<b>TOTAL</b>	<b>25,447,801</b>	<b>780,006,539</b>	<b>56.17%</b>

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes  No

*While the same person assumes the position of Chairman and CEO, a separate person assumes the roles and responsibilities of the President. All actions of management are submitted to the stockholders for their ratification.*

Identify the Chair and CEO:

Chairman of the Board and CEO	<b>Roberto v. Ongpin</b>
President	<b>Dennis O. Valdes</b>

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and President.

	<b>Chairman and CEO</b>	<b>President</b>
Role	Presides over the meetings of the Board of Directors and the Executive Committee	Direct day to day supervision and administration of the business affairs of the corporation
Accountabilities	To the shareholders	To the CEO
Deliverables	Acts as principal executive officer and head of management	Profitable performance of the Company

3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

*For all senior positions, including that of the CEO, there is a key deputy assigned who can take over whenever there is a vacancy.*

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

*Yes. All qualifications of the members of the Board are reviewed by the Nominations Committee.*

*Under the Company's Manual on the Corporate Governance Manual, the membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors should possess such qualifications and statute that would enable them to effectively participate in the deliberations of the Board.*

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

*There is no express rule requiring that the Board include at least one non-executive director. However, in practice, the Nominations Committee ensures that there is at least one non-executive director who has experience in the sector or industry the company belongs to.*

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	<p>The Manual doesn't distinguish between executive and non-executive directors.</p> <p>It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.</p> <p>The Board should formulate the corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.</p>		<p>The independent director is subject to the same general responsibilities and specific duties and responsibilities of a director.</p>
Accountabilities	<p>To the shareholders</p> <p>In their capacity as executive officers of the Company, they are accountable to the Board of Directors.</p>	To the shareholders	To the shareholders
Deliverables	<p>To:</p> <p>a. Implement a process for the selection of directors who can add value and contribute independent judgment</p>	-do-	-do-

	<p>to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for Management;</p> <p>b. Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.</p> <p>c. Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.</p> <p>d. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Company. If feasible, the Company's CEO or chief financial officer shall exercise oversight responsibility over this program;</p> <p>e. Identify the sectors in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy</p>		
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	<p>of accurate, timely and effective communication with them.</p> <p>f. Adopt a system of checks and balances within the Board. A regular review of the effectiveness of such system should be conducted to ensure integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Company's internal control system in order to maintain its adequacy and effectiveness;</p> <p>g. Identify key risks areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operations and financial viability;</p> <p>h. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Company and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board;</p> <p>i. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and</p>		
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	<p>responsibilities.</p> <p>j. Establish and maintain an alternative dispute resolution system that can amicably settle conflicts or differences between the Company and its stockholders, and between the Company and third parties, including regulatory authorities; and</p> <p>k. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.</p> <p>i. Keep the activities and decision of the Board within its authority under the Articles of Incorporation, By-laws and in existing laws, rules and regulations.</p> <p>m. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.</p>		
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Provide the company's definition of "independence" and describe the company's compliance to the definition.

*Section 2.2.1.5 of the Manual provides that an independent director is a person who, apart from his fees and shareholdings, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Corporation.*

*The independent director is subject to the same general responsibilities and specific duties and responsibilities of a regular director. While an independent director should always attend Board meetings, his absence shall not affect the quorum requirement.*

*This definition is consistent with the Corporate Governance Code.*

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

*The Company adheres to and adopts the term limits set down in SEC Memorandum Circular No. 9 Series of 2011.*

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
Mario A. Oreta	Director	December 31, 2015	Attend to business matters

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
<b>a. Selection/Appointment</b>		
(i) Executive Directors	Any shareholder can submit a nomination for election to the board to be submitted prior to the conduct of the stockholders' meeting. The Nomination Committee evaluates then submits its recommendation to the shareholders for election.	a. Holder of at least one (1) share of stock of the Company;
(ii) Non-Executive Directors		b. He shall have at least a college education or equivalent academic degree;
(iii) Independent Directors		c. Practical understanding of the business of the Company;
		d. He shall be at least twenty one (21) years old;
		e. Membership in good standing in relevant industry, business or professional organizations; and
		f. Previous business experience.
		Same as the above qualifications, in addition:
		He shall, apart from his fees and shareholdings, be independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with this exercise of independent judgment in carrying out his responsibilities as a director of the Company.

		Likewise observing the provisions of SEC Memorandum Circular No. 9, Series of 2011	
<b>b. Re-appointment</b>			
(i) Executive Directors	- same -	- same-	
(ii) Non-Executive Directors			
(iii) Independent Directors		Subject to term limitations	
<b>c. Permanent Disqualification</b>			
(i) Executive Directors	<p>Any shareholder can notify the Board of the existence of any criteria for permanent disqualification. This will be evaluated by the Nominations Committee. Upon recommendation of the Nominations Committee, the director concerned will no longer be included in the roster of directors for election.</p>	<p>i. Any person convicted by final judgment or order by a competent judicial or competent administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;</p> <p>ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or floor broker; or (b) acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraph a and b above, or willfully violating the laws that govern securities and banking activities.</p> <p>The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or</p>	
(ii) Non-Executive Directors			
(iii) Independent Directors			

		<p>administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or the Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or the BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization.</p> <p>iii. Any person convicted by final judgment or order by a competent judicial or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>iv. Any person who has been adjudged by final judgment or order of the Commission, or a court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Corporation Code, the Securities Regulation Code, or any other law administered by the Commission or BSP, or any rule, regulation or order of the Commission or the BSP;</p> <p>v. Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;</p> <p>vi. Any person judicially declared to be insolvent;</p> <p>vii. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing</p>
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		<p>paragraphs; and</p> <p>viii. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.</p>
<b>d. Temporary Disqualification</b>		
(i) Executive Directors	<p>Any shareholder can notify the Board of the existence of any criteria for temporary disqualification. This will be evaluated by the Nominations Committee. Upon recommendation of the Nominations Committee, the director concerned will temporarily disqualified. A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>i. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;</p> <p>ii. Absence in more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his/her incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election;</p> <p>iii. Dismissal/termination for cause as in another corporation covered by the Code of Corporate Governance. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination;</p> <p>iv. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with; and</p> <p>v. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.</p> <p>A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for</p>
(ii) Non-Executive Directors		
(iii) Independent Directors		

		unjustified reasons, the disqualification shall become permanent.
<b>e. Removal</b>		
(i) Executive Directors	Any shareholder can notify the Board of the existence of any criteria for permanent disqualification. This will be evaluated by the Nominations Committee. Upon recommendation of the Nominations Committee, the director can be removed in accordance with the procedure laid down in Section 22 of the Corporation Code.	1. Any ground for permanent disqualification 2. Loss of any qualification for election
(ii) Non-Executive Directors		
(iii) Independent Directors		
<b>f. Re-Instatement</b>		
(i) Executive Directors	To be evaluated by the Nominations Committee if the disqualification no longer exists or has been amply remedied.	A temporarily disqualified director takes the appropriate action to remedy or correct the disqualification.
(ii) Non-Executive Directors		
(iii) Independent Directors		
<b>g. Suspension</b>		
(i) Executive Directors	Any shareholder can notify the Board of the existence of any criteria for permanent disqualification. This will be evaluated by the Nominations Committee. Upon recommendation of the Nominations Committee, the director can be removed in accordance with the procedure laid down in Section 22 of the Corporation Code.	Violation of the Company's Manual of Corporate Governance
(ii) Non-Executive Directors		
(iii) Independent Directors		

Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Roberto V. Ongpin	During the last stockholders' meeting, all votes of the stockholders present and represented were distributed equally among the 15 nominees.
Mario A. Oreta	
Dennis O. Valdes	
Anna Bettina Ongpin	
Tomas I. Alcantara	
Rafael B. Ortigas	
Edgardo J. Angara	
Gregorio Ma. Araneta III	
Zaldy M. Prieto	
Rodolfo Ma. A. Ponferrada	

Victor C. Macalincag	
Edgar Brian K. Ng	
Cliburn Anthony A. Orbe	
Michael Angelo Patrick M. Asperin	
Crisanto Roy B. Alcidi	

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

*The Corporate Secretary furnishes all directors a copy of the Company's Manual on Corporate Governance. He also reminds the directors to attend the seminar on corporate governance.*

(b) State any in-house training and external courses attended by Directors and Senior Management<sup>2</sup> for the past three (3) years:

*On January 12, 2012, some of the Company's directors and officers attended a seminar on corporate governance conducted by the Bankers Institute of the Philippines, Inc.*

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Rafael B. Ortigas	November 16, 2015	Corporate Governance Seminar	Philippine Corporate Enhancement and Governance, Inc.
None	N/A	N/A	N/A
None	N/A	N/A	N/A

**B. CODE OF BUSINESS CONDUCT & ETHICS**

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	Disclosure of possible conflict of interest is required. The existence of a conflict of interest or the appearance of conflict can be a ground for removal from office.	Disclosure of possible conflict of interest is required. The existence of a conflict of interest or the appearance of conflict can be a ground for removal from office and for termination from employment.	It is the obligation of every employee to declare to declare and disclose in writing to the Company his own involvement in any endeavor, which is in conflict to the interests of the Company. The existence of a conflict of interest <i>per se</i> is not a punishable act as per the Company's Code of Discipline. However, failure, whether deliberate or through neglect,

<sup>2</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

			to disclose the same to the Company shall be meted out the penalty of 5 days suspension or dismissal, depending on the impact or effect to the Company's interest.
(b) Conduct of Business and Fair Dealings	All directors are expected to exhibit fair play in dealing with and for the Company.	Honesty and transparency is mandated. Any violation can be a ground for disciplinary action, depending on the gravity.	Honesty and transparency is mandated. Any violation can be a ground for disciplinary action, depending on the gravity.
(c) Receipt of gifts from third parties	This is discouraged.	This is highly discouraged to avoid conflicts in interest. The Company has a policy providing guidelines for receiving gifts.	This is highly discouraged to avoid conflicts in interest. The Company has a policy providing guidelines for receiving gifts.
(d) Compliance with Laws & Regulations	All directors are required to disclose any pending litigation or proceeding.	All officers are required to disclose any pending litigation or proceeding.	All employees are required to disclose any pending litigation or proceeding.
(e) Respect for Trade Secrets/Use of Non-public Information	All directors are required to keep confidential the Company's trade secrets and private information. Insider trading is not allowed.	All are required to keep confidential the Company's trade secrets and private information. Violation of confidentiality can be a ground for disciplinary action, depending on the gravity.	All are required to keep confidential the Company's trade secrets and private information. Violation of confidentiality can be a ground for disciplinary action, depending on the gravity.
(f) Use of Company Funds, Assets and Information	Use of Company assets is highly monitored and is only allowed for legitimate business purpose.	Use of Company assets is highly monitored and is only allowed for legitimate business purpose. Misuse of company assets can be a ground for disciplinary action, depending on the gravity.	Use of Company assets is highly monitored and is only allowed for legitimate business purpose. Misuse of company assets can be a ground for disciplinary action, depending on the gravity.
(g) Employment & Labor Laws & Policies	N/A	N/A	The Company strictly observes compliance with existing employment and labor law standards and policies.
(h) Disciplinary action	Subject to disqualification from office (permanent or temporary)	Discretion of the Board and/or the Management Committee	Every employee who has been alleged to have committed a violation of the Company's Code of Discipline shall be accorded his right to due process.
(i) Whistle Blower	No formal policy is adopted.	The Company has designated e-mail address to report any whistle	The Company has designated e-mail address to report any whistle

		blowing regarding fraud, misappropriations, discrimination, sexual harassment, and other wrongful conduct or illegal acts. All procedure and information obtained is kept confidential.	blowing regarding fraud, misappropriations, discrimination, sexual harassment, and other wrongful conduct or illegal acts. All procedure and information obtained is kept confidential.
(j) Conflict Resolution	This is in accordance with the Manual on Corporate Governance.	Members of Senior Management are encouraged to discuss and settle conflict among themselves. The Chairman or higher officer can intervene to settle the conflict.	All employees must report to their respective supervisors any conflict for resolution.

- 2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

*Yes. The Company's Code of Discipline has been disseminated to all executives, senior management and the employees.*

- 3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

*The Company has enforced the provisions of its Code of Discipline in cases involving infractions and offenses committed by its employees. The Company makes sure that affected employees are given all the rights available under existing laws and regulation.*

*The Company monitors compliance with its Code of Discipline through regular assessments and reports accomplished by the employees and their superiors.*

- 4) Related Party Transactions

- (a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	Transactions from any related party are evaluated on arm's length commercial terms and subject to bidding against third party suppliers. Purchases and services are usually awarded on the basis of lowest cost provider.
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	
(5) Substantial Stockholders	All are disclosed to the stockholders in the Company's annual reports.
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	Whenever applicable, the concerned director inhibits himself from voting on the approval/consideration of the transaction.
(8) Interlocking director relationship	

of Board of Directors	<p>All material information about the Company, which could adversely affect its viability or the interests of the stockholders, shall be publicly and timely disclosed. Such information shall include related party transactions, among others.</p> <p>It is the duty of the Board to formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Company and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board</p> <p>A director/officer should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He shall avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director/officer, he shall fully and immediately disclose it and shall not participate in the decision-making process. A director/officer who has a continuing material conflict of interest shall seriously consider resigning from his position.</p>
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(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

*N/A. There is no actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.*

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	-
Name of Officer/s	-
Name of Significant Shareholders	-

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	All interest is required to be disclosed. The necessary due diligence will be conducted before a transaction is closed.
Group	

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>3</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
None		

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
None		

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None		
None		

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

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

Alternative Dispute Resolution System	
Corporation & Stockholders	Some contract entered into by the Corporation provide for arbitration.
Corporation & Third Parties	
Corporation & Regulatory Authorities	

<sup>3</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

### C. BOARD MEETINGS & ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

*Meetings of the Board of Directors are held quarterly.*

- 2) Attendance of Directors

3) Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Roberto V. Ongpin	11 August 2015	5	5	100
Member	Mario A. Oreta	11 August 2015	5	3	60
Member	Dennis O. Valdes	11 August 2015	5	5	100
Member	Anna Bettina Ongpin	11 August 2015	5	5	100
Member	Tomas I. Alcantara	11 August 2015	5	5	100
Member	Rafael B. Ortigas	11 August 2015	5	4	80
Member	Edgardo J. Angara	11 August 2015	5	3	60
Member	Gregorio Ma. Araneta III	11 August 2015	5	5	100
Member	Zaldy M. Prieto	11 August 2015	5	5	100
Member	Rodolfo Ma. A. Ponferrada	11 August 2015	5	5	100
Member	Victor C. Macalincag	11 August 2015	5	5	100
Member	Edgar Brian K. Ng	11 August 2015	5	4	80
Member	Cliburn Anthony A. Orbe	11 August 2015	5	5	100
Member	Michael Angelo Patrick M. Asperin	11 August 2015	5	5	100
Member	Cristanto Roy B. Alcid	11 August 2015	5	4	80

- 4) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

*No.*

- 5) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

*As per the By-Laws of the Company, a majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business. And a majority of the directors present in a meeting (provided there is a quorum) shall be valid to pass a corporate act.*

- 6) Access to Information

- (a) How many days in advance are board papers<sup>4</sup> for board of directors meetings provided to the board?

<sup>4</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting.

*At least one day in advance.*

- (b) Do board members have independent access to Management and the Corporate Secretary?

Yes.

- (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc.?

*The following are the duties and responsibilities of the Company's Corporate Secretary:*

*a. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Company;*

*b. Be loyal to the mission, vision and objectives of the Company;*

*c. Work fairly and objectively with the Board, Management and stockholders;*

*d. Have appropriate administrative and interpersonal skills;*

*e. If he is at the same time the Company's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;*

*f. Have a working knowledge of the operations of the Company;*

*g. Inform the members of the Board, in accordance with the by-laws of the Company, the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;*

*h. Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;*

*i. Ensure that all Board procedures, rules and regulations are strictly followed by the members; and*

*j. If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in this Manual*

*k. Submit to the Commission, on or before January 30 of the following year, an annual certification as to the attendance of the directors during Board meetings.*

- (d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

*Yes. The Company's Corporate Secretary is a member of the Integrated Bar of the Philippines.*

- (e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

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Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

Yes

No

Committee	Details of the procedures
Executive	The Corporate Secretary ensures that the agenda and documents needed for the scheduled committee meeting are sent to the members at least one (1) day before. Each member of the committee is likewise free to contact the Corporate Secretary at any time to obtain any relevant information.
Audit	-do-
Nominations	-do-
Compensation	-do-
Others (specify) – <i>Stock Option Committee</i>	-do-

7) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
No procedure, but directors are free to secure external advice at their own expense.	

8) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
	None	

**D. REMUNERATION MATTERS**

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers

(1) Fixed remuneration	Management recommends the rate. This is deliberated upon by the Compensation Committee then forwarded to the Executive Committee or to the full Board of Directors for approval.	Management recommends the rate. This is deliberated upon by the Compensation Committee then forwarded to the Executive Committee or to the full Board of Directors for approval.
(2) Variable remuneration	Not applicable	Not applicable
(3) Per diem allowance		
(4) Bonus		
(5) Stock Options and other financial instruments	In accordance with the stock option plan	
(6) Others (specify)	Not applicable	

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	As per Article III, Section 9 of the By-Laws	Per diem	<p>The per diem is calculated based on an estimate of how much is the reasonable expense necessary to attend the board meetings. This is submitted to the stockholders for their ratification during stockholders' annual meeting.</p> <p>For their additional compensation, this is calculated based on management's recommendation, subject to the prior approvals of the Compensation Committee and the Board of Directors.</p>
Non-Executive Directors		Per diem	<p>The per diem is calculated based on an estimate of how much is the reasonable expense necessary to attend the board meetings. This is submitted to the stockholders for their ratification during stockholders' annual meeting.</p> <p>For their additional compensation, this is calculated based on management's recommendation, subject to the prior approvals of the Compensation Committee and the Board of Directors.</p>

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

*Yes. Stockholders are given this opportunity.*

Remuneration Scheme	Date of Stockholders' Approval
N/A	N/A
N/A	N/A
N/A	N/A

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	None	None	None
(b) Variable Remuneration	None	None	None
(c) Per diem Allowance	None	None	None
(d) Bonuses	None	None	None
(e) Stock Options and/or other financial instruments	None	None	None
(f) Others (Specify)	None	None	None
<b>Total</b>	None	None	None

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	None	None	None
2) Credit granted	None	None	None
3) Pension Plan/s Contributions	None	None	None
(d) Pension Plans, Obligations incurred	None	None	None
(e) Life Insurance Premium	None	None	None
(f) Hospitalization Plan	None	None	None
(g) Car Plan	None	None	None
(h) Others (Specify)	None	None	None
<b>Total</b>			

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
Dennis O. Valdes	1,250,000		1,250,000	.09%
Edgar Brian K. Ng	1,200,000		1,200,000	.08%
Zaldy M. Prieto	950,000		950,000	.07%
Cliburn Anthony A. Orbe	250,000		250,000	.02%
Rodolfo Ma. A. Ponferrada	200,000		200,000	.01%

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None	N/A	N/A
None	N/A	N/A
None	N/A	N/A

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name of Officer/Position	Total Remuneration
Alexander C. Manabal	Php10,272,000.00
Maria Lourdes A. De Guzman	
Raymund S. Aquino	
Antonio Jose K. Garcia	
Mona Liza I. Navarro	

**E. BOARD COMMITTEES**

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3	0	0	By-laws of the Company	Oversees the management of the Company; Grants the necessary corporate approval for transactions done in the ordinary course of business	Acts as the Board of Directors, as regards approvals and transactions of the Company in the ordinary course of its business.	The Executive Committee may act, by majority vote of all its members, on such specific matters within the competence of, and as may be delegated by the Board of Directors.
Audit	0	0	3		Under the Audit Committee Charter, the Committee shall have the following functions and responsibilities:  a. Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations;  b. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal		a. Over see the work of the external auditor of the Company in the conduct of its annual audit.  b. Resolve any disagreements between management and the external auditor regarding financial reporting.  c. Pre-approve all auditing and permitted non-audit

					<p>and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities. The Committee shall also promote risk awareness in the Company;</p> <p>c. Perform oversight functions over the Company's internal and external auditors. It shall ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective functions;</p> <p>d. Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it;</p> <p>e. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and</p>	<p>services performed by the Company's external auditor.</p> <p>d. When necessary, retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation. After such investigations, the Committee shall have the authority to implement the appropriate remedies to address any finding of wrongdoing or inaccurate reporting and whenever necessary institute the appropriate legal actions to protect the best interest of the Company.</p> <p>e. Seek any information it requires from employees--</p>
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					<p>expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts. The Committee shall review and approve management's representation letter before submission to the external auditor;</p> <p>f. Organize an internal audit department and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;</p> <p>g. Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;</p> <p>h. Review the reports submitted by the internal and external auditors;</p> <p>i. Review the quarterly, half-year and annual</p>	<p>all of whom are directed to cooperate with the committee's requests--or external parties.</p> <p>f. Meet with company officers, external auditors, or outside counsel, as necessary.</p>
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					<p>financial statements before their submission to the Board, with particular focus on the following matters:</p> <ul style="list-style-type: none"> <li>i. Any changes in accounting policies and practices</li> <li>ii. Major judgmental areas</li> <li>iii. Significant adjustments resulting from audit</li> <li>iv. Going concern assumptions</li> <li>v. Compliance with accounting standards</li> <li>vi. Compliance with tax, legal and regulatory requirements</li> <li>vii. Unusual or complex transactions including all related party transactions</li> </ul> <p>j. Coordinate, monitor and facilitate compliance with laws, rules and regulations</p>	
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					<p>k. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Company's annual report.</p> <p>l. Establish and identify the reporting line of the Internal Auditor to enable to properly fulfill his duties and responsibilities. He shall functionally report directly to the Committee. The Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties</p>	
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Nomination	0	1	2	Manual on Corporate Governance; By-laws of the Company	Ensures that all candidates for directorships possess all the necessary qualifications	Reviews the qualifications of all nominations for directorships and makes its recommendation to the Board of Directors	Recommends to the Board all qualified nominees for directorships
Remuneration	0	1	2	Manual on Corporate Governance; By-laws of the Company	Reviews the compensation, benefits and incentives provided by the Corporation	Approves level of pay and benefits consistent with the policies of the Corporation.	Recommends to the Board the level of pay and benefits to be given to officers and employees of the Corporation
Stock Option Committee	2	1	0	Manual on Corporate Governance; By-laws of the Company	Reviews stock options to be granted by the Corporation	Approves stock options to be awarded by the Corporation	Recommends to the Board the level of stock options to be awarded by the Corporation

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Roberto V. Ongpin	11 August 2015	8	8	100	16
Member (ED)	Dennis O. Valdes	11 August 2015	8	8	100	10

(b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Victor C. Macalincag	11 August 2015	2	2	100	2

Member (ID)	Edgardo J. Angara	11 August 2015	2	2	100	2
Member (ID)	Tomas J. Alcantara	11 August 2015	2	2	100	14

Disclose the profile or qualifications of the Audit Committee members.

*Members of the Committee shall preferably have adequate accounting and finance backgrounds, as such qualifications are interpreted by the Board in its business judgment. They shall have the competence to understand the Company's business, financial systems, management and environment in order to fulfill the purpose of the Committee. At least one member of the Committee shall have audit experience, which may include any of the following skills:*

- i. understanding of accounting principles applicable to the Company and its financial statements;*
- ii. experience in preparing, auditing or reviewing and/or analyzing financial statements of at least of the same scope as that required for the Company;*
- iii. experience in actively overseeing a finance and accounting team in the preparation of financial statements;*
- iv. understanding of internal controls and procedures for financial reports.*

*Describe the Audit Committee's responsibility relative to the external auditor.*

*As part of its oversight functions, the Audit Committee –*

- a. Oversees the work of the external auditor of the Company in the conduct of its annual audit.*
- b. Resolves any disagreements between management and the external auditor regarding financial reporting.*
- c. It shall ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective functions;*
- d. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts. The Committee shall review and approve management's representation letter before submission to the external auditor;*
- e. Reviews the reports submitted by the internal and external auditors;*
- f. Evaluates and determines the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence.*

*Describe the Audit Committee's responsibility relative to the external auditor.*

*Perform oversight functions over the Company's internal and external auditors. It shall ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective functions.*

Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

Review the reports submitted by the internal and external auditors.

Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Company's annual report.

(c) Nominations Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Member (ID)	Tomas I. Alcantara	11 August 2015	1	1	100	14
Member (NED)	Anna Bettina Ongpin	11 August 2015	1	1	100	3

(d) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Roberto V. Ongpin	11 August 2015	1	1	100	16
Member (ID)	Tomas I. Alcantara	11 August 2015	1	1	100	14
Member (ID)	Gregorio Ma. Araneta III	11 August 2015	1	1	100	2

(e) Others (Specify) – Stock Option Committee

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Roberto V. Ongpin	11 August 2015	1	1	100	16
Member (ED)	Dennis O. Valdes	11 August 2015	1	1	100	10

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	Mario A. Oreta	resigned as director
Audit	None	N/A
Nomination	Mario A. Oreta	resigned as director
Remuneration	None	N/A
Stock Option	Mario A. Oreta	resigned as director

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	Approval of all corporate acts done in the ordinary course of business.	No significant or controversial issue arose during the year.
Audit	Approval of Audit Committee Charter and financial statements of the Company and the internal audit program.	
Nomination	Submitted the short-list of nominees for election to the Board of Directors of the Company.	
Remuneration	Approved the compensation package recommended by the human resource department and management.	
Others (specify)		

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	None	No significant controversial issues that needs to be addressed has arose.
Audit	None	No significant controversial issues that needs to be addressed has arose.
Nomination	None	No significant controversial issues that needs to be addressed has arose.
Remuneration	None	No significant controversial issues that needs to be addressed has arose.
Others (specify)	None	No significant controversial issues that needs to be addressed has arose.

**F. RISK MANAGEMENT SYSTEM**

1) Disclose the following:

(a) Overall risk management philosophy of the company;

*The main purpose of the Corporation's dealings in financial instruments is to fund its operations and capital expenditures.*

The Corporation's risk management policies are established to identify and analyze the risks faced by it, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. All risks faced by the Corporation are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Corporation's operations and detriment forecasted results. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

- (b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

*After reviewing the financial statements and management report of the Company for the fiscal year, the Board of Directors believe that the Corporation has an adequate risk management system.*

- (c) Period covered by the review;

*Fiscal Year ended December 31, 2015*

- (d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness;

*The risk management system is regularly reviewed annually.*

And

- (e) Where no review was conducted during the year, an explanation why not.

2) Risk Policy

- (a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Strategic	The Management provides continuous developing a framework that integrates into the culture of the organization and ensure of the overall objectives of the Company are achieve.	To identify and mitigate any risk which has a direct impact on achieving the overall goals and objective of the Company.
	Ensure that the organization's audit committee, board of directors as a whole or other board committee is giving appropriate attention to the organization's catastrophic and strategic risks and related risk management activities.	
Operational	Risks are prioritized, depending on the impact to the overall business and the effectiveness by	Managing the risk of loss resulting from inadequate or failed internal processes, people and systems or

	which these are managed. Risk mitigation strategies are developed, updated, and continuously reviewed for effectiveness, and also monitored through various control mechanism.	from external events.
Hazard	<i>The senior management and key leaders created a back-up recovery plan if in case there will be technology downtime to support the operation.</i>	To minimized the effect of technology shut down due to unforeseen event.
Knowledge Management	The Management is constantly training its people to enhance more their technical abilities while developing rewarding system that will attract, retain and motivate highly competent people and add value to the company.	To keep the best assets of the Company, its people.
Compliance	In order to comply with the law, rules and regulation, the Management ensure that the all requirements were met before any sites operate.	To maintain adherence to law, rules and regulation.
Accounting Controls	The Audit Committee through the internal audit department reviews the fairness of the financial information on the regular basis.	Conformity to accounting standards and report reliable information to its intended users.
Information System	Technology plays critical role in the enabling the flow of the information in the Organization. The management invested into information system that enables to integrate the company's online gaming business.	To ensure that the information system is efficient and effective.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Credit Risk	Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises principally from the Company's cash in banks and cash equivalents, trade receivables and refundable deposits.	To limit the Company's credit risk.
Liquidity Risk	Liquidity risk is the risk that the	To limit the Company's liquidity

	<p>Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.</p>	<p>risk.</p>
<p>Market Risk</p>	<p>Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will adversely affect the Company's income or the 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.</p> <p>The Company is subject to transaction and translation exposures resulting from currency exchange fluctuations. The Company regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.</p>	<p>To limit the Company's market risk.</p>
<p>Capital Management</p>	<p>The Company monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Total debt is equivalent to accounts payable and accrued expenses, other current liabilities and due to related parties. Total equity comprises all components of</p>	<p>To constantly monitor and regulate the Company's capital management.</p>

	equity including capital stock and deficit.  There were no changes in the Company's approach to capital management during the year.	
Credit Risk	Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises principally from the Company's cash in banks and cash equivalents, trade receivables and refundable deposits.	To limit the Company's credit risk.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
While management believes that it does everything it can to protect its minority shareholders by placing the proper checks and balances on its Board of Directors and officers, one potential risk is a conflict of interest arises between the majority and the minority, especially when it comes to profit/revenue/dividend distribution.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Strategic	Review and approve the company key risk policies on the establishment of risk limits.	The Management is religiously monitoring the compliance to PAGCOR requirements of significant limits, laws, rules and regulations.
Operations	Cases consider "suspicious" based on the risk alerts, unusual betting and or wagering play by the customers.	The company invested in the computer technology and hire competent people that will monitor and protect the company's system against any suspicious items.
Hazard	The company implements measures to ensure its full capacity once there will be there will be technology shutdown.	A recovery back up plan is being practiced for better maintenance and operations are implemented for the continuity of services and operations.
Knowledge Management	The management decides on check and balance key roles or in order to maintain the knowledge flow of the company.	

Compliance	The company designates a compliance function to oversee any changes in regulatory environment.	The compliance function monitors the content and information on the changes on risk and regulatory environment and communicate to the management on its impact
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(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
None		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

*There is no risk management committee. The responsibilities of the risk management committee are shared by the Executive Committee, Audit Committee and the internal audit unit.*

Committee/Unit	Control Mechanism	Details of its Functions
N/A		

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

*The control environment of the Company consists of (a) the Board which ensures that the Company is properly and effectively managed and supervised; (b) the Management that actively manages and operates the Corporation in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Company's governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules and regulations, and contracts*

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

*The Board of Directors has reviewed the effectiveness of the internal control system. The Board finds that the system is effective and adequate.*

(c) Period covered by the review;

2015

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system;

Once a year.

(e) Where no review was conducted during the year, an explanation why not. N/A

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
<p>The mission of Internal Audit is to provide independent and objective assurance and consulting services designed to assist the company in achieving its objectives by striving to provide a positive impact on the efficiency and effectiveness of operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes.</p>	<p>Internal Audit coverage includes all aspects of the company's activities in accordance with the Internal Audit Charter approved by the Audit Committee. The extent and frequency of internal audits will depend upon varying circumstances such as the results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal controls and resources available at the Internal Audit Function.</p>	<p>In-house</p>	<p>Maria Lourdes Arroyo-De Guzman</p>	<p>Internal Audit reports to the Audit Committee once every quarter, during the Audit Committee's quarterly meeting.</p>

- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes.

- (c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

*Internal Audit reports to the Audit Committee once every quarter, during the Audit Committee's quarterly meeting. Yes, internal auditor has unfettered access to the board of directors and the audit committee and to all records, properties and personnel of the Company.*

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Daniel Hamoy	Career move / greener pastures

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	Issues	Findings	Examination Trends
Audit of company owned eGames are undertaken based on the approved Audit Plan by the Audit Committee	Branch Audits focusing on the following audit areas: - Cash Handling, Collection, Deposit and Reconciliation - Petty Cash Fund, Expense and Payroll Testing - Personnel Management - Commission Income Computation - Supplies Management - Compliance	Issues and observations were noted in the audit areas enumerated; however, these issues were properly communicated and rectified by management.	The issues identified do not have a material impact on the fairness and reliability of the financial and non-financial reports submitted to regulatory agencies/stakeholders.

	Requirements: (a) Philweb (b) PAGCOR (c) CCTV (d) Security Logbook (e) System Access (f) Fraud Awareness\		
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[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
<i>Audit Program for Site Audit</i>	<ol style="list-style-type: none"> <li>1. To ensure that cash funds and collections are intact.</li> <li>2. To determine completeness of the fixed assets.</li> <li>3. To check if the site personnel are playing the online games.</li> <li>4. To review compliance with regulatory requirements and operational policies</li> </ol>
<i>Audit Program for Review of Bank Reconciliation Statements</i>	<ol style="list-style-type: none"> <li>1. To ensure that the balances per bank and per record are the same.</li> <li>2. To determine that the bank reconciliation statement is updated.</li> </ol>
<i>Audit Program for Betting Credit Fund and Security Guarantee Deposit</i>	<ol style="list-style-type: none"> <li>1. To ensure that the betting credit fund and security guarantee deposit are collected.</li> <li>2. To determine that the betting credit fund and security guarantee deposit are properly recorded in the books.</li> </ol>
<i>Audit Program for Review of Security and Rental Deposit</i>	<ol style="list-style-type: none"> <li>1. To ensure that the security and rental deposits per books is in accordance with the lease contracts.</li> <li>2. To determine that the security and rental deposits per books is updated and accurate.</li> </ol>
<i>Audit Program for Review of Cash Advance</i>	<ol style="list-style-type: none"> <li>1. To ensure that the cash advances are valid and properly authorized.</li> </ol>

	<ol style="list-style-type: none"> <li>To determine that the cash advances are liquidated within the prescribed period.</li> </ol>
<i>Audit Program for Cash Count- Cash Fund</i>	<ol style="list-style-type: none"> <li>To ensure that the cash on hand of the custodian tallies per record.</li> <li>To ensure that the cash fund per custodian is intact.</li> </ol>
<i>Audit Program for Cash Count- Collection</i>	<ol style="list-style-type: none"> <li>To ensure that the collection of the custodian is intact</li> <li>To ensure that the cash per custodian tallies with the record.</li> </ol>
<i>Audit Program for Fixed Assets Count- Company Vehicles</i>	<ol style="list-style-type: none"> <li>To ensure physical existence of the company vehicles.</li> <li>To determine condition of the company vehicles.</li> <li>To check that all company vehicles are properly documented.</li> </ol>
<i>Audit Program for Fixed Assets Count</i>	<ol style="list-style-type: none"> <li>To ensure physical existence of the fixed assets.</li> <li>To determine condition of the fixed assets.</li> <li>To check that all fixed assets in the site/department are properly documented.</li> <li>To ensure accuracy of the record of the fixed assets.</li> </ol>
<i>Audit Program for Process Review</i>	<ol style="list-style-type: none"> <li>To determine that internal controls are in place.</li> <li>To check that the internal controls are adequate.</li> <li>To review appropriateness of the process in place.</li> </ol>
<i>Audit Program for Review of Disbursements</i>	<ol style="list-style-type: none"> <li>To ensure that the expenses are valid, reasonable, business related and properly authorized.</li> <li>To determine that the expenses are in compliance with policy and procedures.</li> </ol>
<i>Audit Program for Accounts Receivable</i>	<ol style="list-style-type: none"> <li>Accounts receivable are authentic obligations owed to the company at the balance sheet.</li> <li>Accounts receivable include all amounts owed to the company at the balance sheet date</li> <li>The allowance for doubtful accounts is adequate but not excessive</li> </ol>
<i>Audit Program Guide for Human Resources</i>	<ol style="list-style-type: none"> <li>To review the HR system in comparison with other organizations and modify them to meet the challenges of human resource management.</li> <li>To evaluate the effectiveness of various HR policies and practices</li> <li>To propose appropriate strategies and corrective action, in case of performance and efficiency gaps.</li> </ol>
<i>Audit Program Guide for Inventory</i>	<ol style="list-style-type: none"> <li>Inventory reflected in the accounts represents a complete listing of inventory by the</li> </ol>

	<p><i>company, and such assets are physically on hand, in transit, or stored at outside locations at the balance sheet date</i></p> <ol style="list-style-type: none"> <li>2. <i>Inventory listings are accurately compiled, extended, footed, and summarized, and the totals are properly reflected in the accounts</i></li> <li>3. <i>Excess, slow-moving, obsolete, and defective inventory is reduced to net realizable value</i></li> <li>4. <i>Inventory is properly classified in the balance sheet, and disclosure is made of pledged or assigned inventory, major categories of inventory, and the methods used to value inventory</i></li> </ol>
Audit Program Guide for Property	<ol style="list-style-type: none"> <li>1. <i>Property, plant, and equipment is valued at cost in accordance with GAAP</i></li> <li>2. <i>The costs and related depreciation applicable to all sold, abandoned, damaged, or obsolete property have been properly removed from the accounts.</i></li> <li>3. <i>The balances in the depreciation allowance accounts are reasonable, considering the expected useful lives of the property units and estimated salvage value</i></li> </ol>

(g) Mechanism and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
<ul style="list-style-type: none"> <li>• Issuance of Conflict of Interest Statement, Assessment of possible Threat to Independence for engagements conducted by auditors.</li> </ul>	Issuance of Conflict of Interest Statement.	Issuance of Conflict of Interest Statement.	Issuance of Conflict of Interest Statement.

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

**Dennis O. Valdes – President**

**Rodolfo Ma. A. Ponferrada – Corporate Secretary and Compliance Officer**

**H. ROLE OF STAKEHOLDERS**

1) Disclose the company's policy and activities relative to the following:

	<b>Policy</b>	<b>Activities</b>
Customers' welfare	It is our responsibility to uphold a fair and safe gaming experience to all our eGames members.	eGames cafes are members-only and we restrict access to the general public. Members are screened to ensure that regulatory requirements are met. Vulnerable citizens (underage, etc) are not allowed to play. We strongly advocate healthy, sustainable, and responsible gaming practices in our network and are committed to a holistic approach in dealing with compulsive gaming behavior. A responsible gaming campaign is currently in its first phase of implementation. A customer-help line will be integrated into our contact center offerings.  We work with regulatory agencies and third party testing and certification groups to ensure fair gameplay and accurate reporting across all gaming components. Players' rights are upheld.
Supplier/contractor selection practice	Managed by the General Services unit of the Human Resources & Administration Department. Canvassing (companies owned in full or in part by employees or their relatives may be included, but must be declared at the onset), bidding (need to at least three accredited suppliers), selection based on quality and price witnessed by Finance and Audit, management approval, awarding.	Canvassing, bidding, selection, management approval, awarding.
Environmentally friendly value-chain	None	Sorting, recycling
Community interaction	U.P. scholarship for deserving students (taking I.T. courses) from low-income families; computer labs built in selected public schools.	U.P. screens and selects students, PhilWeb Foundation sponsors two of them. Company studies and selects communities in need of computer labs (first one was set up was in the Balesin community school).

Anti-corruption programs and procedures?	Employees and officers must disclose, if any, associations, affiliations, and activities which might be construed as comprising conflict of interest.	A thorough screening process, even for employee referrals, is conducted.
Safeguarding creditors' rights	All transactions entered into by the Company are governed by Terms and Conditions of Agreement	Negotiate on Terms and Conditions of Agreement

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

*Yes, the activities of PhilWeb Foundation are reported separately in the annual report.*

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

*The Company employs a corporate doctor who works on site. Regular employees are enrolled in an HMO and a life and accident insurance plan, with the premiums paid by the Company. Regular employees are also given an annual physical exam and invited to participate in health seminars conducted by the HMO provider. In excess of the maximum benefit limit, the Company extends a guaranteed limit to cover health costs that are otherwise not covered or cannot be covered by the health insurance provider. Regular security checks are also conducted, as well as annual fire and earthquake drills. Regular inspection of physical facilities as well as installation of sprinklers, fire extinguishers with clear access to fire exits are provided. Biometric access to doorways are implemented to increase security. Regular notices relating to safety and building admin issues are circulated by email to employees.*

(b) Show data relating to health, safety and welfare of its employees.

*274 employees are currently enrolled under Maxicare and Cocolife. 240 employees availed of the annual physical exam. No accidents or harmful incidents on Company premises.*

(c) State the company's training and development programs for its employees. Show the data.

*The Company has an in-house Management Training Program that has been running for six years. It is a year-long rotational program where top graduates are assigned to different departments and trained to be the future leaders of PhilWeb Corporation. At least 40 young people have graduated from the program and 20 have leadership roles in the Company here and abroad. Other training and development programs offered are conducted outside. In April 2013, 25 employees were sent to the Ateneo Center for Continuing Education's Essentials for Supervision, a four day course tailored to PhilWeb's specific needs to strengthen its leadership pool.*

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

*The Company has a competitive pay-for-performance remuneration package that allows it to attract, retain and motivate a highly skilled workforce. Salary adjustments form part of the Company's overall budget, and these adjustments are determined by one's performance, behavior, leadership skills, and place in the salary grade. Reviews and approvals are conducted by division/department heads, Human Resources and the President.*

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.

*The Company has a Code of Discipline in place as well as final draft of a whistle-blowing policy pending management approval. Employees approach the Human Resources unit directly with any of their concerns. Complaints are*

investigated with the assistance of the Security Officer. Notices to Explain are issued to employees when necessary. Employees may be placed under preventive suspension for their protection during an investigation.

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

#### (a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Azurestar Corporation	147,868,248	10.31%	Roberto V. Ongpin
Dominion Equities, Inc.	90,842,400	6.33%	Roberto V. Ongpin
Compact Holdings, Inc.	95,574,500	6.66%	Roberto V. Ongpin
Deltaventure Resources, Inc.	90,001,797	6.27%	Roberto V. Ongpin

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Roberto V. Ongpin	21,840,000	745,739,396	53.54
Dennis O. Valdes	2,443,200	21,223,565	1.65
Zaldy M. Prieto	190,700	-	0.01
Rodolfo Ma. A. Ponferrada	236,000	-	0.02
Edgar Brian K. Ng	151,500	-	0.01
<b>TOTAL</b>	<b>24,861,400</b>	<b>766,962,961</b>	<b>55.23</b>

### 2) Does the Annual Report disclose the following:

Key risks	No
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	Yes
Details of whistle-blowing policy	Yes
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes
Training and/or continuing education program attended by each director/commissioner	Not applicable. The company does not have this program
Number of board of directors/commissioners meetings held during the year	Yes

Attendance details of each director/commissioner in respect of meetings held	Yes
Details of remuneration of the CEO and each member of the board of directors/commissioners	No

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
R.G. Manabat & Co.	P1,262,150	None

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

1. *Email*
2. *Posting of notices in designated places in the Office Premises*
3. *When necessary, SMS*
4. *Personal delivery of hardcopies of documents to the intended recipient*

5) Date of release of audited financial report:

*April 14, 2016*

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	Yes
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

*The Corporation's Articles of Incorporation and By-Laws are part of public record and lodged with the Securities and Exchange Commission, and are readily available to the public.*

7) Disclosure of RPT

RPT	Relationship	Nature	Value
BigGame Inc.	Subsidiary	Advances to for working capital requirement	8,096,265
PhilWeb Casino Corporation	Subsidiary	Advances to for working capital requirement	2,504,160
PhilWeb Asia Pacific Corp.	Subsidiary	Advances to for working capital requirement	19,883,962
Alphaland Corporation	Under common control	Share in common personnel and rental expenses	22,733,174
Best Choice Holdings, Inc.	Subsidiary	Advances to for working capital requirement	6,941,510
Easy eBingo, Inc.	Subsidiary	Advances to for working capital requirement	2,156,610
eMagine Gaming Corporation	Subsidiary	Advances to for working capital requirement	36,138,197
		Total	98,453,878
PhilWeb Leisure & Tourism Corporation	Subsidiary	Advances from for working capital requirement	64,743,516
PhilWeb International Gaming Corporation	Subsidiary	Advances from for working capital requirement	40,242,021
PhilWeb Mobile Lottery Corp.	Subsidiary	Advances from for working capital requirement	58,080,208
PhilWeb Tourism and Entertainment Corporation	Subsidiary	Advances from for working capital requirement	13,659,901
Premyo Sa Resibo, Inc.	Subsidiary	Advances from for working capital requirement	5,919,567
Pure Corporate Management Ltd	Subsidiary	Advances from for working capital requirement	81,417,837
		Total	263,063,050

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

*Transactions from any related party are evaluated on arm's length commercial terms and subject to bidding against third party suppliers. Purchases and services are usually awarded on the basis of lowest cost provider.*

*When such transactions are submitted to the Board for approval, the concerned director abstains from voting.*

**J. RIGHTS OF STOCKHOLDERS**

- 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings
  - (a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

<b>Quorum Required</b>	Majority of the outstanding capital stock must be represented.
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(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

<b>System Used</b>	Cumulative system
<b>Description</b>	Every stockholder entitled is entitled to one vote. However, with respect to the election of directors, the stockholders may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the number of directors to be elected.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

<b>Stockholders' Rights under The Corporation Code</b>	<b>Stockholders' Rights <u>not</u> In The Corporation Code</b>
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Dividends

Declaration Date	Record Date	Payment Date
(d) January 14, 2015	January 30, 2015	February 16 2015
April 17, 2015	May 7, 2015	May 21, 2015
July 30, 2015	August 14, 2015	August 28, 2015
October 22, 2015	November 12, 2015	November 26, 2015

(e) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
During the stockholders' meeting, the Chairman ensures that there is an open forum for any of the stockholders present to raise any issue which he/she wishes to discuss	During the meeting, the Chairman informs the stockholders at the onset that there will be an open forum at the later part of the meeting wherein they can raise any matter they want with the Board or to the body.

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - a. Amendments to the company's constitution – *In accordance with the Corporation Code.*
  - b. Authorization of additional shares – *The stockholder's approval is secured only in instances required by law.*
  - c. Transfer of all or substantially all assets, which in effect results in the sale of the company – *In accordance with the Bulk Sales Law, stockholder's approval shall be secured.*
3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

*No. 15 business days in accordance with SEC rules.*

- a. Date of sending out notices: *At least 21 business days before the Annual Stockholder's meeting.*
- b. Date of the Annual/Special Stockholders' Meeting: *Month of May (as per By-Laws)*
4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.
 

*None of the stockholders present or represented asked any questions.*
5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of the Annual Stockholders' Meeting held on 28 August 2014	Unanimous	-	-
Approval of the Management Report and Audited Financial Statements as of 31 December 2014	Unanimous	-	-
Ratification and Approval of Corporate Acts	Unanimous	-	-
Election of Directors	unanimous	-	-
Appointment of External Auditor	unanimous	-	-

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

*The results are immediately disclosed to the PSE on the same date of the meeting after it has adjourned.*

(f) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
N/A	N/A
N/A	N/A
N/A	N/A

(g) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board Members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Roberto V. Ongpin Dennis. O. Valdes Mario A. Oreta Rafael B. Ortigas Tomas I. Aicantara Anna Bettina Ongpin Michael Angelo Patrick M. Asperin Edgar Brian K. Ng Cliburn Anthony A. Orbe Zaldy M. Prieto Gregorio Ma. Araneta III Victor C. Macalincag Rodolfo Ma. A. Ponferrada Ricardo Roy B. Alcid	11 August 2015	By show of hand	-		75.76
Special	N/A	N/A	N/A	N/A	N/A	N/A

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

*No. If necessary votes shall be validated by the office of the Corporate Secretary.*

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

*Yes. One share is equivalent to one vote.*

(h) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

Company's Policies	
Execution and acceptance of proxies	The Company does not solicit proxies. But shareholders are free to attend by proxies.

Notary	None.
Submission of Proxy	10 business days prior to the scheduled meeting
Several Proxies	Allowed
Validity of Proxy	Maximum of 5 years
Proxies executed abroad	Allowed
Invalidated Proxy	If submitted late or not properly executed or cannot be validated
Validation of Proxy	5 business days prior to the scheduled meeting
Violation of Proxy	Company will not honor.

(i) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Immediately upon setting of the meeting, this is publicly disclosed thru the PSE.	Submission to the PSE for publication
Notices are sent to each shareholder 15 business days prior to the date of the annual stockholders meeting	Registered mail

(j) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders as of stated record date
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	
State whether CD format or hard copies were distributed	CD format were distributed to the stockholders
If yes, indicate whether requesting stockholders were provided hard copies	Hard copies of the reports were made available during the stockholders' meeting. Each stockholder was also given the option of making a request to the Office of the Corporate Secretary for the provision of hard copies of the reports.

(k) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Yes
The auditors to be appointed or re-appointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	Yes
The amount payable for final dividends.	Yes
Documents required for proxy vote.	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
Voting rights	<p>Each share of stock is entitled to one vote during stockholders' meetings. However, at all elections of directors, every stockholder entitled to vote may vote such number of stocks for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit.</p> <p>Section 5, Article I of the By-Laws provide in part:</p> <p>"At every meeting of the stockholders of the Company, every stockholder entitled to vote shall be entitled to one vote for each share of stock standing in his name on the books of the Company; provided, however, that in the case of the election of directors, every stockholder entitled to vote shall be entitled to accumulate his vote in accordance with the provisions of law in such case made and provided. Xxx"</p> <p>Sec. 7.1.2 of the Manual provides:</p> <p>"7.1.2.1 Shareholders shall have the right to elect, remove and replace directors and vote on</p>

	<p>certain corporate acts in accordance with the Corporation Code.</p> <p>7.1.2.2 Cumulative voting shall be used in the election of directors.</p> <p>7.1.2.3 A director shall not be removed without cause if it will deny minority shareholders representation in the Board.”</p>
<p>Right of Appraisal</p>	<p>Pursuant to Sections 81 and 42 of the Corporation Code, shareholders of the Corporation constituting at least two-thirds (2/3) of the outstanding capital stock, may exercise their right of appraisal in the following instances:</p> <ul style="list-style-type: none"> <li>(i) an amendment of the articles of incorporation which has the effect of changing or restricting the rights of any stockholder or class of share, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);</li> <li>(ii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the property or assets of the corporation;</li> <li>(iii) incurring, creating or increasing bonded indebtedness;</li> <li>(iv) increase or decrease of capital stock;</li> <li>(v) merger or consolidation of the corporation with another corporation or other corporations;</li> <li>(vi) dissolution of the corporation;</li> <li>(vii) declaration of stock dividends;</li> <li>(viii) removal of directors;</li> <li>(ix) extension or limitation of corporate term;</li> <li>(x) investment of corporate funds in another corporation or business or for any purpose other than the primary purpose for which the corporation was organized;</li> <li>(xi) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws.</li> </ul> <p>A shareholder who shall have voted against any proposed action may exercise his appraisal right by making a written demand on the Corporation within thirty (30) days after the date of the Shareholders’ Meeting. Failure to make the demand within the prescribed period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the Corporation shall pay the dissenting stockholder upon surrender of the stock certificates</p>

	<p>representing his shareholdings in the Corporation based on the fair value thereof as of the day prior to the date of the shareholders' meeting, excluding any appreciation or depreciation in anticipation of such corporate actions, provided that no payment shall be made to the dissenting shareholder unless the Corporation has unrestricted retained earnings to cause such payment.</p> <p>If within a period of sixty (60) days from the date of the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the shareholder, another by the Corporation and the third by the two thus chosen. The findings of the majority of the appraiser shall be final and their award shall be paid by the Corporation within thirty (30) days after such award is made.</p>
<p>Power of inspection (Sec. 7.1.3 of the Manual)</p>	<p>All shareholders shall be allowed to inspect Company's books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.</p>
<p>Right to Information</p>	<p>Sec. 7.1.4 of the Manual provides:</p> <p>"7.1.4.1 The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers.</p> <p>7.1.4.2 The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.</p> <p>7.1.4.3 The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of</p>

	<p>stockholders' meeting, being within the definition of "legitimate purposes"."</p>
<p>Right to Dividends</p>	<p>Sec. 7.1.5 of the Manual provides:</p> <p>"7.1.5.1 Shareholders shall have the right to receive dividends subject to the Company's dividend policy.</p> <p>7.1.5.2 The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite Company expansion projects or programs approved by the Board or b) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies as required by regulatory bodies."</p>
<p>Sec. 7.2 of the Manual provides:</p> <p>"It shall be the duty of the directors to promote shareholders' rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints."</p>	
<p>Sec. 7.3 of the Manual provides:</p> <p>"The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a</p>	

<p>proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholders' favor."</p>	
<p>Right to propose the holding of meetings</p>	<p>Sec. 7.4 of the Manual provides:  "Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Company."</p>

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes.

**K. INVESTORS RELATIONS PROGRAM**

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

*Corporate Information Office and the Corporate Communications Department*

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

*The Company doesn't have a dedicated investor relations program. The Corporate Information Officer serves as the officer responsible for investor relations program.*

	Details
(1) Objectives	-
(2) Principles	-
(3) Modes of Communications	-
(4) Investors Relations Officer	-

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

*The Company will comply with the applicable rules and regulations.*

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

N/A

**L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
Donations of computers to select public schools and other non-profit organizations	Mariano Sabarino Elementary School Poyopoy Elementary School San Pascual Elementary School Sioco Carino Elementary School Toybongan Elementary School ChildHope Asia ERDA Tech Foundation Makati City Jail Manhain Elementary School Lorenzo Ramos Elementary School Napico Elementary School New Bilibid Prison Don Domingo Capistrano Memorial Elementary School Dona Paz Elementary School Rawang Elementary School Rizal High School Sagad High School St. Peter Apostle Parish
Tree Planting	Haribon Foundation

#### M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

Annual appraisal

	Process	Criteria
<b>Board of Directors</b>	None.	None.
<b>Board Committees</b>	None.	None.
<b>Individual Directors</b>	The Nominations Committee annually evaluates the eligibility of the directors for re-election. The stockholders, based on the reports provided to them, have the right to elect these directors.	Practical understanding of the business of the Company; Membership in good standing in relevant industry, business or professional organizations; Previous business experience. Doesn't possess any ground for disqualification
<b>CEO/President</b>	The Board of Directors have the discretion in evaluating the CEO and the President.	

#### N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
For any violation of the Corporation's Manual on Corporate Governance	<p>Sec. 9 of the Manual provides:</p> <p><b>"9 PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL</b></p> <p>To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the Company's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:</p> <p>9.1 In case of first violation, the subject person shall be reprimanded.</p> <p>9.2 Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.</p> <p>9.3 For third violation, the maximum penalty of removal from office shall be imposed.</p> <p>9.4 The commission of a third violation of this manual by any member of the Board of the Company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.</p> <p>9.5 The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board."</p>

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on June \_\_, 2013.

**SIGNATURES**

**ROBERTO V. ONGPIN**

Chairman of the Board and CEO

**DENNIS O. VALDES**

President

**MARIO A. ORETA**

Independent Director

**TOMAS I. ALCANTARA**

Independent Director

**RODOLFO MA. A. PONFERRADA**

Compliance Officer

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of May 2013, affiant(s) exhibiting to me their TIN, as follows:

NAME/NO.	DATE OF ISSUE	PLACE OF ISSUE
Roberto V. Ongpin	TIN 130-725-714	
Dennis O. Valdes	TIN 141-808-056	
Rodolfo Ma. A. Ponferrada	TIN 215-793-472	
Mario A. Oreta		
Tomas A. Alcantara		

**NOTARY PUBLIC**

Doc No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of \_\_\_\_\_

Republic of the Philippines )  
Makati City )Sc.

### SECRETARY'S CERTIFICATE

#### KNOW ALL MEN BY THESE PRESENTS:

I, **Raymund S. Aquino**, Filipino, of legal age with office address at The Penthouse Alphaland Southgate Tower 2258 Chino Roces Avenue corner EDSA, Makati City, after having been sworn in accordance with law depose and state that:

1. I am the incumbent Assistant Corporate Secretary of PhilWeb Corporation (Corporation), a corporation duly organized and existing under the laws of the Republic of the Philippines;
2. At the meeting of the Executive Committee of the Board of Directors of the Corporation held on 13 April 2016, the following resolution was unanimously approved:

**"RESOLVED**, that PhilWeb Corporation (Corporation) hereby authorizes the submission of the Corporation's Annual Corporate Governance Report for 2015."


3. The foregoing resolution is still in force and has not been amended or revoked by a subsequent resolution.

**IN WITNESS WHEREOF**, I have hereunto set my hand this 13 April 2016 at Makati City.

  
**Raymund S. Aquino**  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 13 April 2016 with affiant exhibiting to me his TIN ID No. 167-317-782.

Doc. No. 271  
Page No. 56  
Book No. II  
Series of 2016.

  
**CARLO ANTONIO A. BAUTISTA**  
Appointment No. M-53  
Notary Public for Makati City  
Until December 31, 2016  
The Penthouse, Alphaland  
Southgate Tower, Makati City  
Roll No. 59381  
PIR No. 5370081; 01/07/2016; Makati City  
DDP No. 1015079; 01/07/2016; RSM  
MCEJ No. IV-01117797 / TIN-408-377-800



**PHILWEB CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2015, 2014 and 2013**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PhilWeb Corporation (the "Company"), is responsible for the preparation and fair presentation of the consolidated financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein, 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 consolidated 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.

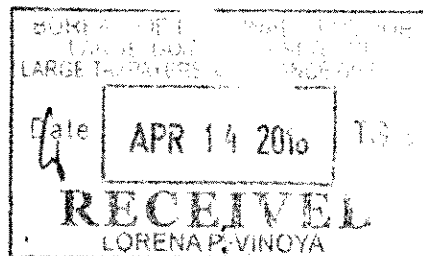
The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

R.G. Manabat & 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 board and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

  
**ROBERTO Y. ONGPIN**  
Chairman

  
**DENNIS O. VALDES**  
President

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



Signed this 1<sup>st</sup> day of March 2016





**R.G. Manabat & Co.**  
 The KPMG Center, 9/F  
 6787 Ayala Avenue  
 Makati City 1226, Metro Manila, Philippines

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 Fax +63 (2) 894 1985  
 Internet www.kpmg.com.ph  
 E-Mail ph-inquiry@kpmg.com

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, 2015 and 2014, 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, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

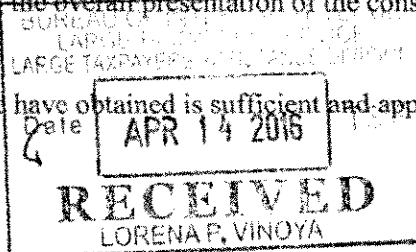
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements 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.



R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

PRC-BOA Registration No. 0003, valid until December 31, 2016  
 SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017  
 IC Accreditation No. F-2014/014-R, valid until August 28, 2017  
 BSP Accredited, Category A, valid until December 17, 2017



*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, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

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

**ADOR C. MEJIA**

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

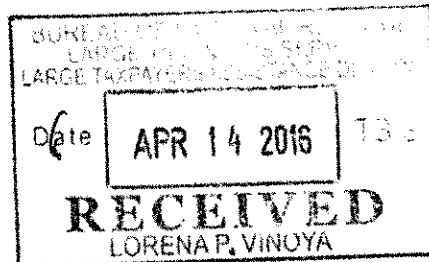
Issued May 9, 2013; valid until May 8, 2016

PTR No. 5321505MD

Issued January 4, 2016 at Makati City

March 1, 2016

Makati City, Metro Manila





**PHILWEB CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

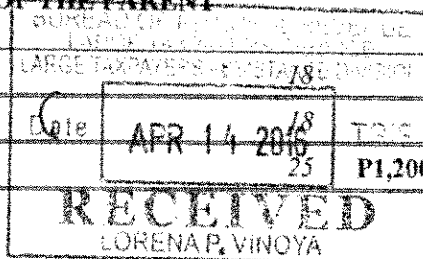
December 31

	<i>Note</i>	2015	2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4, 22	P210,314,159	P374,949,875
Accounts receivable - net	5, 15, 22	203,004,280	299,627,945
Inventories	6	-	106,252,113
Current portion of notes receivable	7, 22	234,221,902	360,248,864
Prepaid expenses and other current assets - net	8	90,004,483	92,707,211
<b>Total Current Assets</b>		<b>737,544,824</b>	<b>1,233,786,008</b>
<b>Noncurrent Assets</b>			
Investments in associates	9	14,768,220	15,090,229
Noncurrent notes receivable	7, 22	510,300,000	583,200,000
Property and equipment - net	10	251,398,249	218,178,406
Deferred tax assets	14	13,642,042	14,724,999
Other noncurrent assets - net	11, 22	52,513,406	49,536,262
<b>Total Noncurrent Assets</b>		<b>842,621,917</b>	<b>880,729,896</b>
		<b>P1,580,166,741</b>	<b>P2,114,515,904</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12, 22	P303,891,471	P227,705,155
Notes payable	13, 22	200,000,000	700,000,000
Income tax payable		106,906,834	126,117,876
<b>Total Current Liabilities</b>		<b>610,798,305</b>	<b>1,053,823,031</b>
<b>Noncurrent Liabilities</b>			
Retirement benefits liability - net	20	14,887,570	18,497,425
Operators' deposits	21, 22	57,055,000	52,055,000
<b>Total Noncurrent Liabilities</b>		<b>71,942,570</b>	<b>70,552,425</b>
<b>Total Liabilities</b>		<b>682,740,875</b>	<b>1,124,375,456</b>
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	16	1,389,874,997	1,388,916,731
Additional paid-in capital	16	1,091,982,096	1,081,882,866
Stock options reserve	16	6,757,960	4,604,050
Retained earnings	16	2,617,356,756	2,450,743,551
Cumulative translation adjustment		6,165,227	5,495,982
Remeasurement losses on defined benefit liability - net of tax	20	(4,458,764)	(1,148,147)
Treasury stock	16	(4,211,137,736)	(3,941,779,041)
		<b>896,540,536</b>	<b>988,715,992</b>
<b>Non-controlling Interest</b>		<b>885,330</b>	<b>1,424,456</b>
<b>Total Equity</b>		<b>897,425,866</b>	<b>990,140,448</b>
		<b>P1,580,166,741</b>	<b>P2,114,515,904</b>

See Notes to the Consolidated Financial Statements.

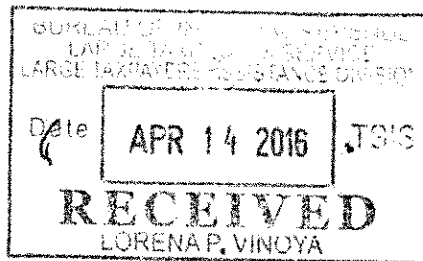
**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31		
	Note	2015	2014	2013
<b>REVENUES</b>				
Internet application services		P1,427,591,374	P1,399,551,444	P1,236,339,986
Commission		240,019,102	233,173,213	222,292,802
Scratch cards		-	7,231,918	35,066,976
		1,667,610,476	1,639,956,575	1,493,699,764
<b>OPERATING EXPENSES</b>				
Salaries and benefits	15, 16, 17, 20	130,451,283	118,036,531	128,755,412
Depreciation and amortization	10	109,649,183	103,445,643	131,724,161
Outsourced services		92,069,605	89,180,634	94,198,851
Impairment losses	5, 6, 8, 10, 11	76,260,998	44,400,909	198,472,147
Utilities and communications		68,634,432	88,011,890	70,739,545
Rental	19	64,594,145	66,727,033	70,858,880
Representation and entertainment		46,424,335	42,154,396	56,977,076
Supplies		21,656,858	19,407,022	26,386,566
Taxes and licenses		20,524,765	11,390,830	14,251,192
Professional fees		9,408,037	8,853,134	12,136,793
Advertising and promotion		4,245,089	4,434,649	15,777,742
Operator incentives and commissions		-	1,273,092	9,917,553
Miscellaneous		6,429,003	10,535,037	8,788,123
		650,347,733	607,850,800	838,984,041
<b>OPERATING INCOME</b>		<b>1,017,262,743</b>	<b>1,032,105,775</b>	<b>654,715,723</b>
<b>OTHER INCOME (CHARGES)</b>				
Interest income	4, 5, 7	51,767,383	59,799,886	22,500,401
Foreign exchange gain (loss) - net		28,611	(3,121,758)	3,579,333
Equity in net earnings (loss) of associates	9	(322,009)	325,368	86,072,773
Bank charges		(2,847,315)	(719,437)	-
Interest expense	13	(22,727,535)	(49,569,583)	(22,072,431)
Loss on sale of equity investment	9	-	-	(551,958,543)
Miscellaneous - net		404,750	(107,345)	(2,856,444)
		26,303,885	6,607,131	(464,734,911)
<b>INCOME BEFORE INCOME TAX</b>		<b>1,043,566,628</b>	<b>1,038,712,906</b>	<b>189,980,812</b>
<b>INCOME TAX EXPENSE (BENEFIT) - Net</b>				
	14	173,940,595	134,837,218	(12,913,743)
<b>NET INCOME</b>		<b>P869,626,033</b>	<b>P903,875,688</b>	<b>P202,894,555</b>
<b>Net Income (Loss) Attributable to</b>				
Equity holders of the Parent Company		P870,165,159	P903,990,032	P209,875,685
Non-controlling interest		(539,126)	(114,344)	(6,981,130)
		P869,626,033	P903,875,688	P202,894,555
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>				
Basic		P0.7421	P0.7712	P0.1577
Diluted		P0.7389	P0.7706	P0.1577
<b>EBITDA</b>		<b>P1,200,758,970</b>	<b>P1,176,003,787</b>	<b>P985,634,920</b>
Forward				



		Years Ended December 31		
	Note	2015	2014	2013
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will never be reclassified to profit or loss</b>				
Remeasurement gains (losses) on defined benefit liability	20	(P4,729,453)	P339,596	P5,002,443
Deferred tax effect on remeasurement gains (losses) on defined benefit liability		1,418,836	(101,878)	(1,500,733)
		(3,310,617)	237,718	3,501,710
<b>Item that can be reclassified to profit or loss</b>				
Foreign exchange translation adjustment		669,245	3,163,214	5,501,730
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		(2,641,372)	3,400,932	9,003,440
<b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>		P866,984,661	P907,276,620	P211,897,995
<b>Total Comprehensive Income (Loss) Attributable to</b>				
Equity holders of the Parent Company		P867,517,753	P907,359,332	P217,668,744
Non-controlling interest		(533,092)	(82,712)	(5,770,749)
		P866,984,661	P907,276,620	P211,897,995

See Notes to the Consolidated Financial Statements.

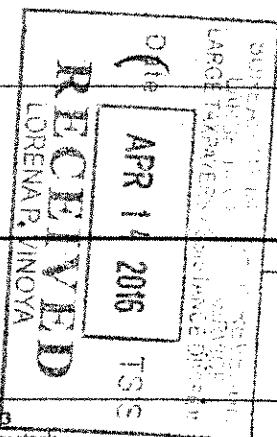


**PHILWEB CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31

	Equity Attributable to Equity Holders of the Parent Company							Total	Non-controlling Interest	Total Equity
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Remeasurement Gain (Losses) on Defined Benefit Liability - Net of Tax (Note 20)	Treasury Stock (Note 16)			
As at January 1, 2013	P1,388,913,231	P1,081,837,366	P4,422,064	P2,073,440,678	(P3,168,962)	(P4,887,575)	(P1,060,476,020)	P3,480,080,782	P8,519,930	P3,488,600,712
Acquisition of treasury stock	-	-	-	-	-	-	(2,881,303,021)	(2,881,303,021)	-	(2,881,303,021)
Cash dividends	-	-	-	(267,673,591)	-	-	-	(267,673,591)	-	(267,673,591)
Reversal of stock option	-	-	(379,246)	-	-	-	-	(379,246)	-	(379,246)
	-	-	(379,246)	(267,673,591)	-	-	(2,881,303,021)	(3,149,355,858)	-	(3,149,355,858)
<b>Total comprehensive income (loss)</b>										
Net income (loss) for the year	-	-	-	209,875,685	-	-	-	209,875,685	(6,981,130)	202,894,555
Other comprehensive income for the year:										
Foreign exchange translation adjustment	-	-	-	-	5,501,730	-	-	5,501,730	-	5,501,730
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	3,501,710	-	3,501,710	-	3,501,710
<b>Total comprehensive income (loss)</b>				<b>209,875,685</b>	<b>5,501,730</b>	<b>3,501,710</b>		<b>218,879,125</b>	<b>(6,981,130)</b>	<b>211,897,995</b>
As at December 31, 2013	1,388,913,231	1,081,837,366	4,042,818	2,015,642,773	2,332,768	(1,385,865)	(3,941,779,041)	549,604,049	1,538,800	551,142,849
Stock subscription	3,500	45,500	-	-	-	-	-	49,000	-	49,000
Cash dividends	-	-	-	(468,889,253)	-	-	-	(468,889,253)	-	(468,889,253)
Cost of stock option	-	-	561,232	-	-	-	-	561,232	-	561,232
	3,500	45,500	561,232	(468,889,253)	-	-	-	(468,279,021)	-	(468,279,021)
<b>Total comprehensive income (loss)</b>										
Net income (loss) for the year	-	-	-	903,990,032	-	-	-	903,990,032	(114,344)	903,875,688
Other comprehensive income for the year:										
Foreign exchange translation adjustment	-	-	-	-	3,163,214	-	-	3,163,214	-	3,163,214
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	237,718	-	237,718	-	237,718
<b>Total comprehensive income (loss)</b>				<b>903,990,032</b>	<b>3,163,214</b>	<b>237,718</b>		<b>907,390,964</b>	<b>(114,344)</b>	<b>907,276,620</b>
As at December 31, 2014	P1,388,916,731	P1,081,882,866	P4,604,050	P2,450,243,551	P5,495,982	(P1,148,147)	(P3,941,779,041)	P988,715,992	P1,424,456	P990,140,448

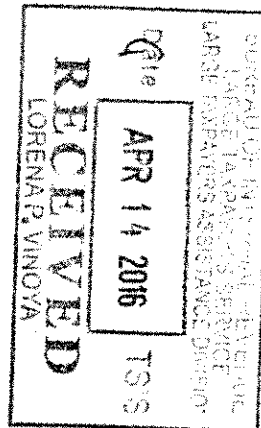
Forward



Years Ended December 31

	Equity Attributable to Equity Holders of the Parent Company							Total	Non-controlling Interest	Total Equity
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Remeasurement Losses on Defined Benefit Liability - Net of Tax (Note 20)	Treasury Stock (Note 16)			
As at December 31, 2014	P1,388,916,731	P1,981,882,866	P4,684,050	P2,450,743,551	P5,495,982	(P1,148,147)	(P3,941,779,041)	P988,715,992	P1,424,456	P990,140,448
Stock subscription	958,266	9,092,048	-	-	-	-	-	10,050,314	-	10,050,314
Cash dividends	-	-	-	(703,551,954)	-	-	-	(703,551,954)	-	(703,551,954)
Acquisition of treasury stock	-	-	-	-	-	-	(269,358,695)	(269,358,695)	-	(269,358,695)
Cost of stock option	-	-	3,161,092	-	-	-	-	3,161,092	-	3,161,092
Exercised stock option	-	1,007,182	(1,007,182)	-	-	-	-	-	-	-
	958,266	10,099,230	2,153,910	(703,551,954)	-	-	(269,358,695)	(959,699,243)	-	(959,699,243)
<b>Total comprehensive income (loss)</b>										
Net income for the year	-	-	-	870,165,159	-	-	-	870,165,159	(539,126)	869,626,033
Other comprehensive income (loss) for the year:										
Foreign exchange translation adjustment	-	-	-	-	669,245	-	-	669,245	-	669,245
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	(3,310,617)	-	(3,310,617)	-	(3,310,617)
Total comprehensive income (loss)	-	-	-	870,165,159	669,245	(3,310,617)	-	867,523,787	(539,126)	866,984,661
As at December 31, 2015	P1,389,874,997	P1,691,982,096	P6,757,960	P2,647,286,756	P6,265,227	(P4,458,764)	(P4,211,137,736)	P896,540,536	P885,330	P897,425,866

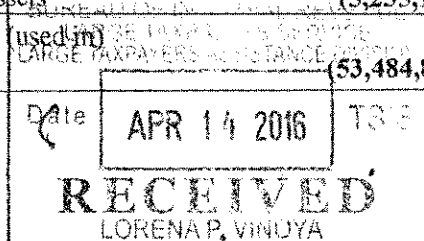
See Notes to the Consolidated Financial Statements



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

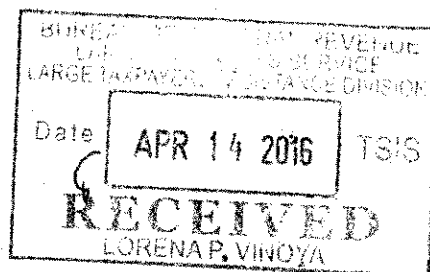
		Years Ended December 31		
	Note	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		P1,043,566,628	P1,038,712,906	P189,980,812
Adjustments for:				
Depreciation and amortization	10	109,649,183	103,445,643	131,724,161
Impairment losses	5, 6, 8, 10, 11	76,260,998	44,400,909	198,472,147
Interest expense	13	22,727,535	49,569,583	22,072,431
Retirement benefits cost	17, 20	5,134,907	5,870,237	7,238,055
Cost (reversal) of stock option	16, 17	3,161,092	561,232	(379,246)
Equity in net earnings of associates	9	322,009	(325,368)	(86,072,773)
Unrealized foreign exchange loss (gain)		651,363	(21,980)	(876,877)
Gain on disposals of property and equipment		(370,000)	(1,000)	(126,020)
Interest income	4, 5, 7	(51,767,383)	(59,799,886)	(22,500,401)
Loss on sale of equity investment	9	-	-	551,958,543
Operating income before working capital changes		1,209,336,332	1,182,412,276	991,490,832
Decrease (increase) in:				
Accounts receivable		41,500,378	(5,401,945)	(55,801,442)
Inventories		-	(57,656,145)	(46,062,405)
Prepaid expenses and other current assets		(26,195,343)	(31,324,933)	(44,926,549)
Increase (decrease) in:				
Accounts payable and accrued expenses		76,222,188	18,267,358	(40,152,885)
Cash generated from operations		1,300,863,555	1,106,296,611	804,547,551
Interest received		3,938,981	19,442,677	22,500,401
Income tax paid		(190,649,844)	(7,240,741)	(7,706,157)
Contribution to the retirement fund	20	(13,474,215)	(15,000,000)	-
Interest paid		(22,763,407)	(51,166,007)	(17,745,000)
Net cash provided by operating activities		1,077,915,070	1,052,332,540	801,596,795
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	10	(48,619,722)	(75,215,449)	(97,687,810)
Proceeds from disposals of:				
Property and equipment		370,000	1,000	257,100
Equity investment		-	-	558,267,849
Decrease (increase) in:				
Notes receivable		-	25,561,874	(19,808,093)
Investments in associates		-	3,163,214	(5,449,781)
Other noncurrent assets		(5,235,144)	(5,365,459)	(1,711,810)
Net cash provided by investing activities		(53,484,866)	(51,854,820)	433,867,455

Forward



		Years Ended December 31		
	Note	2015	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	13	P200,000,000	P -	P1,200,000,000
Payments of loans	13	(700,000,000)	(500,000,000)	-
Proceeds from subscriptions to and issuances of common stock	16	10,050,314	49,000	-
Increase in operators' deposits		5,000,000	1,300,000	2,455,000
Acquisition of treasury shares	7, 16	(582,162)	-	(2,881,303,021)
Cash dividends paid	16	(703,551,954)	(468,889,253)	(267,673,591)
Net cash used in financing activities		(1,189,083,802)	(967,540,253)	(1,946,521,612)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		17,882	21,980	876,877
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		(164,635,716)	32,959,447	(710,180,485)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
	4	374,949,875	341,990,428	1,052,170,913
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	4	P210,314,159	P374,949,875	P341,990,428

See Notes to the Consolidated Financial Statements.





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## **REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION**

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

We have audited in accordance with Philippine Standards on Auditing, the separate financial statements of PhilWeb Corporation (the “Company”) as at and for the year ended December 31, 2015, on which we have rendered our report dated March 1, 2016.

Our audit was made for the purpose of forming an opinion on the basic separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company’s management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic separate financial statements taken as a whole.

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

**ADOR C. MEJIA**

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

Issued May 9, 2013; valid until May 8, 2016

PTR No. 5321505MD

Issued January 4, 2016 at Makati City

March 1, 2016  
Makati City, Metro Manila

**PHILWEB CORPORATION**  
**The Penthouse, Alphaland Southgate Tower**  
**2258 Chino Roces Avenue corner EDSA, Makati City**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR**  
**DIVIDEND DECLARATION**

*(Figures based on Company's  
audited financial statements as  
at and for the year ended  
December 31, 2015)*

<i>Unappropriated Retained Earnings, as adjusted to available for dividend distribution, January 1, 2015</i>	<b>P1,238,543,334</b>
Net Income based on the face of AFS	P724,818,398
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP – loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net income actually earned during the year	<b>724,818,398</b>
Less: Dividend declarations during the year	<b>859,787,338</b>
<b>TOTAL RETAINED EARNINGS, December 31, 2015</b> <b>AVAILABLE FOR DIVIDEND</b>	<b>P1,103,574,394</b>

**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.

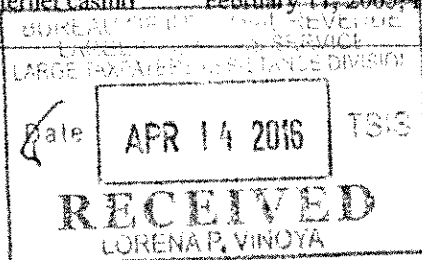
On November 5, 2002, the SEC approved the change in corporate name of the Parent Company from "PhilWeb.Com, Inc." to "PhilWeb Corporation". This change in corporate name is in line with emphasis and focus of the Parent Company on the internet gaming industry.

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 (collectively referred to as the "Group"):

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



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

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

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

*(a) Not in commercial operations as at December 31, 2015.*

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

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

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

*(e) Acquired in 2012, 100% owned in 2013, (see Note 7).*

*(f) Ceased commercial operations effective October 1, 2014.*

*(g) Dissolution of PhilWeb Lorosae, Lda and Gold Scratch and Win Co., Ltd. was approved by the Board of Directors on December 19, 2014 and January 16, 2015, respectively.*

*(h) Formerly PhilWeb Homeplay, Inc. (PHI), change in registered business activity and business name were approved by the SEC on April 7, 2014.*

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2015, 2014 and 2013, except when indicated.

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

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 compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations, issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on March 1, 2016, respectively, as authorized by the BOD of the Parent Company.

### Basis of Measurement

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

### Functional and Presentation Currency

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

### Basis of Consolidation

#### *Subsidiaries*

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

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

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

#### *Non-controlling Interests*

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

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

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

#### *Loss of Control*

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

#### *Transactions Eliminated on Consolidation*

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

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

#### Use of Judgments and Estimates

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

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

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

#### Judgments

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

##### *Functional Currency*

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

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

##### *Determination of Control and Significant Influence*

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

### *Classifying Financial Instruments*

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

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

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

### *Determining Fair Values*

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

### *Determining whether an Arrangement Contains a Lease*

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

### *Operating Leases*

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

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

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

Rent expense recognized in profit or loss amounted to P64.6 million, P66.7 million, and P70.9 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 19).

#### *Contingencies*

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

#### Estimates

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

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

Allowance for impairment losses on receivables amounted to P120.1 million and P105.0 million as at December 31, 2015 and 2014, respectively (see Note 5).

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

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

Allowance for inventory write-down to NRV amounted to P4.1 million and P7.4 million as at December 31, 2015 and 2014, respectively (see Note 6).

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

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

Allowance for impairment losses on input VAT amounted to P193.4 million and P164.5 million as at December 31, 2015 and 2014, respectively (see Note 8).

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

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

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

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

Allowance for impairment losses on property and equipment and other noncurrent assets amounted to P15.5 million and P5.4 million as at December 31, 2015 and 2014 (see Notes 10 and 11).

*Estimating Useful Lives of Property and Equipment*

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

The carrying amount of the Group's property and equipment amounted to P251.4 million and P218.2 million as at December 31, 2015 and 2014, respectively (see Note 10).

*Estimating Realizability of Deferred Tax Assets*

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

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

The Group's deferred tax assets amounted to P13.6 million and P14.7 million as at December 31, 2015 and 2014, respectively. On the other hand, the Group has temporary differences aggregating to P173.9 million and P178.3 million as at December 31, 2015 and 2014, respectively for which no deferred tax assets have been recognized (see Note 14).

#### *Estimating Retirement Benefits Obligation*

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

Retirement benefits liability amounted to P14.9 million and P18.5 million as at December 31, 2015 and 2014, respectively. Retirement benefits cost amounted to P5.1 million, P5.9 million, and P7.2 million for the years ended December 31, 2015, 2014 and 2013 respectively (see Note 20).

#### *Share-based Payments*

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

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

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

Cost (reversal) of stock options recognized in profit or loss under "salaries and benefits" account amounted to P3.2 million, P0.6 million and (P0.4 million) for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 16).

#### *Provisions*

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

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

The Company does not have any contingent legal or constructive obligation that requires provision as at December 31, 2015 and 2014.

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### 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 or Revised Standards, Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- **Defined Benefit Plans: Employee Contributions (Amendments to PAS 19).** The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- *Annual Improvements to PFRS: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Earlier application is permitted, in which case the related consequential amendments to other PFRS would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40.
- **Meaning of 'vesting condition' (Amendment to PFRS 2).** PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition.' The amendment also clarifies both: how to distinguish between a market and a non-market performance condition; and the basis on which a performance condition can be differentiated from a non-vesting condition.
- **Disclosures on the aggregation of operating segments (Amendment to PFRS 8).** PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- *Scope of portfolio exception (Amendment to PFRS 13).* The scope of the PFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of PAS 39 and PFRS 9.

PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32 - e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans.

#### Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

#### *Effective January 1, 2016*

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to PAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.
- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
  - Information should not be obscured by aggregating or by providing immaterial information.
  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Effective January 1, 2018

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

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

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

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

*Pending approval of local adoption of PFRS 15 Revenue from Contracts with Customers*

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

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the impact on the financial statements.

### Financial Instruments

#### *Non-derivative Financial Instruments*

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

#### *Date of Recognition*

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

#### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received in case of a liability. The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

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

The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as at December 31, 2015 and 2014.

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

#### *Loans and Receivables*

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

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

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

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

#### *Other Financial Liabilities*

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:  
(a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

### Determination of Fair Value

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

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

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

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

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

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

### Offsetting of Financial Instruments

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

### Inventories

Scratch cards of 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 NRV. Cost is determined using the first-in, first-out method and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. NRV is the current replacement cost.

#### Prepaid Expenses and Other Current Assets

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

Input VAT is stated at its estimated NRV.

#### Property and Equipment

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

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

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

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

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

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

#### Impairment of Assets

##### *Financial Assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower

or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

#### *Nonfinancial Assets*

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

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

#### Investments in Associates

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

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

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

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

#### Retained Earnings

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

### Treasury Shares

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

### Transactions under Common Control

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

### Segment Reporting

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

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

### Share-based Transactions

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

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

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

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

#### Revenue and Expense Recognition

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

##### *Internet Application Services*

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

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

##### *Commission*

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

##### *Scratch Cards*

Revenues from scratch cards are recognized when sold.

##### *Interest*

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

##### *Other Income*

Other income is recognized when earned.

##### *Expenses*

Expenses are recognized when incurred.

#### Operating Leases

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

### Foreign Currency Transactions

#### *Foreign Currency Translations*

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

#### *Foreign Operations*

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

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

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

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

### Income Taxes

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

#### *Current Tax*

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

### *Deferred Tax*

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

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

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

### Employee Benefits

#### *Short-term Employee Benefits*

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

#### *Retirement Benefits*

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

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

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

### Earnings Per Share

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

### Related Parties

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

### Provisions and Contingencies

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

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

### Events After the Reporting Date

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

**4. Cash and Cash Equivalents**

This account at December 31 consists of:

	2015	2014
Cash on hand	P9,013,780	P5,393,655
Cash in banks	201,300,379	148,511,929
Short-term investments	-	221,044,291
	22	22
	P210,314,159	P374,949,875

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.

Interest income derived from cash in banks and short-term investments amounted to P0.9 million, P2.5 million and P6.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**5. Accounts Receivable**

This account at December 31 consists of:

	2015	2014
Trade receivables	P89,261,448	P84,759,162
Advances to customers/suppliers	77,937,641	82,642,572
Receivables from non-affiliated entities	37,973,275	72,821,506
Receivable from PAGCOR	33,478,483	33,478,483
Receivables from PEGS operators	30,387,188	32,707,925
Advances to related a party	22,734,175	34,150,738
Interest receivable	14,489,766	46,763,548
Claims from telecommunication companies	12,615,999	13,091,913
Others	4,237,041	4,225,807
Less allowance for impairment losses on:		
Trade receivables	82,507,006	79,359,076
Advances to customers/suppliers	27,933,678	24,074,630
Claims from telecommunication companies	8,090,049	-
Receivable from PAGCOR	1,580,003	1,580,003
	120,110,736	105,013,709
	22	22
	P203,004,280	P299,627,945

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

	2015	2014
Balance at beginning of year	P105,013,709	P114,525,524
Impairment losses during the year	33,102,118	-
Write-off of receivables	(18,005,091)	(9,511,815)
Balance at end of year	P120,110,736	P105,013,709

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

Advances to customers/suppliers pertain to advance payments on services to be incurred or goods to be delivered in connection with the Group's operations which can be refunded or collected under the terms of agreement. The account includes unsecured interest bearing loans extended to the operators amounting to P31.0 million and P26.7 million as at December 31, 2015 and 2014, respectively. These loans are short-term in nature and bear interests of 8% to 12% per annum. Interest income pertaining to the loans amounted to P3.7 million, P3.7 million and P3.6 million in 2015, 2014 and 2013, respectively.

Receivables from non-affiliated entities pertain mainly to unpaid balance from the disposal of the Group's investments in ISM Corporation (ISM) amounting to P45.1 million (see Note 9) in 2014 and the amount was collected in full in 2015. These also include foreign exchange losses/gains on notes receivable in Note 7 to the financial statements that are being charged to ISM. The related foreign exchange gains (losses) amounted to (P10.3) million, (P25.6) million and P24.8 million in 2015, 2014 and 2013, respectively.

Receivable from PAGCOR represents the aforesaid government agency's unpaid share in marketing expenses incurred for the PeGS operation advanced by the Parent Company. These marketing expenses are pre-approved and shall be reimbursed by PAGCOR upon completion of its review of all the documentations required. In 2013, the Company collected P9.9 million. During the year, PAGCOR put on-hold the release of remaining fund due to the Notice of Disallowance (ND) issued by Commission on Audit (COA). The ND is on appeal with COA's En Banc. The release of the remaining fund is under discussion with PAGCOR, in which, they agreed to release upon finalization of the Memorandum of Agreement and execution of Letter of Credit by Parent Company (see Note 24).

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

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

## 6. Inventories

This account at December 31 consists of:

	2015	2014
At NRV:		
Gaming terminals	P -	P106,252,113
Scratch cards	-	-
	<b>P -</b>	<b>P106,252,113</b>

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

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

Due to the cessation, the Group written down its inventories to NRV. The allowance for impairment losses of gaming terminals amounted to P4.1 million and nil as at December 31, 2015 and 2014, respectively. The allowance for impairment losses of scratch cards amounted to nil and P7.4 million as at December 31, 2015 and 2014, respectively.

## 7. Notes Receivable

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

	Note	2015	2014
At original currency			
Euro 3.9 million	5	<b>P204,196,251</b>	P214,448,864
PHP 729 million		<b>540,325,651</b>	729,000,000
		<b>744,521,902</b>	943,448,864
Less: Current portion			
Euro 3.9 million		<b>204,196,251</b>	214,448,864
PHP 540.3 million		<b>30,025,651</b>	145,800,000
	22	<b>234,221,902</b>	360,248,864
Noncurrent notes receivable	22	<b>P510,300,000</b>	P583,200,000

The Euro loan bears an annual interest of 90-day Euro LIBOR plus 550 basis points (bps). Any foreign exchange exposure (gains/losses) and all income and expenses arising from this loan is shouldered equally with ISM (see Note 5). The balance will mature on September 30, 2016.

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

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

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

On December 15, 2015, upon the proposal of Lucktime, the BOD approved the payment of notes receivable by way of transferring its ownership in the shares of the Parent Company. The agreed price is set based on the actual trading price at the time of transfer, and the transfers were made on December 15 and 16, 2016. As a result, PCIL received 12.8 million shares of Parent Company's common shares at a total cost of P269.4 million, which represent full payment of the amount due and partial advance payment for 2016 amounting to P42.9 million. The transaction has been accounted for as treasury shares in the consolidated financial statements at cost (see Note 16). The current market value of these shares is at P22.4 per share. After this payment, the remaining balance of the said loan will be P30.0 million due within one year and P510.3 million beyond one year. While there is no issue of unpaid balance to date, the Group believes that in the event that Lucktime defaults, the Group has legal remedy to rescind the sale under Philippine law and therefore, recover the subject asset sold.

The interest income earned on the notes receivable amounted to P47.2 million, P53.6 million, and P12.7 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is shown as part of "interest income" in profit or loss.

## 8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2015	2014
Input value-added tax (VAT) - net of allowance for impairment losses	P72,708,967	P63,696,819
Prepaid insurance	4,874,588	6,016,694
Prepaid fees	2,688,085	1,147,735
Prepaid rent	1,803,974	16,184,446
Creditable withholding tax	1,314,542	-
Other prepaid expenses	6,420,580	5,348,171
Other current assets	193,747	313,346
	<b>P90,004,483</b>	<b>P92,707,211</b>

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

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

	2015	2014
Balance at beginning of year	P164,488,976	P127,502,630
Impairment losses during the year	28,898,071	36,986,346
Balance at end of year	P193,387,047	P164,488,976

## 9. Investments in Associates

This account at December 31 consists of:

	2015		
	Choice Insurance	Alphaforce	Total
Percentage Ownership	30%	40%	
Cost of Investment			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year	(1,169,105)	1,307,924	138,819
Equity in net earnings (losses) for the year	(722,975)	400,966	(322,009)
Balance at end of year	(1,892,080)	1,708,890	(183,190)
	P5,059,430	P9,708,790	P14,768,220
	2014		
	Choice Insurance	Alphaforce	Total
Percentage Ownership	30%	40%	
Cost of Investment			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year	(503,365)	316,816	(186,549)
Equity in net earnings (losses) for the year	(665,740)	991,108	325,368
Balance at end of year	(1,169,105)	1,307,924	138,819
	P5,782,405	P9,307,824	P15,090,229

### 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 Hong Kong-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 the SEC 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.

On November 19, 2013, the BOD approved the disposal of investment in ISM. On November 19, 2013, the Parent Company executed a Stock Purchase Agreement with Monfortino Holdings, Inc. and agreed to sell its 466 million shares or 24.30% interest in ISM for a price of P1.50 per share. The loss on disposal of the investment amounting to P552.0 million is recognized as part of "other charges" in profit or loss. Based on acquisition cost, the Parent Company made a cash gain of P60.4 million from this transaction.

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

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

Under the provisions of the agreement, the Parent Company has power to govern the financial and operating policies of MAGCOR. As a result, MAGCOR became a subsidiary of the Parent Company effective January 1, 2012 and is included in the consolidated financial statements as at December 31, 2015 and 2014.

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

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

#### Investment in Alphaforce Corporation

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

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

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

	2014	
	Choice Insurance	Alphaforce
Current assets (a)	P886,082	P33,852,805
Noncurrent assets (b)	24,519,278	3,356,124
Current liabilities (c)	6,130,676	13,939,368
Revenues	1,144	13,324,453
Net income (loss)	(2,219,134)	2,477,769
Total comprehensive income (loss)	(2,219,134)	2,477,769
Net assets (a+b-c)	19,274,684	23,269,561
% Ownership	30%	40%
Share in the net assets	5,782,405	9,307,824
Carrying value of the investment	P5,782,405	P9,307,824

## 10. Property and Equipment

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

	Computer Equipment and Software	Leasehold and Site Improvements	Network and Data Communication Equipment	Furniture and Fixtures	Office Equipment	Transportation Equipment	Total
<b>Cost</b>							
January 1, 2014	P373,862	P216,665	P148,371	P87,510	P17,536	P32,360	P876,304
Additions	21,449	12,030	38,323	1,382	1,201	830	75,215
Disposals	(47)	-	-	-	-	-	(47)
December 31, 2014	395,264	228,695	186,694	88,892	18,737	33,190	951,472
Additions	11,904	19,811	9,084	2,607	143	5,071	48,620
Transfer from inventories	102,119	-	-	-	-	-	102,119
Disposals	-	-	-	-	-	(3,997)	(3,997)
<b>December 31, 2015</b>	<b>509,287</b>	<b>248,506</b>	<b>195,778</b>	<b>91,499</b>	<b>18,880</b>	<b>34,264</b>	<b>1,098,214</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2014	277,041	137,783	119,258	55,143	16,602	24,068	629,895
Depreciation and amortization for the year	32,981	33,300	22,994	9,441	1,216	3,514	103,446
Disposals	(47)	-	-	-	-	-	(47)
December 31, 2014	309,975	171,083	142,252	64,584	17,818	27,582	733,294
Depreciation and amortization for the year	38,953	33,541	21,982	10,811	333	4,029	109,649
Impairment loss	-	7,870	-	-	-	-	7,870
Disposals	-	-	-	-	-	(3,997)	(3,997)
<b>December 31, 2015</b>	<b>348,928</b>	<b>212,494</b>	<b>164,234</b>	<b>75,395</b>	<b>18,151</b>	<b>27,614</b>	<b>846,816</b>
<b>Carrying Amount</b>							
December 31, 2014	P85,289	P57,612	P44,442	P24,308	P919	P5,608	P218,178
<b>December 31, 2015</b>	<b>P160,359</b>	<b>P36,012</b>	<b>P31,544</b>	<b>P16,104</b>	<b>P729</b>	<b>P6,650</b>	<b>P251,398</b>

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## 11. Other Noncurrent Assets

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Rental and other deposits	19, 22	<b>P54,833,633</b>	P49,598,489
Advances for projects		<b>5,315,972</b>	5,315,972
		<b>60,149,605</b>	54,914,461
Less allowance for impairment losses on:			
Advances for projects		<b>5,315,972</b>	5,315,972
Other deposits		<b>2,320,227</b>	62,227
		<b>7,636,199</b>	5,378,199
		<b>P52,513,406</b>	P49,536,262

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

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

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

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## 12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Accounts payable - trade	22	<b>P259,311,120</b>	P186,109,730
Accrued expenses and other payables	22	<b>44,580,351</b>	41,595,425
		<b>P303,891,471</b>	P227,705,155

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

The average credit period for payable to suppliers and PeGS operators are 30-60 days and 15-30 days, respectively. Payable to PAGCOR is normally remitted on a daily basis.

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

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Contractors	22	<b>P19,831,332</b>	P20,623,097
Manpower services	22	<b>7,960,444</b>	9,297,364
Utilities and communications	22	<b>5,072,450</b>	4,753,314
Due to government agencies		<b>5,347,282</b>	481,398
Interest	13, 22	<b>2,695,135</b>	2,731,007
Audit fees	22	<b>1,474,711</b>	1,222,305
Ads and promo	22	<b>1,304,015</b>	1,448,905
Travel expenses	22	<b>313,812</b>	509,699
Others	22	<b>581,170</b>	528,336
		<b>P44,580,351</b>	P41,595,425

### 13. Notes Payable

The Parent Company has peso-denominated short-term notes payable from local banks amounting to P200.0 million and P700.0 million as at December 31, 2015 and 2014 with maturities of less than a year and bear annual interest at average rates of 6.1% and 4.5% in 2015 and 2014, respectively. Of the total outstanding loan, P150.0 million of which is fully secured by the 100% ownership of the Parent Company in BGL.

The Group recognized interest expense of P22.7 million, P49.6 million and P22.1 million in profit or loss for the years ended December 31, 2015, 2014 and 2013, respectively.

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

#### a) BOI

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. One of the conditions for the approved ITH bonus year is to undertake Corporate Social Responsibilities (CSR) activities and the total cost incurred for these activities amounted to P3.7 million, P1.8 million and P2.6 million in 2015, 2014 and 2013, respectively.

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

#### PEZA

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

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

	2015	2014	2013
Current tax expense	P171,438,803	P132,098,290	P1,260,327
Deferred tax expense (benefit)	2,501,792	2,738,928	(14,174,070)
	<b>P173,940,595</b>	<b>P134,837,218</b>	<b>(P12,913,743)</b>

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

	2015	2014
<b>Items recognized in profit or loss</b>		
Allowance for impairment losses on input VAT	<b>P8,701,770</b>	P8,701,770
Retirement benefits liability	<b>2,555,372</b>	5,057,165
Allowance for impairment losses on receivables	<b>474,001</b>	474,001
	<b>11,731,143</b>	14,232,936
<b>Items recognized directly in other comprehensive income</b>		
Remeasurement losses on defined benefit liability	<b>1,910,899</b>	492,063
	<b>P13,642,042</b>	<b>P14,724,999</b>

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

	2015	2014	2013
Allowance for impairment losses on input VAT, receivables and notes receivable	P89,546,067	P91,051,515	P112,831,040
NOLCO	84,357,466	87,199,222	84,749,724
	<b>P173,903,533</b>	<b>P178,250,737</b>	<b>P197,580,764</b>

Details of NOLCO as at December 31 are as follow:

Incurred In	Amount	Expired/ Applied	As at December 31, 2015	Available Until
2012	P26,922,507	(P26,922,507)	P -	2015
2013	38,846,841	-	38,846,841	2016
2014	21,429,874	-	21,429,874	2017
2015	24,080,751	-	24,080,751	2018
	<b>P111,279,973</b>	<b>(P26,922,507)</b>	<b>P84,357,466</b>	

All these NOLCO pertains to non-operating subsidiaries.

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

	2015	2014	2013
Income before tax	<b>P1,043,566,628</b>	P1,038,712,906	P189,980,812
Income tax expense at statutory rate (30%)	<b>P313,069,988</b>	P311,613,872	P56,994,244
Adjustments resulting from:			
Income tax holiday on BOI - registered operations	<b>(153,930,681)</b>	(176,573,678)	(269,157,231)
Unrecognized deferred tax assets arising from temporary differences and NOLCO	<b>9,379,625</b>	3,815,792	43,985,748
Tax effects of:			
Equity in net earnings of associates	<b>96,603</b>	(97,610)	(25,821,832)
Interest/other income not subject to corporate tax	<b>(12,287,018)</b>	(14,982,938)	(6,750,120)
Non-deductible expenses/losses	<b>17,612,078</b>	11,061,780	187,835,448
Income tax expense (benefits)	<b>P173,940,595</b>	P134,837,218	(P12,913,743)

## 15. Related Party Transactions

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

- a) The Parent Company and Alphaland Corporation are entities under common control. The Parent Company bills Alphaland for its share in common expenses which includes common personnel cost and rental expense. Common personnel cost amounted to P19.3 million, P21.9 million and P24.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. While, common rental expense amounted to P5.2 million, P7.4 million and P9.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. Receivable from Alphaland amounted to P22.7 million and P34.2 million as at December 31, 2015 and 2014, respectively. The account is unsecured, non-interest bearing and payable on demand and is expected to be settled in cash.
- b) Compensation and short-term employee benefits of key management personnel of the Group in 2015, 2014 and 2013 amounted to P47.9 million, P45.2 million, and P48.3 million, respectively. The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to P3.5 million, P4.0 million and P4.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 16. Equity

### Common Stock

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

	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Authorized common stock	2,600,000,000		2,600,000,000	
Balance at beginning of year	1,350,618,379	P1,350,618,379	1,350,614,879	P1,350,614,879
Issuance during the year	958,266	958,266	3,500	3,500
Subscribed shares (net of subscriptions receivable)	163,378,780	38,298,352	163,378,780	38,298,352
Issued shares at end of year	1,514,955,425	1,389,874,997	1,513,997,159	1,388,916,731
Less treasury shares	(354,621,621)		(341,773,099)	
Issued and outstanding shares at end of year	1,160,333,804		1,172,224,060	

### Change in Par Value of Capital Stock

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

### Additional Paid-In Capital

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

	Additional Paid-In Capital		Stock Options Reserve	
	2015	2014	2015	2014
Balance at beginning of year	P1,081,882,866	P1,081,837,366	P4,604,050	P4,042,818
Stock Subscription	9,092,048	45,500	-	-
Cost of stock option	-	-	3,161,092	561,232
Exercised stock option	1,007,182	-	(1,007,182)	-
Balance at end of year	P1,091,982,096	P1,081,882,866	P6,757,960	P4,604,050

### Stock Option Plan

On February 15, 2000, the BOD approved the Parent Company's Stock Option Plan ("Plan") covering all employees, officers and directors of the Parent Company, its subsidiaries as well as such other qualified persons determined as eligible by the BOD. The aggregate number of shares that may be purchased under the Plan shall not be more than five percent (5%) of the total number of shares of the outstanding capital stock of the Parent Company, at a price not less than eighty percent (80%) of the fair market value of the shares on the date the option is granted. Effectivity date is one (1) year after an option is awarded to the participant. 1/3 of the total number of options covered by a grant shall vest upon effectivity date; 1/3 shall vest one year after effectivity date and 1/3 shall vest two years after the effectivity date. Options may be exercised within a period of three (3) years, starting after the lapse of one (1) year from the date of grant.

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

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

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

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

	2015	2014
Expected volatility	33.18%	33.18%
Risk-free interest rate	3.09%	3.09%
Expected life option	3 years	3 years

Expected volatility is estimated by considering average share price volatility.

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

	2015		2014	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	6,896,500	P -	6,000,000	P -
Granted	-	-	1,500,000	-
Exercised	(958,266)	-	(3,500)	-
Forfeited/expired	(833,334)	-	(600,000)	-
Options outstanding, end of year	5,104,900	P -	6,896,500	P -
Options exercisable, end of year	P -	P -		

Stock option cost (reversal) recognized in profit or loss is included under "salaries and benefits" account amounted to P3.2 million, P0.6 million and (P0.4 million) in 2015, 2014 and 2013, respectively (see Note 17).

### Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2015, 2014 and 2013 follow:

Date Approved	Per Share	Total Amount (in Php)	Stockholders of Record Date	Date Paid/Issued
February 28, 2013	0.10	138,699,693	March 5, 2013	March 15, 2013
October 10, 2013	0.10	128,973,898	October 15, 2013	October 25, 2013
March 4, 2014	0.10	117,222,050	March 18, 2014	March 28, 2014
May 26, 2014	0.10	117,222,401	June 9, 2014	June 23, 2014
July 11, 2014	0.10	117,222,401	September 1, 2014	September 15, 2014
July 11, 2014	0.10	117,222,401	November 21, 2014	December 5, 2014
January 27, 2015	0.15	175,833,601	January 20, 2015	February 16, 2015
May 4, 2015	0.15	175,833,601	May 7, 2015	May 21, 2015
August 11, 2015	0.15	175,936,376	August 14, 2015	August 28, 2015
November 9, 2015	0.15	175,948,376	November 12, 2015	November 26, 2015

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

### Treasury Stock

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

	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	341,773,099	P3,941,779,041	341,773,099	P3,941,779,041
Purchase during the year	12,848,522	269,358,695	-	-
Balance at end of year	354,621,621	P4,211,137,736	341,773,099	P3,941,779,041

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

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

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

On October 25, 2012, PCC sold 137.5 million of the Parent Company's shares through a placement, to qualified buyers at a price of P15.0 per share, with a total selling price of P2,062,5 million. The excess of selling price over the cost of the treasury shares is shown as "additional paid-in capital" in the consolidated statements of changes in equity.

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

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

#### 17. Salaries and Benefits

This account consists of:

	<i>Note</i>	2015	2014	2013
Salaries and wages		P122,155,284	P111,605,062	P121,896,603
Retirement benefits cost	20	5,134,907	5,870,237	7,238,055
Cost (reversal) of stock option	16	3,161,092	561,232	(379,246)
		P130,451,283	P118,036,531	P128,755,412

#### 18. Earnings Per Share

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

	2015	2014	2013
Net income attributable to equity holders of the parent (a)	P870,165,159	P903,990,032	P209,875,685
Weighted average number of shares outstanding (b)	1,172,561,122	1,172,222,602	1,330,852,173
Dilutive shares arising from stock options	5,104,900	875,000	-
Adjusted weighted average number of common shares for diluted earnings per share (c)	1,177,666,022	1,173,097,602	1,330,852,173
Earnings per share (a/b)	P0.7421	P0.7712	P0.1577
Diluted earnings per share (a/c)	P0.7389	P0.7706	P0.1577

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.

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## 19. Lease Commitments

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

The Group has rental deposits amounting to P29.9 million and P31.6 million as at December 31, 2015 and 2014, respectively.

Total rentals recognized in profit or loss for the years ended December 31, 2015, 2014 and 2013 amounted to about P64.6 million, P66.7 million, and P70.9 million, respectively.

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

	2015	2014	2013
Less than one year	P55,454,410	P56,222,266	P49,470,583
Between one and five years	124,157,575	165,295,616	40,730,759
	<b>P179,611,985</b>	<b>P221,517,882</b>	<b>P90,201,342</b>

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## 20. Retirement Benefits

The Group has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. The plan is administered by a local bank appointed as trustee. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date was made on December 31, 2015. Valuations are obtained on an annual basis.

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

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

	Present Value of Defined Benefit Obligation		Fair Value of Plan Assets		Retirement Benefit Liability	
	2015	2014	2015	2014	2015	2014
<b>Balance at beginning of year</b>	<b>P33,497,425</b>	<b>P27,966,784</b>	<b>(P15,000,000)</b>	<b>P -</b>	<b>P18,497,425</b>	<b>P27,966,784</b>
<b>Recognized in profit or loss</b>						
Current service cost	4,598,315	4,564,456	-	-	4,598,315	4,564,456
Interest expense	1,504,034	1,784,281	-	-	1,504,034	1,784,281
Interest income	-	-	(967,442)	(478,500)	(967,442)	(478,500)
	<b>6,102,349</b>	<b>6,348,737</b>	<b>(967,442)</b>	<b>(478,500)</b>	<b>5,134,907</b>	<b>5,870,237</b>
<b>Recognized in other comprehensive income</b>						
Remeasurement (gains) losses:						
Actuarial (gains) losses arising from:						
Experience adjustments	2,001,273	(3,692,494)	-	-	2,001,273	(3,692,494)
Changes in financial assumptions	(1,538,266)	4,320,601	-	-	(1,538,266)	4,320,601
Changes in demographic assumptions	2,793,419	(1,446,203)	-	-	2,793,419	(1,446,203)
Return on plan assets	-	-	1,473,027	478,500	1,473,027	478,500
	<b>3,256,426</b>	<b>(818,096)</b>	<b>1,473,027</b>	<b>478,500</b>	<b>4,729,453</b>	<b>(339,596)</b>
<b>Others</b>						
Benefits paid	(381,012)	-	381,012	-	-	-
Contributions	-	-	(13,474,215)	(15,000,000)	(13,474,215)	(15,000,000)
<b>Balance at end of year</b>	<b>P42,475,188</b>	<b>P33,497,425</b>	<b>(P27,587,618)</b>	<b>(P15,000,000)</b>	<b>P14,887,570</b>	<b>P18,497,425</b>

The principal actuarial assumptions used as at December 31 follow:

	2015	2014	2013
Discount rate	4.89%	4.49%	6.38%
Future salary increases	5.00%	5.00%	5.00%

The Group does not expect to make contributions to the plan in 2016.

#### Assumptions and Relevant Information

##### *Sensitivity Analysis*

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

	Defined Benefit Obligations			
	Increase		Decrease	
Discount rate	(P3,426,360)	(8.1%)	P4,051,119	9.5%
Future salary increases	3,701,097	8.7%	(3,212,103)	(7.6%)

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

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

The weighted-average duration of the defined benefit liability as at December 31, 2015 and 2014 is 16.6 years.

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

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

	2014				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 2 - 5 Years	More than 5 Years
Defined benefit obligation	P33,497,425	P35,677,739	P12,207,300	P1,011,634	P22,458,805

##### *Funding Arrangements*

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

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

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

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## 21. Operators' Deposits

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

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

### Financial Instruments

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

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Current assets:			
Cash in banks and cash equivalents	4	<b>P210,314,159</b>	P374,949,875
Accounts receivable	5	<b>203,004,280</b>	299,627,945
Notes receivable	7	<b>234,221,902</b>	360,248,864
Total current financial assets		<b>647,540,341</b>	1,034,826,684
Noncurrent assets:			
Noncurrent notes receivable	7	<b>510,300,000</b>	583,200,000
Rental and other deposits under "Other noncurrent asset - net"	11	<b>52,513,406</b>	49,536,262
Total noncurrent financial assets		<b>562,813,406</b>	632,736,262
Total financial assets		<b>P1,210,353,747</b>	P1,667,562,946

### Fair Values

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

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

### Financial Risk Management

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

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

#### *Credit Risk*

Credit risk represents the risk of loss the Group would incur if counterparties fail to perform their contractual obligations. The Group's internet gaming businesses are made on cash basis and internet gaming operators are covered by required security deposits. Other receivables arise from one-off transactions and are due and demandable on a short term basis. Due to these reasons, management believes that the Group's exposure to credit risk is manageable as at December 31, 2015 and 2014. The carrying amount of each financial asset represents the Group's maximum credit exposure.

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

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

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
<b>December 31, 2014</b>					
Cash in banks and cash equivalents	P369,556,220	P -	P -	P -	P369,556,220
Accounts receivable	180,819,920	83,759,283	14,844,567	20,204,175	299,627,945
Notes receivable	943,448,864	-	-	-	943,448,864
Rental and other deposits under "Other noncurrent assets - net"	49,536,262	-	-	-	49,536,262
	<b>P1,543,361,266</b>	<b>P83,759,283</b>	<b>P14,844,567</b>	<b>P20,204,175</b>	<b>P1,662,169,291</b>

#### *Credit Quality*

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

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

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

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

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

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

	Neither Past Due nor Impaired				Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
	Total	High Grade	Standard Grade	Low Grade			
December 31, 2015							
Cash in banks	P201,300,379	P201,300,379	P -	P -	P201,300,379	P -	P -
Accounts receivable	323,115,016	107,957,860	-	-	107,957,860	95,046,420	120,110,736
Notes receivable	234,221,902	234,221,902	-	-	234,221,902	-	-
Noncurrent notes receivable	510,300,000	510,300,000	-	-	510,300,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	60,149,605	52,513,406	-	-	52,513,406	-	7,636,199
	P1,329,086,902	P1,106,293,547	P -	P -	P1,106,293,547	P95,046,420	P127,746,935

	Neither Past Due nor Impaired				Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
	Total	High Grade	Standard Grade	Low Grade			
December 31, 2015							
Cash in banks	P148,511,929	P148,511,929	P -	P -	P148,511,929	P -	P -
Short-term investments	221,044,291	221,044,291	-	-	221,044,291	-	-
Accounts receivable	404,641,654	180,319,920	-	-	180,319,920	118,808,025	105,013,709
Notes receivable	360,248,864	360,248,864	-	-	360,248,864	-	-
Noncurrent notes receivable	583,200,000	583,200,000	-	-	583,200,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	54,914,461	49,536,262	-	-	49,536,262	-	5,378,199
	P1,772,561,199	P1,543,361,266	P -	P -	P1,543,361,266	P118,808,025	P110,391,908

### Liquidity Risk

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

The Group's ratio of current assets to current liabilities as at December 31, 2015 and 2014 is 1.21:1 and 1.17:1, respectively. The current liabilities of the Group are expected to be paid within one year.

	As at December 31, 2015			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P298,544,189	P298,544,189	P298,544,189	P -
Notes payable	200,000,000	202,119,135	202,119,135	-
Operator's deposits	57,055,000	57,055,000	-	57,055,000

	As at December 31, 2014			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P227,223,757	P227,223,757	P227,223,757	P -
Notes payable	700,000,000	717,062,500	717,062,500	-
Operator's deposits	52,055,000	52,055,000	-	52,055,000

(a) Due to government agencies are excluded

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk managements is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group is subject to various risks, including foreign currency and prices.

*Interest Rate Risk.* Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to notes receivable. Receivables issued at variable rates expose the Group to cash flow interest rate risk.

As at December 31, 2015 and 2014, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Nominal Amount	
	2015	2014
<b>Fixed-rate Financial Instruments</b>		
Financial Assets		
Cash in bank	P201,300,379	P148,511,929
Short-term investments	-	221,044,291
Notes receivable	540,325,651	729,000,000
	741,626,030	1,098,556,220
Financial Liabilities		
Notes payable	200,000,000	700,000,000
<b>Variable-rate Financial Instruments</b>		
Financial Asset		
Notes receivable	204,196,251	214,448,864

#### *Fair Value Sensitivity Analysis for Fixed-rate Instruments*

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### *Cash Flow Sensitivity Analysis for Variable-rate Instruments*

A reasonably possible change of 1% in interest rate at December 31, 2015 and 2014 would have increased or decreased equity and profit or loss by P2.0 million and P2.1 million, respectively. This assumes that all other variables, in particular foreign exchange currency rates, remain constant.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charges on Group's borrowings are optimal and benchmarked against the rates charged by other creditor banks.

#### *Foreign Currency Exchange Risk*

The Group has no foreign currency exchange risk on its Euro loan as this is offset with the receivable from ISM.

#### Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To manage or adjust the capital structure, the Group may obtain additional advances from stockholders, adjust the return of the capital to stockholders or issue new shares. The Group's overall strategy remains unchanged from 2014. The Group monitors capital using the monthly cash position report and financial statements.

The Group defines capital as total equity, which includes capital stock, additional paid-in capital, stock options outstanding and retained earnings, net of treasury stock as shown in the consolidated statements of financial position.

The Company is compliant with the minimum public float requirements of the PSE as at December 31, 2015 and 2014.

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### **23. Segment Reporting**

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

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

In 2012 and 2011, the Group launched scratch cards or instant-win type product in Cambodia and Timor-Leste, respectively. Likewise, the Group opened its Sweepcenter business in Guam in October 2011. These scratch cards, instant-win type products and Sweepstakes business are not material to the Group in 2015, 2014 and 2013.

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

Analysis of financial information by geographical segment in 2015 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
<b>Net Revenues</b>				
External revenue	P1,667,610,476	P -	P -	P1,667,610,476
Operating expenses	(613,404,839)	(36,942,894)	-	(650,347,733)
Interest income	51,759,961	7,422	-	51,767,383
Interest expense	(22,727,535)	-	-	(22,727,535)
Others	(2,270,241)	(143,713)	-	(2,413,954)
	(586,642,654)	(37,079,185)	-	(623,721,839)
<b>Income before Income Tax</b>	<b>1,080,967,822</b>	<b>(37,079,185)</b>	<b>-</b>	<b>1,043,888,637</b>
Income tax expense	173,940,595	-	-	173,940,595
<b>Segment Profit (Loss)</b>	<b>907,027,227</b>	<b>(37,079,185)</b>	<b>-</b>	<b>869,948,042</b>
Equity in net earnings of associates	(322,009)	-	-	(322,009)
<b>Consolidated Profit</b>	<b>P906,705,218</b>	<b>(P37,079,185)</b>	<b>P -</b>	<b>P869,626,033</b>
<b>Other Information</b>				
Additions to property and equipment	P150,739,187	P-	P -	P150,739,187
Depreciation and amortization	101,385,984	8,263,199	-	109,649,183
<b>Assets and Liabilities</b>				
Current assets	P707,714,027	P218,233,687	(P188,402,890)	P737,544,824
Noncurrent assets	840,917,573	1,704,344	-	842,621,917
<b>Total Assets</b>	<b>1,548,631,600</b>	<b>P219,938,031</b>	<b>(P188,402,890)</b>	<b>1,580,166,741</b>
Current liabilities	P575,017,772	P224,183,423	(P188,402,890)	P610,798,305
Noncurrent liabilities	71,942,570	-	-	71,942,570
<b>Total Liabilities</b>	<b>P646,960,342</b>	<b>P224,183,423</b>	<b>(P188,402,890)</b>	<b>P682,740,875</b>

Analysis of financial information by geographical segment in 2014 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
<b>Net revenues</b>				
External revenue	P1,632,724,657	P7,231,918	P -	P1,639,956,575
Operating expenses	(573,895,228)	(33,955,572)	-	(607,850,800)
Interest income	59,665,241	179,572	(44,927)	59,799,886
Interest expense	(49,569,583)	(44,927)	44,927	(49,569,583)
Others	(3,930,911)	(17,629)	-	(3,948,540)
	(567,730,481)	(33,838,556)	-	(601,569,037)
<b>Income before income tax</b>	<b>1,064,994,176</b>	<b>(26,606,638)</b>	<b>-</b>	<b>1,038,387,538</b>
Income tax expense	134,837,218	-	-	134,837,218
<b>Segment profit (loss)</b>	<b>930,156,958</b>	<b>(26,606,638)</b>	<b>-</b>	<b>903,550,320</b>
Equity in net earnings of associates	325,368	-	-	325,368
<b>Consolidated Profit</b>	<b>P930,482,326</b>	<b>(P26,606,638)</b>	<b>P -</b>	<b>P903,875,688</b>
<b>Other Information</b>				
Additions to property and equipment	P71,644,685	P3,570,764	P -	P75,215,449
Depreciation and amortization	100,485,001	2,960,642	-	103,445,643
<b>Assets and Liabilities</b>				
Current assets	P1,175,589,960	P238,740,112	(P180,544,064)	P1,233,786,008
Noncurrent assets	871,857,741	8,872,155	-	880,729,896
<b>Total Assets</b>	<b>P2,047,447,701</b>	<b>P247,612,267</b>	<b>(P180,544,064)</b>	<b>P2,114,515,904</b>
Current liabilities	P1,017,984,200	P216,382,895	(P180,544,064)	P1,053,823,031
Noncurrent liabilities	70,552,425	-	-	70,552,425
<b>Total Liabilities</b>	<b>P1,088,536,625</b>	<b>P216,382,895</b>	<b>(P180,544,064)</b>	<b>P1,124,375,456</b>

## 24. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and the Group's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements as at and for the years ended December 31, 2015 and 2014.

On January 30, 2014, the Parent Company filed a case against Playtech Software Limited for damages and loss of revenue it caused by violating the provision of the agreement with the Parent Company. On May 11, 2015, the Regional Trial Court dismissed the complaint.

On May 14, 2015, the Parent Company filed a Motion for Reconsideration (MR) relative to COA's decision dismissing the Petition for Review to nullify COA's Notice of Disallowance (ND). The disallowance pertains to Parent Company's alleged under remittance for the share in software license fee in 2006 and 2007. PAGCOR used this ND to defer the release of the remaining fund due to the Parent Company for the reimbursement of PAGCOR's share in the Incentive and Promotions Fund for 2009 and 2010 amounting to P34.6 million (see note 5).

## 25. Earnings before Interest, Taxes and Depreciation and Amortization (EBITDA)

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

	2015	2014	2013
Net income attributable to equity holders of the parent	P870,165,159	P903,990,032	P209,875,685
Minority interest	(539,126)	(114,344)	(6,981,130)
Net income	869,626,033	903,875,688	202,894,555
Add (deduct):			
Gain on sale of equity investment	-	-	551,958,543
Impairment losses	76,260,998	44,400,909	198,472,147
Depreciation and amortization	109,649,183	103,445,643	131,724,161
Provision for income tax	173,940,595	134,837,218	(12,913,743)
Equity in net earnings of associates	322,009	(325,368)	(86,072,773)
Interest expense	22,727,535	49,569,583	22,072,431
Interest income	(51,767,383)	(59,799,886)	(22,500,401)
EBITDA	P1,200,758,970	P1,176,003,787	P985,634,920
Issued and outstanding shares at end of year	1,160,333,804	1,172,224,060	1,172,220,560
EBITDA - EPS	P1.0348	P1.003	P0.8408

EBITDA and EBITDA - EPS are non-PFRS measures.



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

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of PhilWeb Corporation and Subsidiaries (the "Group") as at and for the year ended December 31, 2015, included in this form 17-A, and have issued our report thereon dated March 1, 2016.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

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- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

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

**ADOR C. MEJIA**

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

Issued May 9, 2013; valid until May 8, 2016

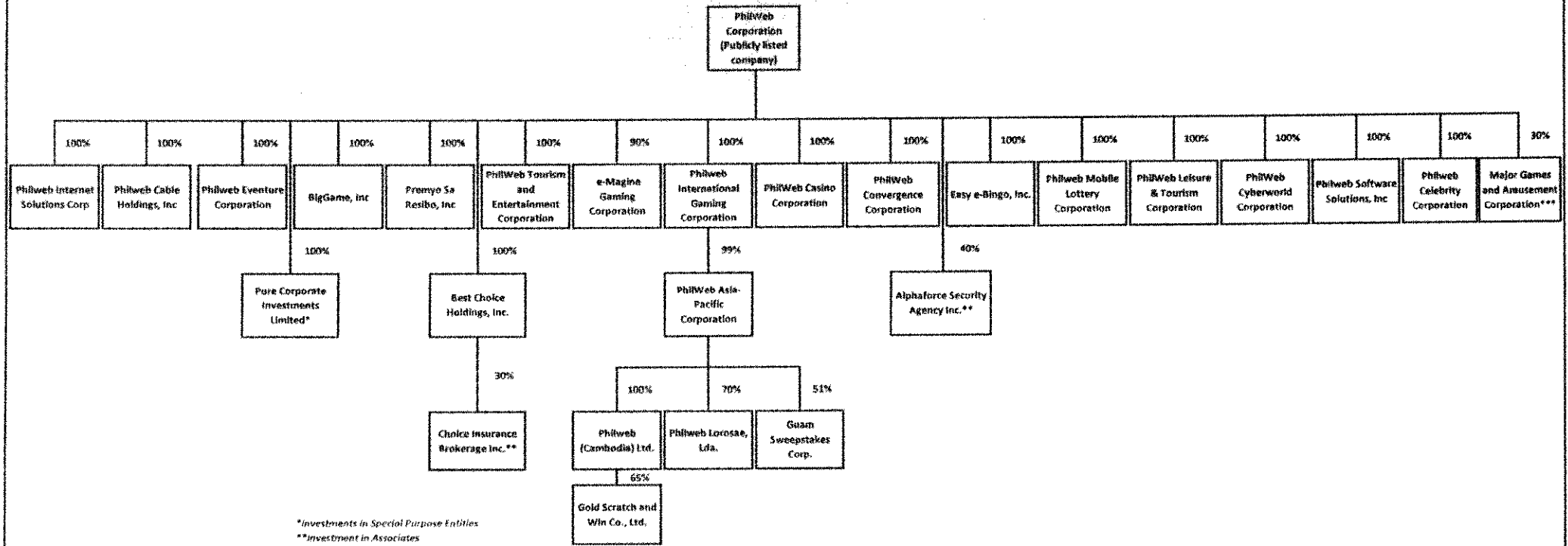
PTR No. 5321505MD

Issued January 4, 2016 at Makati City

March 1, 2016

Makati City, Metro Manila

GROUP ORGANIZATIONAL STRUCTURE OF PHILWEB CORPORATION



\*Investments in Special Purpose Entities  
 \*\*Investment in Associates  
 \*\*\*Become subsidiary under the provisions of the agreement

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics				
<b>PFRSs Practice Statement Management Commentary</b>				
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 – 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards – Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 – 2013 Cycle: PFRS version that a first-time adopter can apply			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Meaning of 'vesting condition'			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Changes in method for disposal			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 – 2014 Cycle: 'Continuing involvement' for servicing contracts		✓	
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Offsetting disclosures in condensed interim financial statements		✓	
<b>PFRS 8</b>	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
<b>PFRS 9</b>	Financial Instruments	✓		
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39			✓
<b>PFRS 9 (2014)</b>	Financial Instruments		✓	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	and Disclosure of Interests in Other Entities; Transition Guidance			
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		✓	
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities; Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Scope of portfolio exception	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of Financial Statements – Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative		✓	
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors			✓
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Property, Plant and Equipment – Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		✓	
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants		✓	
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Discount rate in a regional market sharing the same currency – e.g. the Eurozone		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Financial Instruments Presentation – Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Interim Financial Reporting – Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS-41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) – Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 – Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 – Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2008-02	PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 – Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements – Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) – Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 – Common Control Business Combinations			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32,37-38 – Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 – Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property – Acquisition of Investment properties – asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 – Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 – Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓

**PHILWEB CORPORATION AND SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES  
DECEMBER 31, 2015**

<b>Schedule</b>	<b>Particulars</b>	
A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	Not applicable
C	- AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS AND OTHER ASSETS	Not applicable
E	- LONG-TERM DEBT	Not applicable
F	- INDEBTEDNESS TO RELATED PARTIES (LONG- TERM LOANS FROM RELATED COMPANIES)	Not applicable
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	Not applicable
H	- CAPITAL STOCK	

**PHILWEB CORPORATION  
AND SUBSIDIARIES**

**SCHEDULE A - FINANCIAL ASSETS  
DECEMBER 31, 2015**

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Loans and receivables</b>				
<i>Cash and cash equivalent</i>				
Cash on hand and in banks	210,314,159	210,314,159	153,905,584	153,905,584
Short-term investments	-	-	221,044,291	221,044,291
	<u>210,314,159</u>	<u>210,314,159</u>	<u>374,949,875</u>	<u>374,949,875</u>
<i>Accounts receivables</i>				
Trade receivables	6,111,951	6,111,951	4,757,595	4,757,595
Claims from telecommunication companies	4,525,950	4,525,950	13,091,913	13,091,913
Receivable from PAGCOR	31,898,480	31,898,480	31,898,480	31,898,480
Receivables from eCasino operation	30,387,188	30,387,188	32,707,925	32,707,925
Advances to a related party	22,734,175	22,734,175	34,150,738	34,150,738
Advances to officers and employees	4,237,041	4,237,041	4,225,807	4,225,807
Advances to customers/suppliers	50,646,454	50,646,454	59,210,433	59,210,433
Receivables from non-affiliated entities	37,973,275	37,973,275	72,821,506	72,821,506
Interest receivable	14,489,766	14,489,766	46,763,548	46,763,548
	<u>203,004,280</u>	<u>203,004,280</u>	<u>299,627,945</u>	<u>299,627,945</u>
<i>Notes receivable</i>	<u>744,521,902</u>	<u>744,521,902</u>	<u>943,448,864</u>	<u>943,448,864</u>
<i>Other assets</i>	<u>52,513,406</u>	<u>52,513,406</u>	<u>49,536,262</u>	<u>49,536,262</u>
<b>Total</b>	<u><u>1,210,353,747</u></u>	<u><u>1,210,353,747</u></u>	<u><u>1,667,562,946</u></u>	<u><u>1,667,562,946</u></u>

**PHILWEB CORPORATION  
AND SUBSIDIARIES**

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES  
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Subsidiary	Balance of beginning period	Additions	Amounts collected	Amounts provided with allowance	Current	Non-current	Balance at end of period
PhilWeb Cyberworld Corporation	168,472,799	-	-	(168,472,799)	-	-	-
BigGame, Inc	12,457,802	21,424,918	(25,786,455)	-	8,096,265	-	8,096,265
Premyo Sa Resibo, Inc	75,242	-	(75,242)	-	-	-	-
PhilWeb Asia-Pacific Corporation	19,877,489	6,473	-	-	19,883,962	-	19,883,962
PhilWeb Casino Corporation	903,660	1,600,500	-	-	2,504,160	-	2,504,160
Triple Play Technology, Inc.	-	-	-	-	-	-	-
Philweb Homeplay, Inc.	2,152,455	4,155	-	-	2,156,610	-	2,156,610
PhilWeb Convergence Corporation	1,300,175	-	-	(1,300,175)	-	-	-
Best Choice Holdings, Inc.	6,941,510	-	-	-	6,941,510	-	6,941,510
e-Magine Gaming	152,148,822	-	(116,010,625)	-	36,138,197	-	36,138,197
<b>Total</b>	<b>364,329,954</b>	<b>23,036,046</b>	<b>(141,872,322)</b>	<b>(169,772,974)</b>	<b>75,720,704</b>	<b>-</b>	<b>75,720,704</b>

**PHILWEB CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2015**

Description	Number of Shares Authorized	Number of Shares Issued	Number of Shares Subscribed	Treasury Shares	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by		
							Affiliates	Directors, Officers and Employees	Others
Common shares	2,600,000,000	1,351,576,645	163,378,780	(354,621,621)	1,160,333,804	0	-	806,094,206	354,239,598
Total	2,600,000,000	1,351,576,645	163,378,780	(354,621,621)	1,160,333,804	0	-	806,094,206	354,239,598

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

	December 31	
	2015	2014
<b>Statements of Financial Position</b>		
Current Assets	737,544,824	1,233,786,008
Total Assets	1,580,166,741	2,114,515,904
Current Liabilities	610,798,305	1,053,823,031
Total Liabilities	682,740,875	1,124,375,456
Retained Earnings	2,617,356,756	2,450,743,551
Stockholders' Equity	897,425,866	990,140,448
Stockholders' Equity - Parent	3,092,628,973	3,369,097,124
Book Value per Share	0.77	0.84

	Year Ended December 31	
	2015	2014
<b>Statements of Financial Performance</b>		
Operating Revenue	1,667,610,476	1,639,956,575
Other Revenue	51,445,374	60,125,254
Gross Revenue	1,719,055,850	1,700,081,829
Operating Expense	650,347,733	607,850,800
Other Expense	25,141,489	53,518,123
Gross Expense	675,489,222	661,368,923
Net Income Before Tax	1,043,566,628	1,038,712,906
Income Tax Expense	173,940,595	134,837,218
Net Income After Tax	869,626,033	903,875,688
Net Income Attributable to Parent		
Equity Holder	870,165,159	903,990,032
Earnings Per Share (Basic)	0.7421	0.7712
Earnings Per Share (Diluted)	0.7389	0.7706

Financial Ratios		Year Ended December 31	
		2015	2014
<b>Liquidity Analysis Ratios:</b>			
Current Ratio or Working Capital Rat	Current Assets/Current Liabilities (Current Assets - Inventory - Prepayments)/Current Liabilities	1.21	1.17
Quick Ratio		1.06	0.98
Solvency Ratio	Total Assets/Tota Liabilities	2.31	1.88
<b>Financial Leverage Ratios</b>			
Debt Ratio	Tota Debt/Total Assets	0.43	0.53
Debt to Equity Ratio	Total Debt/Total Stockholders' Equity	0.76	1.14
Interest Coverage	Earnings Before Interest and Taxes(EBIT)/Interest Charges	45.92	20.95
Asset to Equity Ratio	Total Assets/Tota Stockholders' Equity	1.76	2.14
<b>Profitability Ratios</b>			
Gross Profit Margin	Sales-Cost of Goods Sold or Cost of Service/Sales	0.61	0.63
Net Profit Margin	Net Profit/Sales	0.52	0.55
Return on Assets	Net Income/Total Assets	0.55	0.43
Return on Equity	Net Income/Total Stockholders' Equity	0.97	0.91
Price/Earnings Ratio	Price Per Share/Earnings Per Common Share	31.13	12.64