



2011 Annual Report



PHILWEB'S OFFICES ARE LOCATED AT THE ALPHALAND SOUTHGATE TOWER, ON THE CORNER OF CHINO ROCES AVENUE AND EDSA IN MAGALLANES, MAKATI CITY

PhilWeb Corporation is the first and largest Internet gaming company in the Philippines. We are the dominant technology-based gaming firm listed on the Philippine Stock Exchange, with a total market capitalization of P20 billion (about US\$ 450 million).

PhilWeb excels in the gaming industry by providing superior and innovative products with the highest standards of customer service. We establish strategic partnerships to ensure a fair, secure and legal gaming experience for our customers. We create a rewarding and dynamic work environment where we attract, retain and motivate highly competent, passionate and innovative people, and deliver above-market value for our shareholders.

PhilWeb today serves over 40,000 customers a day at our nationwide network of online cafés, sports betting kiosks and mobile games in the Philippines. In the Asia Pacific region, we have just begun serving customers in Guam, Timor Leste and Cambodia, markets which will exponentially increase our customer base. We are also negotiating similar contracts in Nepal, Sri Lanka, Laos and Palau, as we go to press.

We are a lean organization, with just 250 employees at the end of 2011, but a highly productive one. In the last five years, we have generated P350 billion in Gross Bets.

Our vision is to be the dominant gaming solutions provider in the Asia Pacific region.

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Letter to Shareholders



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

Letter to Shareholders

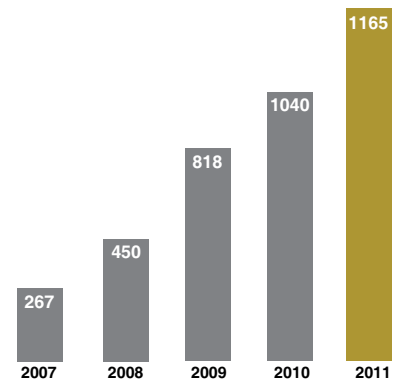
PhilWeb has begun its second decade with a rousing start. We have taken great strides towards realizing our vision, which is to be the dominant gaming solutions provider in the Asia Pacific region.

For 2011, our eleventh year of operations, we attained a Net Income of P914 million, just short of cracking the billion peso mark. This is the sixth year in a row that we have reported Net Income growth, proof positive that our core businesses remain solid and our new endeavors are bearing fruit.

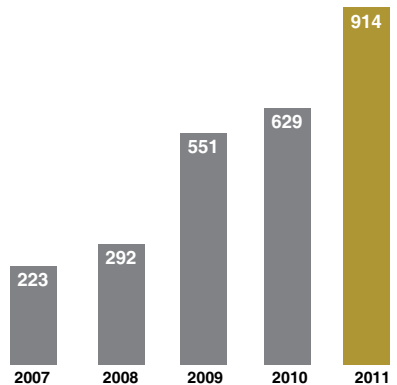
As we reported last year, we signed a new contract with the Philippine Amusement and Gaming Corporation (PAGCOR), the government agency that regulates all gaming in the country, effective January 1, 2011. This new contract enabled us to grow our core PAGCOR e-Games café or PeGS business to a Total Casino Win of P4.09 billion, setting a record for the business and a 23% increase versus the previous year's record.

This growth was delivered primarily by opening 37 new PeGS cafés for a total of 227 at year-end. Additionally we convinced many PeGS operators to refurbish and expand their sites, and as a result, the average Win per PeGS café increased by 3.6% to P18 million for the year.

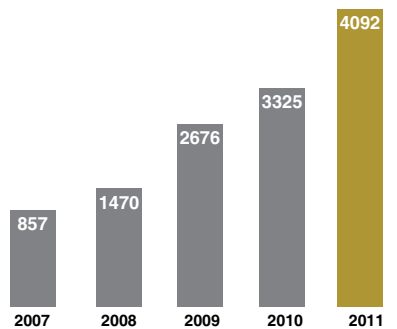
The combined result of both forms of expansion is that in terms of total computer terminals, we increased by 1,229 terminals in 2011, a growth of 30% versus the previous year. We now have a total of 5,375 computer terminals across the PeGS network or about 24 per café. Each of these terminals delivers an average Total Win of P2,453 per day, and the network set a record Daily Win of P15.8 million in December 2011.



REVENUE
MILLION PESOS



NET INCOME
MILLION PESOS



CASINO WIN
MILLION PESOS

Letter to Shareholders

As a result of our PeGS growth, we have become one of the most significant contributors of revenue to PAGCOR. Last year, we remitted a total of P1.7 billion to the agency, 34% more than the previous year. This amount comes without a centavo of capital expenditure or operating expense on PAGCOR's part, and therefore flows directly to their bottom line.

We continue to invest in servers and software development to continue our PeGS success. We added the Sigma server farm during the year and are in the midst of installing yet another set of servers in early 2012. On the software side, we re-launched our in-house developed Café POS system to fully integrate multiple software from more than one casino software vendor.

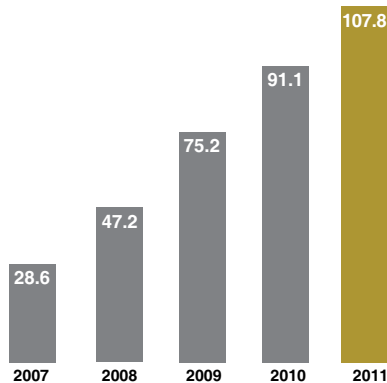
Our company-owned PeGS expanded from wholly owned BigGame to include a minority investment in Major Amusements and Gaming Corporation or MAGCOR, which operates the first and only PeGS in Makati City. MAGCOR's site, in the Alphaland Southgate Mall, is the most upscale PeGS in the country and one of the largest as well, with 91 terminals.

On the BigGame front, we opened two new sites during the year and expanded our flagship branch on Timog Avenue in Quezon City from 64 to 134 terminals. As we head into 2012, we are continuing to look at ways in which BigGame can expand into new sites around the country.

We treat BigGame as an R&D laboratory for PeGS, testing the ideas and product improvements within BigGame's smaller network before presenting the results to the entire network of PeGS operators. Among the successful enhancements tested in BigGame and MAGCOR this year are putting terminals on craps tables, which gives the cafés more of a casino feel.

Our sports betting business had a very good year, as our partnership with MegaSportsWorld increased its number of sites and total bet volumes significantly. We forecast that MSW's continued expansion will soon make it as large as our own Basketball Jackpot franchise.

Premyo Sa Resibo, the mobile raffle we conduct in support of the Bureau of Internal Revenue's tax collection efforts, had a good year as well. We have expanded the service to allow submission of Official Receipts via Facebook and Twitter, and



GROSS BETS
BILLION PESOS

Letter to Shareholders

the new social media entrants have breathed new life into the program.

We are proud that in six years, PSR has generated over 180 million total text entries and given away over P174 million in prizes. Over 149 people have become instant millionaires, all thanks to Premyo Sa Resibo. With the continued support of our telco partners, Smart, Globe, and Sun, we believe PSR will remain a robust contributor of revenues in 2012 and beyond.

The real excitement in the business comes from our new endeavors in Asia Pacific, which started to deliver revenue during the last quarter of the year. We opened The Sweeps Center in Guam in October and started selling Scratch Cards in Timor Leste in November.

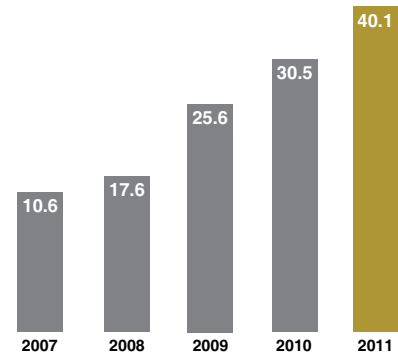
The former is an Internet café that offers Guamanians sweepstakes coupons that they can exchange for prizes or for computer points to play our games. The business model is similar to other sweepstakes cafés in the United States, where we tie up with local companies to provide sweepstakes services.

In Timor Leste, our scratch cards business started with a bang, as we sold a million cards in our first month of operations. We also have a license for mobile lottery and are working on other gaming licenses in that country.

We believe Asia Pacific will be the engine of growth for PhilWeb in the medium term. Already, 2012 has started auspiciously, as we have just received a license and have started selling scratch cards in Cambodia, together with the mobile lottery license we received last year. We have also made good inroads into Laos, Nepal, Sri Lanka and several other countries.

Our corporate investments in Acentic GmbH, a German company that provides video on demand and high-speed Internet access to a network of over 180,000 hotel rooms in Europe, and in ISM Communications Corporation, a holding company, have delivered significantly to our bottom line.

ISM Communications Corporation, together with a group of other investors, acquired 96.81% of the Philippine Bank of Communications or PBCom in the latter half of 2011. ISM's stake in PBCom is 36.64% for a total investment of P1.77



NUMBER OF PLAYERS
PER DAY IN THOUSANDS

Letter to Shareholders



FORBES ASIA MAGAZINE RECOGNIZED PHILWEB AS PART OF ITS BEST UNDER A BILLION LIST FOR TWO CONSECUTIVE YEARS (2010 AND 2011)

billion. PhilWeb's own investment in ISM is 24.3% with a book value of P1 billion. With ISM shares trading at end January 2012 at P3.19 per share, the market value of our investment in ISM is about P1.5 billion, for an unrealized gain of almost P500 million.

With all our businesses and corporate investments doing so well, it is no surprise that our financial statements have all set new records in 2011.

Revenue grew 12% to a record P1.16 billion, and our Net Income of P914 million represents a profit margin of 60%. This impressive margin was recognized by Forbes Asia magazine for the second year in a row in its Best Under a Billion list, their annual listing of the 200 best performing, publicly listed companies in Asia Pacific with sales under US\$1 billion. PhilWeb also garnered a special award for being Most Profitable among the 200 for the second year in a row, an unprecedented feat according to the magazine's editors.

Our balance sheet remains robust, with total assets of P3.4 billion, of which almost a billion is in cash. We continue to have no borrowings from any banks or financial institutions.

In 2011, we again declared dividends. In fact, we did so in April and September, thus doubling the amount that we paid out to our stockholders compared to the previous year. We expect to continue declaring dividends in 2012 and beyond.

All this growth has meant that our headcount has grown to a total of 250 at the end of 2011 versus 207 the previous year. We now occupy three floors of the Alphaland Southgate Tower in Makati City and have offices in Phnom Penh, Cambodia, and Dili, Timor Leste. We would like to acknowledge all the contributions from these individuals and teams, who collectively and with integrity, dedication, and perseverance, have driven our Company to these performance levels.

As we now pause to look forward into the coming year, we see an acceleration of our push to improve our businesses and hasten our launches in new countries. No doubt 2012 will

Letter to Shareholders


be a year of continuous activity as we move forward with our aggressive growth plans in the Philippines and Asia Pacific region.

In closing, we would like to extend our appreciation to our Board of Directors for their support, and to you, our Shareholders, for your trust. We look forward to continuing to provide more value to you in the years to come.

30 January 2012



ROBERTO M. ONGPIN
Chairman



DENNIS O. VALDES
President

Management



Management



L – R: ATTY. RODOLFO MA. A. PONFERRADA (SVP, LEGAL COUNSEL), ANTONIO K. GARCIA (SVP, PHILWEB ASIA PACIFIC), ALBERT P. DELA CRUZ (SVP, PHILWEB GAMING SOFTWARE), MARRIANA H. YULO (SVP AND CORPORATE FINANCE), RAFAEL A.S.G. ONGPIN (SVP, MARKETING), MICHAEL T. GRANDINETTI (PRESIDENT, PHILWEB ASIA PACIFIC), DENNIS O. VALDES (PRESIDENT), MICHELLE S. ONGPIN (SVP AND ASSISTANT TO THE CHAIRMAN), BRIAN K. NG (SVP, PEGS), SCOTT A. SPROULE (CONSULTANT, PHILWEB ASIA PACIFIC), ZALDY M. PRIETO (SVP AND CFO)



PAGCOR e-Games (PeGS) are Internet cafés that are exclusively dedicated to casino games. With technology provided by PhilWeb, patrons can choose from over 300 casino games, including baccarat, blackjack, various slot machine games, video poker, and others. Most PeGS cafés operate 24/7.

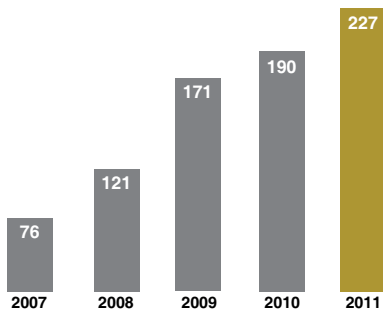
There are now 227 PeGS cafés all over the country, with the majority owned and operated by entrepreneurs. These Operators handle the day-to-day operations of the cafés and get a commission based on the PeGS casino winnings.

In 2011, the PAGCOR e-Games stations grew to 227 with the addition of 37 new cafés. PeGS cafés opened for the first time in cities and provinces such as Makati, Davao, Tarlac, Pangasinan, Cagayan, Camarines Sur, and Aklan. The network of total gaming terminals increased to 5,375 in 2011, a growth of 30% from the previous year.

With a larger network in place, gross bets placed in 2011 rose to P107.8 billion – an 18.3% growth from 2010. On the other hand, the casino wins in 2011 grew to P4.09 billion, an increase of 23% from the previous year.

Total e-Games contribution to the Philippine government increased by 34% from the previous year. Meanwhile, total operators' share increased by 23%.

More resources were positioned in 2011 to improve the service capability of PeGS operators, with the goal of ensuring quality, integrity of service, and reliability. The gaming software was updated and additional servers were deployed to address growth in PeGS activity and guarantee business continuity. Site specification guidelines were also introduced to direct operators on space layout and signage, with the goal of providing patrons with a safe and hospitable gaming



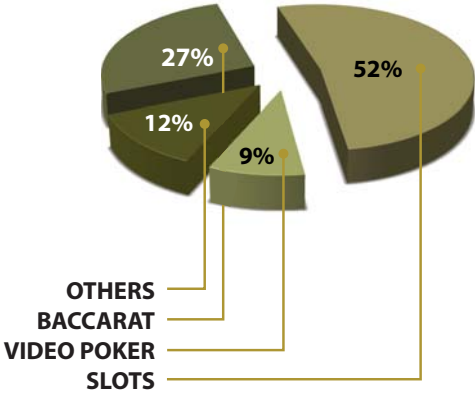
E-GAMES CAFÉS

PAGCOR e-Games

environment. Training programs for the Gaming Assistants have been redesigned to enhance the interaction with the PeGS patrons. All Gaming Assistants now require certification from PhilWeb, apart from their PAGCOR Gaming Employment License.

For 2012, the e-Games business' main goal is to continue to increase revenue. Apart from opening new cafés and adding more gaming terminals, expansion plans will focus on establishing PeGS in new provinces and popular entertainment areas. The PeGS Business Group, through a team of account executives, will continue to work closely with Operators to plan out marketing strategies such as information and brand awareness, new player acquisition, and player loyalty reward programs.

2011 GAME DISTRIBUTION



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



MARKETING HIGHLIGHTS

Loyalty Program and VIP Raffle Promo



Launched in the second half of 2011, the VIP Rewards Card Program is a customer loyalty system that rewards players with points every time they visit an e-Games café. VIP Rewards Card holders are entitled to exciting rewards and exclusive privileges, the first of which was the nationwide raffle draw which saw more than 60,000 raffle entries. A lucky patron won the top prize of a Mercedes Benz C200 in the draw. Other patrons won LCD TVs, the latest computer notebooks and tablets, phones, media players, and bet vouchers. More than six million pesos was spent on the Loyalty Program in 2011 with plans to increase this significantly in 2012.



Events

To enhance the visibility of the e-Games brand and to broaden its reach in the market, e-Games sponsored events like the Pacific Extreme Combat (PXC) last November 2011. A series of activations and bar tours were also conducted to introduce e-Gaming to new and prospective players. Apart from these events, e-Games took the PeGS on the road for a nationwide bus tour. The e-Games bus went on a four-month campaign through various cities across the country, offering a chance for the public to try the games out for free. Timed to coincide with city and municipal festivals, the bus tour proved to be popular with the locals, increasing player traffic into the PeGS cafés in the vicinity.



Advertisements and Promotions

Selected magazines were tapped to reach out to the specific market segments while print collaterals ranging from posters, information packets, and flyers with bet vouchers were provided to support site marketing. Limited edition e-Games merchandises were also distributed on special events and marketing related promotions. In line with our marketing initiatives, the e-Games website was revamped last August 2011 in order to invite potential players. The website now includes addresses and contact information of e-Games cafés nationwide. The Game Demonstration page proved to be popular among visitors as users can try out casino games for free. At the site level, LCD TVs installed in each café now doubles as a media signage solution. This allows for an on-site information communication tool that is flexible and easy to use. Jackpot data feeds from the top five progressive jackpots were streamed to these signages to attract players to these games.



PXC EVENT SPONSORSHIP



SCREENSHOT OF E-GAMES WEBSITE



RAFAEL A.S.G. ONGPIN (SVP, MARKETING)

CUSTOMER SERVICES

The customer services for PeGS operators are being attended by 24/7 working groups which includes the Contact Center and the Field Support groups.

The Contact Center group responds to technical and daily operational issues of PeGS operators, as well as inquiries and feedback from players. The group represents the company on a daily basis through their continuous assistance to customers and operators regarding gaming-related concerns. The Contact Center group makes use of all communication channels possible to respond to these queries and have consistently met stringent service level targets.

The Field Support group was material in expanding existing PeGS cafés and setting up new ones. By the end of 2011, the group brought up a total of 1,229 new gaming terminals nationwide. The group also supports the corrective and preventive maintenance of gaming and POS terminals in PeGS cafés nationwide.

CASH MANAGEMENT

The Finance Department, more specifically the 24/7 Finance Operations team together with the Customer Services (CS), PeGS Operations and Admin teams, were proactive in ensuring



L - R : ZALDY M. PRIETO (SVP AND CFO), MELECIO A. SANTIAGO, JR. (SENIOR MANAGER, INTERNAL AUDIT), GINA D. PINZA (AVP, CUSTOMER SERVICES)

that all receivables are collected and receipts from each PeGS café are stored and recorded in a secure, timely and accurate manner.

PeGS operators or representatives are constantly reminded to either deposit their gross hold (GH) to a PhilWeb nominated bank account within banking hours or prepare their GH for pickup by authorized riders, whichever applies. For 2012, the Company is looking into new payment channels to make it even more convenient for each café operator to deposit their GH.

INFORMATION TECHNOLOGY

In 2011, the Company invested in Information Technology infrastructure improvements to support the needs of the growing e-Games business. A new off-site server farm was added to meet terminal growth requirements and provide redundancy. The Casino Software was also updated, providing a refreshed gaming experience. Significant upgrades were also made to the network infrastructure and connectivity, providing faster data throughout and enhanced security. The Business is adding yet another off-site server farm in 2012, as well as continue with upgrades in hardware, network and systems infrastructure.

**L - R: ALEXANDER C. MANABAL
(AVP, IT DEVELOPMENT), ALBERT
P. DELA CRUZ (SVP, PHILWEB
GAMING SOFTWARE), ANTHONY M.
SAN PEDRO (AVP, IT SERVICES)**





BigGame, Inc. (BGI) is a wholly owned subsidiary of PhilWeb Corporation. BGI owns and operates twelve PeGS cafés making it one of the largest operators in the business.

The BGI network of PeGS functions as the e-Games network's Research and Development laboratory. New ideas are tested in BGI sites and are communicated to PeGS operators during the regular Operators' General Assemblies. One of BGI's significant developments, the Loyalty Card Program, was rolled out to the whole e-Games network in 2011.

2011 was a busy and fruitful year for BigGame, Inc. Higher player traffic and reloading activity brought Total Bets and Operator's Commissions to an all-time high. BGI also established pioneering e-Games sites in Davao City and Caticlan, the entry point to Boracay Island. Apart from new cafés, BigGame's Timog site was renovated and expanded, making it into the largest e-Games café in the country. BGI's new cafés and expansion activities increased its base of gaming terminals by 17% in 2011.

Several enhancements were introduced for a better gaming experience:

- The Craps e-gaming table design which further enhanced the café's casino feel. The innovative design also allowed for more gaming terminals in a smaller footprint. The design has been introduced and adopted across the whole e-Games network.
- BGI's Timog and Doña Juana sites were upgraded with a fully-stocked bar setup with gaming terminals. Patrons can opt to unwind with a choice of beverages while playing their favorite game.
- Generators were installed to provide fully-redundant power to BGI's top performing cafés in Manila and Quezon



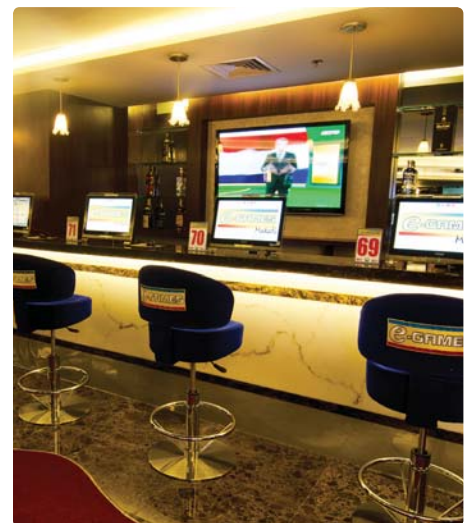
PAULO J. PEREZ (AVP, BIGGAME, INC.)

City. Local area network infrastructure was upgraded to provide load balancing across multiple connections and automatic switchover should one data connection fail.

- Signage and external façade was updated to ensure consistency with the e-Games brand. Multi-lingual signs now attract tourists and foreigners to the sites.
- The sites installed smoke exhaust systems to protect non-smoking patrons.
- Major investments in gaming terminal upgrades were made to ensure ability to run next-generation gaming software.

The Morato and Parkmall branches are undergoing expansion and the additional terminals will be operational by the second quarter of 2012. Renovations will include a luxury gaming lounge to attract VIPs and High Rollers.

New sites will also be added to the BGI network over the course of the year. BGI will introduce new player retention programs to complement the network-wide e-Games Loyalty Program.



PeGS Cafés and Basketball Jackpot Kiosk Distribution

PeGS Cafés

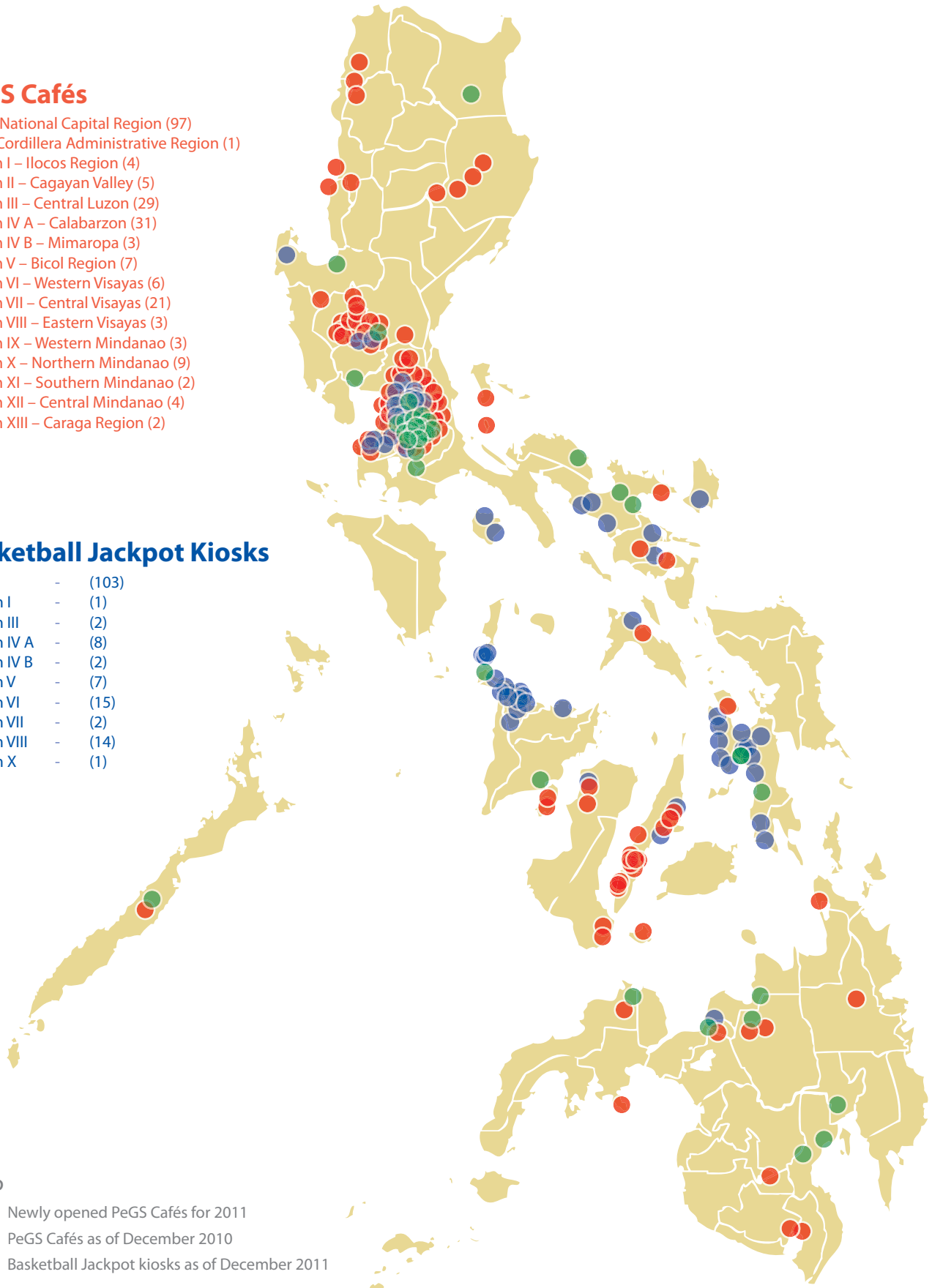
- NCR – National Capital Region (97)
- CAR - Cordillera Administrative Region (1)
- Region I – Ilocos Region (4)
- Region II – Cagayan Valley (5)
- Region III – Central Luzon (29)
- Region IV A – Calabarzon (31)
- Region IV B – Mimaropa (3)
- Region V – Bicol Region (7)
- Region VI – Western Visayas (6)
- Region VII – Central Visayas (21)
- Region VIII – Eastern Visayas (3)
- Region IX – Western Mindanao (3)
- Region X – Northern Mindanao (9)
- Region XI – Southern Mindanao (2)
- Region XII – Central Mindanao (4)
- Region XIII – Caraga Region (2)

Basketball Jackpot Kiosks

- NCR - (103)
- Region I - (1)
- Region III - (2)
- Region IV A - (8)
- Region IV B - (2)
- Region V - (7)
- Region VI - (15)
- Region VII - (2)
- Region VIII - (14)
- Region X - (1)

LEGEND

- - Newly opened PeGS Cafés for 2011
- - PeGS Cafés as of December 2010
- - Basketball Jackpot kiosks as of December 2011



PhilWeb Asia Pacific



PhilWeb Asia Pacific



PHILWEB ASIA PACIFIC TIMOR HEADQUARTERS IN TIMOR PLAZA, RUA PRESIDENTE NICOLAU LOBATO, COMORO DILI, TIMOR LESTE

PhilWeb Asia Pacific (PWAP) was incorporated in 2010 with a mandate to take the existing profitable businesses of PhilWeb Philippines and duplicate them with local partners in the Asia Pacific region. This mandate was quickly expanded to provide other products that are not currently offered by PhilWeb Philippines. Most notably, businesses such as instant scratch and win cards and slot, entertainment clubs are being offered by PWAP.

2011 has been an exciting year for PWAP. In 2011, the Company became operational in two countries: Guam (sweepstakes café) and Timor Leste (scratch and win cards). In January 2012, PWAP started to operate the scratch card business in the Kingdom of Cambodia.

LICENSES AS OF JANUARY 2012:

Timor Leste: Scratch and Win and Mobile Lottery



Cambodia: Scratch and Win and Lottery



Guam: Sweepstakes Café



L - R: SCOTT A. SPROULE (CONSULTANT, PHILWEB ASIA PACIFIC) AND MICHAEL T. GRANDINETTI (PRESIDENT, PHILWEB ASIA PACIFIC)

INSTANT SCRATCH AND WIN

The Scratch and Win product offering has been very promising and the Company is quickly expanding this business model to other Asia Pacific countries. The mechanics are simple. For each country, two to three scratch and win games are designed based on that country's traditions, hobbies, and pastimes. The average cost of a card is \$1 and players just need to scratch the game area to win instantly. Based on the game mechanics, players can instantly win and redeem their winning tickets for cash, motorcycles, and other exciting prizes. Instant Scratch and Win is a great product that has tremendous advantages. Instant Scratch and Win cards are readily available in thousands of points of sale and what's best is that prizes are given right away. Samples of our instant scratch and win cards are below:

Timor Leste



CASH CROC MECHANICS: FIND THREE IDENTICAL MONEY AMOUNTS AND WIN THAT AMOUNT. FIND THREE IDENTICAL MOTORBIKE SYMBOLS AND WIN A BRAND NEW MOTORBIKE!



GOLDEN ROOSTERS MECHANICS: FIND ANY THREE ROOSTERS IN ANY ROW, COLUMN OR DIAGONAL TO WIN THE AMOUNT SHOWN.

Cambodia



CASH FIGHTER MECHANICS: FIND IDENTICAL MONEY AMOUNTS IN ANY ORDER AND WIN THAT AMOUNT. FIND THREE IDENTICAL MOTORBIKE SYMBOLS AND WIN A BRAND NEW MOTORBIKE!



MONEY HARVEST MECHANICS: FIND IDENTICAL MONEY AMOUNTS IN ANY ORDER AND WIN THAT AMOUNT. FIND THREE IDENTICAL MOTORBIKE SYMBOLS AND WIN A BRAND NEW MOTORBIKE!



MAZY V. TAYAMEN (AVP, PHILWEB ASIA PACIFIC)



TIMOR LESTE

In September of 2011, we signed a Joint Venture Agreement with Loteria Lorosae Lda., a Timor corporation that had an existing scratch card license. Under the terms of the Agreement, PWAP through its locally owned Timor subsidiary, PhilWeb Asia Pacific Timor Lda., acquired the scratch card license in exchange for 30% of the equity in the new scratch card company, PhilWeb Lorosae Lda.

The operations of PhilWeb Lorosae Lda. commenced in late November and by the end of December, we sold over one million scratch cards and paid out \$600,000 in prizes to our winners. With Timor Leste's estimated population of just over one million people, our initial performance is a staggering achievement. The normal metric for scratch card revenue in Asia is \$2 per person per annum. Following that logic, we would expect to sell two million scratch cards for an annualized year. In Timor, we sold the staggering amount of one million scratch cards in just one month.

For 2012, our goal is to increase the distribution channels of the scratch and win cards throughout the entire country. We will introduce new games as the market matures and look at ways to vary prizes and amounts.

L - R: FERDIMARK L. MARIANO (VP, PHILWEB ASIA PACIFIC) AND ANTONIO K. GARCIA (SVP, PHILWEB ASIA PACIFIC)



In July 2011, PWAP was awarded a mobile phone lottery license in conjunction with our local partner, Timor Holdings Lda. The mobile lottery company named PhilWeb Corporation Timor Lda. is owned 75% by PhilWeb Asia Pacific Timor and 25% by Timor Holdings Lda. We have created an instant mobile raffle game called Kick for Gold where participants can join via SMS by sending message syntax to a designated access number to get a chance to win cash, prepaid load, mobile phones or a motorcycle. The Company is awaiting government regulatory approval to transmit such games over the phone companies' value added service license. The expected launch of this product is in March 2012.

Lastly, PhilWeb Asia Pacific Timor, in conjunction with Dili Development Company Lda., the owner of the largest commercial mall in Timor, called Timor Plaza, have applied for an e-Games license for a sports club to be located at Timor Plaza. The sports club covering 500 sq. m. will provide online gaming, sports books venue, and other forms of entertainment. The proposed joint venture has PhilWeb Asia Pacific holding a 60% equity stake in the newly formed company, alongside Dili Development Company Lda. with 30%, and Timor Holdings Lda. with 10%.

CAMBODIA

In October 2011, PhilWeb Cambodia, a 100% owned subsidiary of PWAP, entered into a joint venture agreement with Atomik Lottery Co. Ltd., to provide instant win scratch cards and lottery products in the Kingdom of Cambodia.



On December 13, 2011, the Kingdom of Cambodia’s Council of Ministers approved the Company’s gaming application for instant win scratch cards and lottery. Subsequently, Gold Scratch and Win Co. Ltd. was established as a local Cambodian corporation. Sixty-five percent of Gold Scratch and Win Co. Ltd. is owned by PhilWeb Cambodia while our local partner, Atomik Lottery Co. Ltd., owns 35%.

The Company was very diligent in complying with the requirements of the Ministry of Finance in order to commence operations. On January 27, 2012, the business received the approval to sell scratch cards throughout the entire country.

Cambodia, with a population of 16 million people, and a rapidly growing economy appears to be an excellent opportunity to expand our Instant Scratch and Win business. Phnom Penh, the country’s capital, with a population of over one million, is our first point of sale. The Company will establish partnerships with distributors to rapidly extend the distribution of the scratch cards from Phnom Penh to other major cities in Cambodia. The business is targeting to have 12,000 point of sale locations in the country.



LOCALIZED POSTER OF GOLD SCRATCH 'N WIN IN CAMBODIA

PWAP used its experience in Timor Leste to facilitate business processes and operations in Cambodia, which is why the launch of the new business venture went smoothly and was very successful. The company boasts of its seasoned management team boosted by the roving PhilWeb implementation team.

The Company is expecting to launch other games in Cambodia in the coming year by looking into alternatives covered by its gaming license. The scratch and win and lottery businesses definitely have great potential in this country, and the management is expecting to have an excellent year in 2012.



KYHONG PENG (GM, PHILWEB ASIA PACIFIC - CAMBODIA)

PhilWeb Asia Pacific



GUAM

In October, PhilWeb Asia Pacific through its 51% owned subsidiary, Guam Sweepstakes Corporation, commenced operations of its first sweepstakes café. Our sweepstakes cafés were patterned after other similar sweepstakes products like McDonalds' Monopoly game, Readers Digest, and more.

Guam Sweepstakes Corporation has achieved profitability in January of 2012 and is seeking to expand the business by adding other sweepstake providers and games.



LAOS

In November 2010, PWAP entered into a joint venture agreement with the Simuong Group, represented by its President, Mr. Ekaphanh Phapithak. The agreement has an 80% equity interest for PWAP and 20% for the Simuong Group.

The Company applied for a slot club license with the Lao Ministry of Planning and Investment, Lao National Committee for Special Economic Zone, and the Province of Champasack to operate a slot club located on the International Border of Thailand and Laos (Song Mek). The Song Mek border is within 40 kilometers from the provincial capital city of Champasack Province, Paxse, Laos. The City of Paxse has an international airport and is rapidly becoming an industrial and tourism hub for Southern Laos. To the West of Paxse is the Thailand city of Ubon Ratchathani, which is 90 kilometers away from the Song Mek border. The City of Ubon Ratchathani has a large local population base (200,000 people) and has an established transportation infrastructure. With this, Song Mek is the ideal location to cater to the Thais' gaming appetite, since gambling is illegal in Thailand.

The Company had numerous discussions with the National and Local Government entities for our slot club license and we expect a successful conclusion to our negotiations in the first half of 2012.

With a successful Instant Scratch and Win Card business model, the company is applying for a scratch card license for the Lao PDR. With a population base of 7 million people, the current business model is expected to continue its success in Laos. The application will be submitted on the first quarter of 2012. With the support and guidance of our local partner, the management expects a very fruitful year ahead.

L - R : DANNY D. PAYUMO (GM, GUAM SWEEPSTAKES CORPORATION) AND HUAT ENG LEE (GM, PHILWEB ASIA PACIFIC - LAOS)





NEPAL, SRI LANKA, AND MONGOLIA

Part of PhilWeb's international expansion strategy involves gaming prospects in the Indian sub-continent and North Asia. These are in Nepal, Sri Lanka and Mongolia.

Nepal is a landlocked country bordered by Tibet, China and India. PWAP has been in discussions with a Nepalese conglomerate with roots in India and Sri Lanka about offering national lotto and scratch cards. Through this potential partnership, we would gain a foothold into the Indian subcontinent.

The Company also had recent discussions with government officials about offering scratch cards in countries like Mongolia, Myanmar and Maldives.

PALAU

The Republic of Palau is an independent island nation located in the Southwest Pacific. Palau has entered into a Covenant of Free Association with the United States of America. PWAP envisions entering into an 80:20 venture with a local business partner to offer e-Games cafés to the Taiwanese, Koreans and Japanese tourists visiting the island. The Company will continue to look at all possibilities in the Asia Pacific region.



OUTLOOK FOR 2012

PWAP's main goal for 2012 is to contribute at least 20% of overall revenues and earnings to PhilWeb Corporation. The company wants to maximize the financial results of operations from the scratch card business in Timor and Cambodia while maintaining its excellent corporate citizenship.

Our priorities include:

- Launch of the scratch card business in Laos and Nepal.
- Launch of the gaming cafés and slot clubs in Laos and Timor Leste.
- Launch of mobile gaming in Timor Leste and Cambodia.

PWAP will continue to build relationships with other potential business partners throughout the region, concentrating on the scratch card and gaming café businesses. With the smooth launch of its products last 2011, the company is looking forward to an outstanding 2012.

Premyo sa Resibo



Premyo Sa Resibo (PSR) is the longest running nationwide SMS text-based raffle program in the Philippines. The Bureau of Internal Revenue (BIR) oversees the program and tasks PhilWeb to manage the day-to-day operations.

Launched in 2006, the primary objectives of PSR are:

- Motivate consumers to demand official receipts in all their purchases of goods and/or services;
- Encourage professionals, private business and/or commercial establishments to register their official receipts and to issue the same to their customers/clients; and
- Accumulate data from the official receipts to assist BIR in their monitoring of tax compliance



DENNIS O. VALDES, PRESIDENT, RECEIVING A PLAQUE OF APPRECIATION FROM BIR COMMISSIONER KIM HENARES FOR PHILWEB'S SUPPORT TO BIR'S PREMYO SA RESIBO PROGRAM DURING THE BUREAU'S 107TH ANNIVERSARY LAST AUGUST 1, 2011.

In 2011, PSR remains on-track of its objectives as the program gathered close to 1.7 million receipts (up 22.5% versus 2010) from 235,000 establishments (up 42.2% versus 2010). In addition to over 24,000 instant mobile load winners, and 387 cash prize winners from all over the country, the year 2011 had ten winners of P1,000,000 cash – pushing the total of PSR millionaires to 149.

Now on its sixth year, PSR is recognized as one of BIR's support programs that contributed to the significant increase in the registration database of the BIR's Authority to Print Receipt (ATP). This indicates an increased compliance to tax rules by business establishments.

As gratitude for PSR's contribution to the BIR tax collection advocacy, PhilWeb Corporation was awarded a plaque of appreciation by the BIR during the PSR Anniversary draw last August.

Premyo sa Resibo

PSR has enjoyed a loyal following from its over 1.5 million users that have joined in the past years. This number, although significant, is believed to be far from its potential. In recognition of this, PSR has started its venture into Social Networking sites as part of its acquisition program. This aims to interest and educate a new group of users to sustain PSR's proper tax collection and declaration advocacy. Currently, PSR's Facebook page has more than six thousand fans and its Twitter page has more than one thousand. This number is expected to grow in 2012 because these networking sites not only provide the customers a direct line of communication to the PSR group, but are also being used for collection of entries and non-issuance of receipt reports. There will also be a more active push from telecommunication company partners in 2012.

There will be a guaranteed P1,000,000 winner every month in 2012, as well as guaranteed prizes for reporting establishments, professionals, etc. that do not issue official receipts. This service is open to everyone.

To participate in Premyo sa Resibo, a consumer needs an official receipt and a mobile phone. One simply enters the receipt information in the following format, PSR <TIN><OR Number><OR Amount> and send to 9777 for a single entry or to 9778 for multiple entries.

Each entry costs P2.50 and entries will qualify not only for an instant prize but also for the weekly and the monthly draws. Winners need to present the receipt used to claim their prizes. No receipt, no prize. This ensures that consumers demand for receipts and keep them.

Results of every draw are broadcasted to all mobile phone numbers that participated in the draw and are posted in the PSR website, www.premyosaresibo.com.ph, PSR Facebook page, [ipremyosaresibo](https://www.facebook.com/ipremyosaresibo) and Twitter account, [@PSResibo](https://twitter.com/PSResibo).



FLORENTINO B. MAURICIO (CONSULTANT, PSR)

Basketball Jackpot



In 2003, PhilWeb launched Basketball Jackpot, the company's first gaming product. To date, there are over 150 Basketball Jackpot kiosks in the Philippines which bettors may visit to place their wagers.

Basketball Jackpot is still the most saleable sports betting game. There are four available game formats — Last 2, Last 3, Quarter Ending and Last 2 Jackpot Special — and the game is played on all games of the PBA, NBA and the UAAP.

In Last 2, the punter picks a two-digit combination between 00-99. The winning combination is based on the last digits of the final scores of the teams playing in a featured basketball game. Thus, if Team A were to beat Team B with a score of 93-89, then the Last 2 winning combination would be 3-9.

Last 3 is an extension of the Last 2 digits game. It is a three-digit combination based on the winning Last 2 combination plus the last digit of the score of the highest pointer of the game.

Quarter Ending is based on selecting a two-digit combination for the leading and trailing teams' scores at the end of each quarter. This game format is offered for the first three quarters of a featured basketball game.

Last 2 Jackpot Special is a variant with a progressive jackpot, wherein a punter is asked to make a six-digit wager. The winning combination is based on the Quarter 2, Quarter 3 and Last 2 digits results. A punter who makes the correct guess wins a P100,000 jackpot. If no one guesses the combination correctly, a portion of the bets is added to the jackpot prize of the subsequent game.

Basketball Jackpot

What was deemed to be a small venture into the basketball business surprisingly became one of PhilWeb Corporation's best and most established products. Basketball Jackpot never ceases to attract more bettors every day with its popular basketball game offerings here in the Philippines. People from all over the country can place bets on their chosen number combinations based on the scores of their favorite basketball teams and players in PBA, NBA and UAAP.

Basketball Jackpot is a low start-up cost business. The basic requirements for setting up a kiosk include a computer, printer, scanner, Broadband Internet access, and a space with a minimum of four square meters.

With a total of 155 kiosks at the end of 2011, PhilWeb aims to increase this number by 110% in 2012. The increase in target ensures that most of the PeGS cafés will have a Basketball Jackpot kiosk to serve its new clients and add excitement to its patrons.



**ERRICK R. GONZALEZ (SENIOR MANAGER,
BASKETBALL JACKPOT)**

Sports Betting



PhilWeb partnered with MegaSportsWorld (MSW) in January 2010 to offer sports betting from our network of Basketball Jackpot kiosks. MSW is part of the Asian Logic Group of Companies and is a fully licensed sportsbook with access to odds makers all over the world.

Through MSW, our punters can bet on soccer, tennis, NBA and NFL games, baseball, and virtually any sport on the planet. The most popular sport events to bet on have been the Pacquiao boxing matches.

In 2011, the total gross bets collected across all PeGS outlets grew from P44 million in 2010 to over P100 million, an increase of 230% from the previous year. Worth noting is the huge organic surge as the outlet expansion approvals came only in the last quarter of 2011.

Boxing remains the top grosser for 2011 while basketball comes in as a healthy second placer. Last May and November were Pacquiao-fight months, pushing gross bets beyond the ten million mark. Basketball is the obvious staple for PeGS punters as the PBA, NBA, and college tournament bets never cease to fuel steady growth. Grand slam tennis events are also very popular among our customers.

The sportsbook business has high hopes for its new outlets which opened at the end of 2011. This increase in outlets will give us access to a greater number of punters and a rise in total gross bets.

In 2012, the sportsbook business sees an escalation of the number of punters across the entire PeGS network through marketing and promotional activities. These include offerings such as special prizes to our loyal customers and introduction of new sports events they can wager on. The Company is confident that this business will finally break out of its shell and start catching up to its older brother, Basketball Jackpot.



LUIS TADEO R. ABELLO (SENIOR MANAGER, SPORTS BETTING)

SMS LOTTERY

Generally regarded as the Holy Grail of mobile gaming, SMS lottery discussions have circled since the early 2000s. With the lure of an untapped home-play market and the promise of unrealized revenue, many gaming providers have been eyeing SMS lottery. Its potential and value has been debated on extensively, but one thing remains certain: once given regulatory approval, this service will revolutionize both the mobile and gaming industry.

With the primary roadblock coming from government, PhilWeb took a more active approach in 2011 by perfecting the SMS Lottery software - ready for a push button launch anytime, anywhere. The Company has conducted internal tests to ensure that the quality of user-experience and data collection is accurate and complete. Leveraging on PhilWeb's solid mobile gaming track record from Premyo Sa Resibo, and strong international partnerships, the thrust for 2012 is to launch mobile gaming in as many countries as possible. This should further establish PhilWeb Corporation's credibility in SMS Lottery and supremacy over local competitors when regulatory approvals are granted.

TV GAMING

PhilWeb Corporation has been in talks with various television networks to co-produce multiple TV Gaming shows that capitalize on the Company's partnership with PAGCOR to broadcast government-regulated games on television. Aside from television networks, PhilWeb is also in talks with cable providers and communication companies to offer gaming programs to pre-screened bases on an exclusive channel with a controlled format.

The introduction of TV Gaming should break two acknowledged gaming barriers – mainstream media and home-play. Currently, DTI-regulated raffle games on television only give away prizes of up to P1,000,000 and generate the same participation volume as PCSO ticket sales when the lottery jackpot reaches P100 million. In the year ahead, imagine TV Gaming participation when shows offer prizes that are close to the PCSO jackpots.



L - R: BENJAMIN G. PARUNGO (AVP, SMS LOTTERY) AND GIL G. EDEZA (SVP)

Corporate Social Responsibility

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

As PhilWeb grows and delivers profits to its stakeholders, it also amasses resources that can make a huge difference in the lives of the less privileged. In 2011, the Company explored ways in which it can impact the community it serves for the better. By being responsible corporate citizens, the management is confident that PhilWeb can be a positive force in transforming the society.

PHILWEB FOUNDATION, INC.

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

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

In late 2011, severe Tropical Storm Washi (PAGASA name: Sendong) caused extensive damage to the country. The Foundation responded quickly and donated a total of P300,000 for immediate relief efforts and collected additional cash, food, water and clothing from PhilWeb employees through the Human Resources Department.

In 2011, the PhilWeb Foundation established a scholarship program with the University of the Philippines. The program's beneficiaries were deserving students in the field of Information Technology. Four chosen scholars have been provided their full tuition and living allowance. The Foundation will continue to support these young, talented individuals and enroll them in PhilWeb's Management Training Program upon graduation.

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



L - R: CARLA S. VARGAS-NUYDA (AVP, HR AND ADMINISTRATION)
AND MICHELLE S. ONGPIN (SVP AND ASSISTANT TO THE CHAIRMAN)

PhilWeb sets new high for Net Income

By Cliburn Anthony Orbe, PhilWeb Corporation
January 7, 2011

PhilWeb Corporation, the country's first and largest listed online technology firm, disclosed that its unaudited Net Income for 2010 was a total of P708 million, a record for the company. The amount is 28% higher than the P551 million achieved for 2009. For the first time ever, Revenues were over a billion pesos, totaling P1.04 billion, a 27% increase vs. previous year.

PhilWeb gets Forbes Prize

By Cliburn Anthony Orbe, PhilWeb Corporation
January 18, 2011

PhilWeb Corp. recently received two awards from Forbes Asia magazine, which cited it as one of the 200 best companies in Asia with market capitalization of less than US\$1 Billion. PhilWeb, with a market capitalization of US\$478 M, was one of only three Filipino companies to receive the award. It was also the first year that Filipino companies have been included in this list. The award is based on the company's financial performance, using conventional metrics.

In addition to getting onto the list, Forbes also gave a special award to PhilWeb for extraordinary profitability. This was based on PhilWeb's Operating Ratio (Profit as a percent of Revenue) of 61%, which was the best of all the 200 honorees.

PhilWeb Declares Dividend

By Cliburn Anthony A. Orbe, PhilWeb Corporation
April 14, 2011

PhilWeb Corp., the country's first and largest listed online technology firm, announced today that its Board of Directors declared a dividend of ten centavos per share, payable on May 13, 2011, to shareholders of record as of April 28, 2011. The total dividend payment will amount to over P126 million, based on the total 1.26 billion outstanding shares of stock of the Company.

PhilWeb president Dennis Valdes noted that the dividend declaration is based on the firm's continued profitability and strong cash flows. PhilWeb paid its first-ever dividends in August 2010.

Press Quotes

PhilWeb expanding abroad

By Paolo G. Montecillo, Philippine Daily Inquirer
May 25, 2011

Listed gaming firm PhilWeb Corp. expects to start operations on its planned Internet casinos abroad, helping lift company profits to new record highs in 2011, officials said. PhilWeb plans to put up the Internet casinos—similar to the firm’s PAGCOR [Philippine Amusement and Gaming Corp.] e-Games, or PeGS, casinos in the Philippines—along the Laos-Thailand border. These would target the Thailand market where gambling is illegal, Valdes said. He said similar casinos would be built along Laos’ border with China. Casinos will also be built in Vietnam and Cambodia.

PhilWeb Gets Mobile Gaming License from East Timor

By Cliburn Anthony A. Orbe, PhilWeb Corporation
June 29, 2011

PhilWeb Corp., the country’s first and largest listed online technology firm, announced today that it had received a mobile gaming license from East Timor. The license enables PhilWeb to immediately launch a suite of mobile games, including SMS-based instant win. These products will be launched under the brand name Gold Mobile.

PhilWeb among Forbes Asia’s ‘Best Under a Billion’

InterAksyon.com
November 14, 2011

PhilWeb Corp., the country’s first and largest listed online technology firm, has made it to Forbes Asia’s 2011 Best Under a Billion list, the magazine’s annual listing of the 200 best performing small and medium-sized, publicly listed companies in Asia Pacific with sales under US\$1 billion.

PhilWeb was one of only three companies to garner an additional special award, as the Most Profitable company among those that made the list. This is the second year in a row that PhilWeb has been recognized for both awards by Forbes Asia.

Disclosures

January 7, 2011 In accordance with the Revised Disclosure Rules, PhilWeb furnished the Philippine Stock Exchange, Inc. with a copy of a press release issued by the Company entitled: "PhilWeb sets new high for Net Income".

A special stockholders' meeting was held on January 7, 2011 where the proposal to issue new shares in connection with an international equity fund raising program, was approved to raise up to P5 billion (P5,000,000,000.00) for the acquisition and expansion projects of PhilWeb Corporation.

March 29, 2011 The Executive Committee of the Board of Directors decided to set the Annual Meeting of the Stockholders of the Company for this year on May 25, 2011 at 2:00 p.m. at the Tents, 6th floor, Alphaland Southgate Mall, 2258 Chino Roces Avenue corner EDSA, Makati City. The record date for stockholders who will be eligible and entitled to vote at the said meeting has been set to April 12, 2011.

April 13, 2011 The Board of Directors of PhilWeb Corporation declared a cash dividend of ten centavos (P0.10) per share, payable on May 13, 2011, to shareholders of record as of April 28, 2011. The total dividend payment will amount to over P126 million (P126,000,000.00), based on the total 1,261,556,061 outstanding shares of stock of the Company.



L - R: ATTY. CLIBURN ANTHONY A. ORBE (VP, CORPORATE SERVICES), ATTY. RODOLFO MA. A. PONFERRADA (SVP, LEGAL COUNSEL), ATTY. RAYMUND S. AQUINO (AVP, LEGAL)

Disclosures

April 14, 2011 In accordance with the Revised Disclosure Rules, PhilWeb furnished the Philippine Stock Exchange, Inc. with a copy of a press release issued by the Company entitled: "PhilWeb Declares Dividend".

May 25, 2011 PhilWeb informed the Philippine Stock Exchange, Inc. of the elected directors, officers and committee members for the current year, during the Annual Stockholders' Meeting.

May 26, 2011 The Company replied to a letter regarding a news article entitled "PhilWeb sees banner year, allots P100M for 2011 capex" published in the May 26, 2011 issue of the Philippine Star. The accuracy of the article was confirmed but the stated capital expenditures in the news article may increase by more than two to three times that amount due to the Company's expansion in the Philippines, together with its international expansion. PhilWeb, which is debt free, can finance comfortably out of its cash flow.

June 29, 2011 In accordance with the Revised Disclosure Rules, PhilWeb furnished the Philippine Stock Exchange, Inc. with a copy of a press release issued by the Company entitled: "PhilWeb Gets Mobile Gaming License from East Timor".

September 7, 2011 The Board of Directors of PhilWeb Corporation declared a cash dividend of ten centavos (P0.10) per share, payable on October 4, 2011, to shareholders of record as of September 21, 2011. The total dividend payment will amount to P126,155,597.30, based on the total 1,261,555,973 outstanding shares of stock of the Company.

Executive Officers

EXECUTIVE OFFICERS

ROBERTO V. ONGPIN – Chairman

RAY C. ESPINOSA – Vice Chairman

ERIC O. RECTO – Vice Chairman

DENNIS O. VALDES – President

MICHAEL T. GRANDINETTI – President, PhilWeb Asia Pacific

ALBERT P. DELA CRUZ – SVP, PhilWeb Gaming Software

GIL G. EDEZA - SVP

ANTONIO K. GARCIA – SVP, PhilWeb Asia Pacific

JOSEPHINE A. MANALO – SVP and Assistant to the Chairman

BRIAN K. NG – SVP, PeGS

MICHELLE S. ONGPIN – SVP and Assistant to the Chairman

RAFAEL A.S.G. ONGPIN – SVP, Marketing

ATTY. RODOLFO MA. A. PONFERRADA – SVP, Legal Counsel

ZALDY M. PRIETO – SVP and CFO

SCOTT A. SPROULE – Consultant, PhilWeb Asia Pacific

MARRIANA H. YULO – SVP, Corporate Finance

FERDIMARK L. MARIANO – VP, PhilWeb Asia Pacific

FLORENTINO B. MAURICIO – Consultant, Premyo Sa Resibo

ATTY. CLIBURN ANTHONY A. ORBE – VP, Corporate Services

ATTY. RAYMUND S. AQUINO – AVP, Legal

SAMUEL A. DELA CUESTA – AVP, PeGS Operations

RONALD M. CUEVAS – AVP, PeGS Operations Quality

TERESITA R. GONZALES – AVP, PeGS Rollout

ALEXANDER C. MANABAL – AVP, IT Development

BENJAMIN G. PARUNGO – AVP, SMS Lottery

PAULO J. PEREZ – AVP, BigGame, Inc.

GINA D. PINZA – AVP, Customer Services

ANTHONY M. SAN PEDRO – AVP, IT Services

MAZY V. TAYAMEN – AVP, PhilWeb Asia Pacific

CARLA S. VARGAS-NUYDA – AVP, Human Resources and Administration

LUIS TADEO R. ABELLO – Senior Manager, Sports Betting

ERRICK R. GONZALEZ – Senior Manager, Basketball Jackpot

MELECIO A. SANTIAGO, JR. – Senior Manager, Internal Audit

HUAT ENG LEE – GM, PhilWeb Asia Pacific – Laos

DANNY D. PAYUMO – GM, Guam Sweepstakes Corporation

KYHONG PENG – GM, PhilWeb Asia Pacific – Cambodia

Board of Directors

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

ERIC O. RECTO was elected Vice Chairman on July 28, 2006 after having been President and Director of the Company since March 2005. He is also the Co-Chairman of the Philippine Bank of Communications, the Vice Chairman and Director of Alphaland Corporation, and Atok-Big Wedge Co., Inc., the President and Director of Petron Corporation, and ISM Communications Corporation, a Director of the Manila Electric Company, San Miguel Corporation, a Member of the Board of Supervisors of Acentic GmbH, and the President and Director of Top Frontier Investment Holdings, Inc., and Q-Tech Alliance Holdings, Inc. Prior to joining the Company, Mr. Recto served for three years as an Undersecretary of the Department of Finance of the Philippine Government in charge of handling both the International Finance Group and the Privatization Office. Before his work with the government, he was the CFO of Alaska Milk Corporation and prior to that, Belle Corporation. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines as well as an MBA from the Johnson School, Cornell University.

RAY C. ESPINOSA was elected Vice Chairman of the Company on June 20, 2006. He is President and CEO of Mediaquest Holdings, Inc., ABC Development Corporation (TV5), and Mediascape, Inc. (Signal TV). He is a Director of the Philippine Long Distance Telephone Company (PLDT), Meralco PowerGen Corporation, Manila Electric Co., and Metro Pacific Investment, Corp., a Director and Corporate Secretary of Cyber Bay Corp., and an Independent Director of Lepanto Consolidated Mining Company. He is also the President of Nation Broadcasting Corp. (NBC) and other subsidiaries of Mediaquest Holdings, Inc. He was a partner of SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington, D.C., U.S.A.) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989. He is a member of the Integrated Bar of the Philippines and has a Master of Laws degree from the University of Michigan Law School.

Board of Directors

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

TOMAS I. ALCANTARA was elected Independent Director of the Company in May 2002. He is the Chairman and President of Alsons Consolidated Resources, Inc., Alto Power Management Corp., Alsons Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc., among others. He is a Director of Holcim Philippines and DBP-Daiwa Securities Corp. He studied at the Ateneo de Manila University, the Columbia University Graduate School of Business, and the Harvard Business School. He was formerly the Chairman of the Manila Economic and Cultural Office (MECO) and served the Philippine government in various capacities as Undersecretary for Industry and Investments, Department of Trade and Industry, Vice Chairman and Managing Head of the Board of Investments, and Special Envoy of the President of the Philippines to APEC.

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

BENITO R. ARANETA was elected Independent Director of the Company in March 2003. He is the Chairman of Takeda Pharmaceutical (Philippines), Inc., a Director of the Araneta Properties, Inc., Boie, Inc., Southeast Asia Cement Corp., Honda Philippines, Inc., and the Philippine-American Drug Co.

ROBERT CREAGER was elected Director of the Company on February 4, 2010. He is currently a Member of the Board of Supervisors of Acentic GmbH, a company registered in Germany, but headquartered in the U.K. which was acquired by PhilWeb and ISM Communications Corporation in December 2009. Acentic is an international provider of digital and internet protocol converged services to hotels, tourism facilities, and healthcare premises, as well as high-speed internet access (HSIA) in many of the world's leading hotel chains including Accor, Dorint, Intercontinental Hotel Group, Hilton,

Board of Directors

Hyatt, Maritim, Marriott, Movenpick and Starwood in more than 30 countries in Europe, Middle East and Africa. Mr. Creager was the founder of MagiNet Corporation, currently known as DoCoMo Intertouch, which is the largest provider of in-room interactive television and HSIA services for the hospitality industry in Asia. He also served as the Executive Vice President of TVU Networks Corporation and was formerly the CEO of AMG Media Vision Inc.

CRAIG EHRLICH was elected Director of the Company in May 2002. He is the former long time Chairman of the GSM Association (GSMA), the global trade association representing more than 700 2nd and 3rd generation network operators, serving more than 4 billion customers across 218 countries and territories. He is a Board Member of the International Telecommunications Union (ITU), Bharti Airtel, India's largest (by market capitalization) telecommunications company, the Chairman of Carmel Ventures Asia, and the Founding Chairman of Novare Technologies Ltd., a Hong Kong software development company. He was the former group Managing Director of Sunday Communications Limited, a Hong Kong mobile operator. In the Philippines, he is the Director and Vice Chairman of ISM Communications Corporation. Mr. Ehrlich, a Hong Kong resident since 1987, holds a BA degree from the University of California in Los Angeles, a Masters degree from Occidental College, and a postgraduate fellowship with the Coro Foundation.

MARIO J. LOCSIN was elected Director of the Company in January 2000. He is also currently the President and Director of Atok-Big Wedge Co., Inc., Director and Executive Vice President of ISM Communications Corporation, Vice Chairman and Director of the Philippine Bank of Communications, Director of Alphaland Corporation, as well as the President of Alphaland Heavy Equipment Corporation, and Inpilcom, Inc. In the past, he served as the President and COO (until February 8, 2011) of Eastern Telecommunications Philippines, Inc., a Director of Belle Corporation, APC Group, Southwest Resources, Philippine Long Distance Telephone Co. and Pilipino Telephone Co., as well as a Director, Executive Vice President and COO of Philippine Airlines. He holds a degree in LIA-Honors Math from De La Salle University and a Masters degree in Business Administration from the University of San Francisco.

MARIO A. ORETA was elected Independent Director of the Company in March 2005. He is also currently the President and Director of Alphaland Development, Inc., Alphaland Balesin Island Resort Corporation, Alphaland Makati Place, Inc., Alphaland Makati Tower, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Marina Corporation, Alphaland Marina Club, Inc., Aklan Boracay Properties, Inc., and Alphaland Property Management Corporation, the Vice Chairman and Director of Alphaland Heavy Equipment Corporation, and Alphaland Reclamation Corporation, and Chief Operating Officer of Jet Eagle International Limited, Inc. He is the Chairman of Major Holdings, Inc., Major Properties, Inc., and Major Homes, Inc. He is also a Director of ISM Communications Corporation, and Atok-Big Wedge Co., Inc. He was the Founder and Managing Partner of Tanjuatco Oreta and Factoran Law Offices.

Board of Directors

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

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

NAPOLEON L. NAZARENO was elected Director last May 25, 2011. Mr. Nazareno is currently the President and CEO of the Philippine Long Distance Telephone Company (PLDT) and Smart Communications, Inc. (SMART) and PLDT Communications and Energy Ventures (PCEV). He is also Chairman of the Board of Wolfpac Mobile, Inc., Smart Broadband, Inc., i-Contacts Corporation, and Airborne Access, Inc., and President of Connectivity Unlimited Resources, Inc., which are subsidiaries of Smart. He is also a Board Member of the GSM Association Worldwide; a Non-Executive Director of Hong Kong-based First Pacific Company Ltd., a Director at Manila Electric Company (Meralco), Wireless Applications Community (WAC), ACeS Philippines Cellular Satellite Corporation, where he is also the President, PLDT Global Corporation and ePLDT, Inc., and recently, Digital Telecommunications Philippines Inc. (Digitel), and Digitel Mobile Phils. Inc. Outside of his work in the PLDT Group, Mr. Nazareno generously shares his expertise with other organizations in his capacity as Chairman of the Board of Trustees and Governors of the Asian Institute of Management, Governor of the Management Association of the Philippines, Member of the Council of Advisors of the De La Salle University (DLSU) – Graduate School of Business, Partner-member of the Philippine Business for Social Progress, and Philippine-Thailand Business Council, Pacific Basin Economic Council, among others. He obtained a Master's degree in Business Management at the Asian Institute of Management (AIM) in 1973 and also took the INSEAD Executive Program at the European Institute of Business Administration in Fontainebleau, France in 1983.

Statement of Management's Responsibility




STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of PhilWeb Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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


KPMG – Manabat Sanagustin & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



ROBERTO V. ONGPIN
Chairman



DENNIS O. VALDES
President



ZALDY M. PRIETO
SVP & Chief Finance Officer

Report of Independent Auditors



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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, 2011 and 2010, 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, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PhilWeb Corporation and Subsidiaries as at December 31, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

A handwritten signature in black ink, appearing to read 'Tomas G. Mahinay', written over a light blue horizontal line.

TOMAS G. MAHINAY

Partner

CPA License No. 0024593

SEC Accreditation No. 1035-A, Group A, valid until September 29, 2013

Tax Identification No. 121-597-818

BIR Accreditation No. 08-001987-21-2010

Issued June 30, 2010; valid until June 29, 2013

PTR No. 3174014MA

Issued January 2, 2012 at Makati City

February 8, 2012

Makati City, Metro Manila

Consolidated Statements of Financial Position

PHILWEB CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	<i>Note</i>	2011	2010
ASSETS			
Current Assets			
Cash and cash equivalents	4	P900,669,483	P355,830,777
Accounts receivable - net	5, 14	228,753,540	152,974,235
Notes receivable	6	269,342,991	536,247,991
Investment held for sale	8	-	594,017,824
Prepaid expenses and other current assets	7	70,733,796	45,051,036
Total Current Assets		1,469,499,810	1,684,121,863
Noncurrent Assets			
Investments in associates	8	1,664,795,008	881,554,621
Property and equipment - net	9	216,981,199	196,820,886
Deferred tax assets	13	4,148,209	-
Other noncurrent assets	10	35,580,345	28,104,983
Total Noncurrent Assets		1,921,504,761	1,106,480,490
		P3,391,004,571	P2,790,602,353
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	11	P173,266,792	P110,771,527
Notes payable	12	-	138,856,600
Total Current Liabilities		173,266,792	249,628,127
Noncurrent Liabilities			
Retirement benefits liability	19	13,759,358	8,849,597
Operators' deposits	20	42,300,000	36,300,000
Total Noncurrent Liabilities		56,059,358	45,149,597
Total Liabilities		229,326,150	294,777,724
Equity			
Capital stock		1,111,482,037	1,111,355,369
Surplus from write-down of capital stock	15	341,433	341,433
Additional paid-in capital		536,154,223	535,660,889
Retained earnings		1,509,777,252	846,393,432
Treasury stock		(126,492)	(126,494)
		3,157,628,453	2,493,624,629
Non-controlling interest		4,049,968	2,200,000
Total Equity		3,161,678,421	2,495,824,629
		P3,391,004,571	P2,790,602,353

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

PHILWEB CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31				
	<i>Note</i>	2011	2010	2009
REVENUES				
Internet application service		P993,400,836	P896,855,047	P717,178,252
Commission		142,183,577	142,998,688	100,386,118
Scratch cards		29,483,300	-	-
		1,165,067,713	1,039,853,735	817,564,370
OPERATING EXPENSES				
Salaries and benefits	14, 16, 19	119,649,548	92,341,048	90,876,814
Depreciation and amortization	9	79,227,049	80,255,411	59,763,407
Outsourced services		65,106,440	53,437,837	40,622,976
Representation and entertainment		53,137,694	51,172,851	28,532,150
Utilities and communications		44,061,893	40,246,520	23,600,919
Rent	18	40,575,558	45,656,035	28,883,076
Professional fees		18,144,594	19,805,853	10,296,513
Taxes and licenses		11,606,034	10,461,508	6,069,847
Donation & sponsorship		10,275,141	3,375,225	1,346,006
Supplies		8,572,286	7,616,792	5,351,283
Operator incentives		4,615,783	3,525,778	2,470,054
Impairment losses on input tax, other assets, advances and receivables	7	4,455,336	18,455,454	10,352,040
Advertising and promotion		4,207,256	10,900,029	6,268,945
Miscellaneous		4,204,319	773,776	5,736,524
		467,838,931	438,024,117	320,170,554
OPERATING INCOME		697,228,782	601,829,618	497,393,816
OTHER INCOME (CHARGES)				
Equity in net earnings of associates	8	182,222,663	4,106,742	34,626,605
Interest income		44,130,837	35,066,148	21,649,130
Interest expense	12	(1,026,432)	(14,069,119)	-
Miscellaneous - net		(411,105)	2,052,041	(998,049)
		224,915,963	27,155,812	55,277,686
INCOME BEFORE INCOME TAX		922,144,745	628,985,430	552,671,502
INCOME TAX EXPENSE	13	8,070,075	-	1,468,822
NET INCOME/TOTAL COMPREHENSIVE INCOME		P914,074,670	P628,985,430	P551,202,680
Attributable to:				
Equity holders of the Parent Company		P915,695,014	P628,985,430	P551,202,680
Non-controlling interest		(1,620,344)	-	-
		P914,074,670	P628,985,430	P551,202,680
EARNINGS PER SHARE:				
	17			
Basic		P0.7258	P0.5015	P0.4450
Diluted		0.7258	0.5015	0.4410

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

PHILWEB CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31						
Note	2011		2010		2009	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK						
Authorized						
Common shares - P1 par value						
	2,600,000,000		2,600,000,000		260,000,000,000	
Adjustment in number of shares as a result of increase in par value	-		-		(257,400,000,000)	
	2,600,000,000		2,600,000,000		2,600,000,000	
Issued and outstanding						
Common shares at beginning of year	1,047,730,351	P1,047,730,351	1,011,130,315	P1,011,130,315	99,943,611,794	P999,436,118
Adjustment in number of shares as a result of increase in par value	-	-	-	-	(98,944,175,676)	-
Issuances of common shares	333,334	333,334	36,600,036	36,600,036	11,694,197	11,694,197
Common shares at end of year	1,048,063,685	1,048,063,685	1,047,730,351	1,047,730,351	1,011,130,315	1,011,130,315
Subscribed						
Subscribed shares at beginning of year	213,952,114	63,625,018	238,618,780	63,418,352	23,861,878,000	63,418,352
Adjustment in number of shares as a result of increase in par value	-	-	-	-	(23,623,259,220)	-
Issuance of common shares (net of subscription)	(333,334)	(206,666)	(24,666,666)	206,666	-	-
Subscribed shares at end of year	213,618,780	63,418,352	213,952,114	63,625,018	23,861,878,000	63,418,352
	1,261,682,465	1,111,482,037	1,261,682,465	1,111,355,369	1,249,749,095	1,074,548,667
SURPLUS FROM WRITE-DOWN OF CAPITAL STOCK						
		341,433		341,433		341,433
ADDITIONAL PAID-IN CAPITAL						
Balance at beginning of year		535,660,889		506,280,305		476,124,998
Additions during the year		493,334		29,380,584		30,155,307
Balance at end of year		536,154,223		535,660,889		506,280,305
STOCK OPTIONS OUTSTANDING						
Balance at beginning of year	15	-		22,584,066		16,332,041
Vested	16	-		-		25,819,202
Exercised		-		(22,005,051)		(19,567,177)
Forfeited/expired		-		(579,015)		-
Balance at end of year		-		-		22,584,066
RETAINED EARNINGS						
Balance at beginning of year		846,393,432		343,240,264		(207,962,416)
Cash dividends		(252,311,194)		(125,832,262)		-
Net income for the year		915,695,014		628,985,430		551,202,680
Balance at end of year		1,509,777,252		846,393,432		343,240,264
TREASURY STOCK - At cost						
		(126,492)		(126,494)		(126,497)
NON-CONTROLLING INTEREST						
Balance at beginning of year		2,200,000		-		-
Increase in non-controlling interest		3,470,312		2,200,000		-
Net loss for the year		(1,620,344)		-		-
Balance at end of year		4,049,968		2,200,000		-
		P3,161,678,421		P2,495,824,629		P1,946,868,238

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

PHILWEB CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	<i>Note</i>	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P922,144,745	P628,985,430	P552,671,502
Adjustments for:				
Depreciation and amortization	9	79,227,049	80,255,411	59,763,407
Impairment losses on input tax, other assets, advances and receivables		4,455,336	18,455,454	10,352,040
Interest expense		1,026,432	14,069,119	-
Retirement benefits cost	19	4,909,761	3,075,953	1,505,453
Loss (gain) on disposals of property and equipment		(352,817)	833,125	29,072
Equity in net earnings of associates	8	(182,222,663)	(4,106,742)	(34,626,605)
Interest income		(44,130,837)	(35,066,148)	(21,649,130)
Unrealized foreign exchange gain		-	(4,654,781)	-
Vested stock options	16	-	-	25,819,202
Operating income before working capital changes		785,057,006	701,846,821	593,864,941
Increase in:				
Receivables		(75,779,305)	(82,262,101)	(32,854,923)
Prepaid expenses and other current assets		(30,138,096)	(26,562,026)	(31,601,542)
Increase (decrease) in:				
Accounts payable and accrued expenses		50,276,981	(15,403,645)	37,923,242
Cash generated from operations		729,416,586	577,619,049	567,331,718
Interest received		44,130,837	35,066,148	21,649,130
Interest paid		(1,026,432)	(14,069,119)	-
Net cash provided by operating activities		772,520,991	598,616,078	588,980,848
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	9	(104,745,052)	(74,199,285)	(91,337,332)
Decrease (increase) in other assets		(7,475,362)	13,972,311	(13,258,128)
Proceeds from disposals of property and equipment		5,710,507	1,165,542	47,500
Increase in investments in associates	8	(6,999,900)	(658,432,096)	(338,475,644)
Decrease (increase) in notes receivable		266,905,000	(472,471,984)	-
Net cash provided by (used in) investing activities		153,395,193	(1,189,965,512)	(443,023,604)

Forward

Consolidated Statements of Cash Flows

		Years Ended December 31		
	<i>Note</i>	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in notes payable	12	(P138,856,600)	P143,966,585	P -
Proceeds from subscriptions to and issuances of common stock		620,004	43,603,220	22,282,326
Increase in operators' deposits	20	6,000,000	3,500,000	9,300,000
Increase in non-controlling interest		3,470,312	2,200,000	-
Cash dividends paid		(252,311,194)	(125,832,262)	-
Net cash provided by (used in) financing activities		(381,077,478)	67,437,543	31,582,326
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		544,838,706	(523,911,891)	177,539,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	355,830,777	879,742,668	702,203,098
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	P900,669,483	P355,830,777	P879,742,668

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

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

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

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

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

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

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned subsidiaries, which were all incorporated in the Philippines (Phil.), and special purpose entities (SPEs) incorporated in the British Virgin Islands, (collectively referred to as a the “Group”):

Subsidiaries	Line of Business	Date and Place of Incorporation
PhilWeb Convergence Corporation	Internet access provider	September 6, 2000, Phil.
PhilWeb Cyberworld Corporation ^(a)	Operates internet cafes and kiosks	July 6, 2000, Phil.
PhilWeb Software Corporation ^(a)	Computer software programming and development services	April 3, 2000, Phil.

Notes

Subsidiaries	Line of Business	Date and Place of Incorporation
BigGame, Inc.	Operates internet casino station operations.	February 11, 2005, Phil
Premyo sa Resibo, Inc.	Develops and markets computer systems, applications, programs and operate gaming platforms in relation to Premyo sa Resibo program of the BIR and Philippine Amusement and Gaming Corporation (PAGCOR).	December 8, 2006, Phil
PhilWeb Casino Corporation ^(a)	Develops, engages and maintains gaming systems and applications for all types of casino operations whether land-based, internet-based or virtual.	December 22, 2006, Phil.
PhilWeb Gaming Solutions Corporation ^(a)	Engages, develops, creates, markets, promotes, manages, operates and licenses game promotions and gaming solutions, either by itself or in conjunction with other companies.	May 8, 2007, Phil.
PhilWeb Leisure & Tourism Corporation ^(a)	Establishes, operates, and maintains leisure and tourism-oriented activities.	June 6, 2007, Phil.
PhilWeb Tourism and Entertainment Corporation ^(a)	Establishes, operates and maintains leisure-oriented activities, except in the travel agency business, and facilities such as but not limited to hotels, courts, stadiums and other facilities for the conduct of any and all kinds of sports and games.	July 26, 2007, Phil.
PhilWeb International Gaming Corporation ^(a)	Engages in international gaming ventures including all forms of gaming which are legal in the countries in which it operates.	November 18, 2009, Phil.
PhilWeb Homeplay, Inc. ^(a)	Operate, as may be permitted by law, on-line websites and internet casinos	October 23, 2009, Phil.
PhilWeb Mobile Lottery Corp. ^(a)	Operate, as may be permitted by law, either alone or in partnership with others, mobile-based lottery games and other related mobile games offerings.	February 3, 2010, Phil.

Notes

Subsidiaries	Line of Business	Date and Place of Incorporation
PhilWeb Asia Pacific Corp.	Engage in international gaming ventures including all forms of gaming which are legal in countries in which it will operate.	July 13, 2010, Phil.
PhilWeb (Cambodia) Ltd. ^(a)	Incorporated under the laws of The Kingdom of Cambodia, and shall engage in the business of operating internet-based and mobile-based games of chance including but not limited to lottery, internet casino café and other games of chance as they become legally available in the kingdom of Cambodia.	June 2, 2010, Cambodia
Philweb Lorosae, Lda.	The Company was incorporated under the laws of Timor Leste and is engaged in the business of operating instant Scratch n' Win. It commenced operations in November 2011.	February 16, 2011, Timor-Leste
Guam Sweepstakes Corp.	Incorporated in the Territory of Guam and entered into a Memorandum of Agreement with a prominent local family and launched its first sweepstakes cafés in October 2011.	May 20, 2011, Guam

(a) No commercial operations yet as of December 31, 2011.

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

(b) Acquired in 2007

(c) Acquired in 2009

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

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009 were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on February 8, 2012, respectively, as authorized by the BOD of the Parent Company.

Basis of Consolidation

Subsidiaries

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

Special Purpose Entities

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

Transactions Eliminated on Consolidation

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

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

Basis of Measurement

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

Functional and Presentation Currency

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

Use of Estimates and Judgments

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

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

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

Notes

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

Estimating Allowance for Impairment of Receivables and Other Current Assets

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

As of December 31, 2011 and 2010, allowance for impairment losses on receivables amounted to P0.7 million (see Note 5). As of December 31, 2011 and 2010, allowance for impairment losses on input tax amounted to P57.8 million and P53.3 million, respectively (see Note 7).

Estimating Allowance for Impairment Losses on Non-financial Assets

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

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

Other assets from discontinued operations were fully provided with allowance for impairment loss amounting to P61.6 million as of December 31, 2011 and 2010, respectively (see Note 10).

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.

Notes

The net book value of the Group's property and equipment as of December 31, 2011 and 2010 amounted to P217.0 million and P196.8 million, respectively (see Note 9).

Estimating Realizability of Deferred Tax Assets

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

The Group's deferred tax assets recognized amounted to P4.1 million as of December 31, 2011. On the other hand, temporary differences relating to unrecognized deferred tax assets amounted to P141.5 million, P123.5 million and P144.8 million as of December 31, 2011, 2010 and 2009, respectively (see Note 13).

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.

Operating Leases

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

Rent expense recognized in profit or loss amounted to P40.6 million, P45.7 million, and P28.9 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 18).

Retirement Benefits Liability

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

As of December 31, 2011 and 2010, retirement benefits liability amounted to P13.8 million and P8.8 million, respectively. Retirement benefits cost for the years ended December 31, 2011, 2010 and 2009 amounted to P4.9 million, P3.1 million and P1.5 million, 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 its legal counsel and is based upon an analysis of potential results. The Group does not believe that these proceedings will have a material effect on the Group's financial position (see Note 23).

3. Summary of Significant Accounting Policies

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

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

The Financial Reporting Standards Council approved the adoption of a number of new and revised standards, amendments to standards, and interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations] as part of PFRSs.

Effective January 1, 2011

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

Notes

- *Improvements to PFRSs 2010* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRSs which are relevant to the Group:
 - PFRS 3, *Business Combinations*. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010.
 - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.
 - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011.

Notes

The adoption of these new or revised standard, amendments to standards and interpretation did have a material effect on the consolidated financial statements. Additional disclosures required by the new or revised standard, amendments to standards and interpretation were included in the consolidated financial statements, where applicable.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statement and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

To be adopted January 1, 2012

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40 *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 *Business Combinations* provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation SIC-21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC-21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted.

To be Adopted in January 1, 2013

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

Notes

- PFRS 10, *Consolidated Financial Statements*. PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008) and Philippine Interpretation SIC 12 *Consolidation – Special Purpose Entities*.
- PFRS 11, *Joint Arrangements*. PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*.
- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.
- PFRS 13, *Fair Value Measurement*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
- PAS 19, *Employee Benefits* (amended 2011). The amended PAS 19 includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and, (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.
- PAS 27, *Separate Financial Statements* (2011). PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.
- PAS 28, *Investments in Associates and Joint Ventures* (2011). PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

Notes

- PFRS 9, *Financial Instruments*

Standard Issued in November 2009 [PFRS 9 (2009)]

PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply.

Standard Issued in October 2010 [PFRS 9 (2010)]

PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009.

It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of the Philippine Interpretation IFRIC 9 *Reassessment of Embedded Derivatives*.

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

Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments comprise of cash and cash equivalents, accounts receivables, notes receivable, other assets, accounts payable and accrued expenses, notes payable, and operators' deposits.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, or available-for-sale (AFS) financial assets, as appropriate. When financial assets are initially recognized, they are measured at fair value. In the case of investments not at FVPL, fair value at initial recognition includes directly attributable transaction costs. The Group determines the classification of its financial assets and financial liabilities upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as of December 31, 2011 and 2010.

Notes

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

Loans and Receivables

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

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

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

The Group’s cash and cash equivalents, accounts receivables, notes receivable and other assets are included under this category (see Notes 4, 5, 6 and 10).

Other Financial Liabilities

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

Classified under this category are the Group’s accounts payable and accrued expenses, notes payable, and operators’ deposits (see Notes 11, 12, and 20).

Property and Equipment

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

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

Notes

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

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

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

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

Impairment of Assets

Financial Assets

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

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

Notes

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

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

Non-financial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

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

Investments in Associates

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

Notes

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 losses of associates is shown on the face of the consolidated statements of comprehensive income. This is the profit or losses attributable to equity holders of the associate and therefore is profit or losses after tax and net on non-controlling interest in the subsidiaries of the associates. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's interests thereon. Unrealized losses are eliminated similarly but only to the extent that there is evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investments.

Business Combinations

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

Discontinued Operations

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

Non-current Assets Held for Sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recoverable primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of the carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets, liabilities on *pro rata* basis, except that no loss is allocated to financial assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Capital Stock

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

Non-controlling Interest

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interests are based on proportionate amount of the net assets of the subsidiary.

Segment Reporting

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

The Group determines and presents operating segments based on the information that internally is provided to the President, who is the Group's chief operating decision maker. The group assessed that its telecommunication business represents one segment. Accordingly, the Group does not present segment information.

Share-based Transactions

The Parent Company has a stock option plan for directors, officers and other key employees, whereby employees render service for shares or rights over shares ("equity-settled transaction"). The rights granted under the plan are not assignable and non-transferable. The cost of the equity-settled transaction is measured by reference to the fair value of the stock option at the date when they are granted. Fair value is determined using an option-pricing model as discussed in Note 15 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance is fulfilled ("vesting period"). No expense is recognized for grants that do not ultimately vest.

The dilutive effect of outstanding option is reflected as additional share-dilution in the computation of earnings per share (see Note 17).

Treasury Shares

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

Revenue and Expense Recognition

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

Internet Application Service Income

Internet application service income refers to revenues earned from providing technical, marketing and cash management services for internet gaming operations of PAGCOR, particularly for sports betting and internet casino operations. Revenue is based on agreed percentages of net winnings from the sports betting and internet casino operations. For sports betting, net winnings is derived after deducting from gross bets the payout to winners, commissions to gaming operators, franchise taxes and software licensing fees. For internet casino, net winnings is derived after deducting from casino winnings the commissions to gaming operators, franchise taxes and software licensing fees. Also included in revenues are the software licensing fees the Parent Company receives from sports betting.

Notes

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

Scratch Cards

Revenue from scratch cards are recognized when earned. These are available from accredited establishments.

Commission Income

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

Interest Income

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

Expenses are recognized when incurred.

Operating Leases

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

Foreign Currency Transactions

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.

Income Taxes

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

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

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

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

Retirement Benefits

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

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

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

Earnings Per Share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible notes and share options granted to employees.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Provisions and Contingencies

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

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

Notes

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:

	2011	2010
Cash on hand and in banks	P153,647,531	P123,715,644
Short-term investments	747,021,952	232,115,133
	P900,669,483	P355,830,777

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

5. Accounts Receivable

This account at December 31 consists of:

	<i>Note</i>	2011	2010
Trade receivables		P22,616,844	P8,383,598
Claims from telecommunication companies		4,584,141	3,988,171
Receivable from PAGCOR		43,393,406	43,393,406
Receivables from eCasino operation		18,300,181	12,152,263
Advances to a related party	14	61,468,162	57,234,533
Advances to officers and employees		1,252,003	1,289,187
Advances to customers/suppliers		77,811,293	27,205,567
		229,426,030	153,646,725
Allowance for impairment losses		(672,490)	(672,490)
		P228,753,540	P152,974,235

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

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

Receivable from PAGCOR represents the aforesaid government agency's unpaid share in marketing expenses incurred for the PeGS operation advanced by the Parent Company. These marketing expenses are pre-approved and shall be reimbursed by PAGCOR upon completion of its review of all the documentations required. As at December 31, 2011, PAGCOR has not completed its review of the documentation.

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

Notes

6. Notes Receivable

This account at December 31, 2011 consists of notes receivable from third parties amounting to Euro 3.9 million and US\$1.0 or equivalent to P224.3 million, and P45.0 million. As of December 31, 2010, the balance was Euro 8.1 million and US\$1.3 million or equivalent to P482.0 million, and P54.2 million.

- The Euro loan bears an interest of 90-day Euro LIBOR plus 550 basis points (bps). On October 18, 2011, Euro 4.2 million was paid by the borrower. The remaining balance will mature on December 28, 2012. On the other hand, US\$0.28 million loan bears interest at 90-day SIBOR plus 550 bps. Full amount of which was paid on October 20, 2011.
- The other notes receivable of P45.0 million as of December 31, 2011, represent various drawdowns from the US\$1.5 million credit line extended by the Parent Company to a third party which bear interest at 7% per annum, payable in one year from drawdown date, inclusive of a one year grace period on the principal. Each drawdown is evidenced by a secured promissory note executed by the borrower in favor of the Parent Company.

The Company collected P13.8 million which is equivalent to US\$315 thousand and P10 million which is equivalent to US\$228 thousand in 2011 and 2010, respectively. As of December 31, 2010, the balance was P54.2 million.

7. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2011	2010
Input value-added tax (VAT) , net of allowance for impairment losses	P46,301,820	P27,401,950
Prepaid license	5,651,404	1,100,625
Prepaid rent	5,799,544	4,697,042
Prepaid insurance	3,049,178	2,960,562
Other prepaid expenses	9,484,172	8,771,259
Other current assets	447,678	119,598
	P70,733,796	P45,051,036

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

	Amount
Balance at January 1, 2010	P34,840,052
Impairment losses on input VAT	18,455,454
Balance at December 31, 2010	53,295,506
Impairment losses on input VAT	4,455,336
Balance at December 31, 2011	P57,750,842

Notes

8. Investments in Associates

This account at December 31 consists of:

	2011				Total
	ISM	Acentic	Alphaforce	Magcor	
Percentage ownership	24.3%	32.5%	40.0%	30.0%	
Cost of investment:					
Balance at beginning of year	P542,952,113	P658,432,096	P -	P -	P1,201,384,209
Investments	-	-	3,999,900	3,000,000	6,999,900
Balance at end of year	542,952,113	658,432,096	3,999,900	3,000,000	1,208,384,109
Accumulated equity in net earnings (losses):					
Balance at beginning of year	338,602,508	(64,414,272)	-	-	274,188,236
Equity in net earnings (losses) for the year	124,755,983	57,800,169	(209,471)	(124,018)	182,222,663
Balance at end of year	463,358,491	(6,614,103)	(209,471)	(124,018)	456,410,899
	P1,006,310,604	P651,817,993	P3,790,429	P2,875,982	P1,664,795,008

	2010		Total
	ISM	Acentic	
Percentage ownership	24.3%	32.5%	
Cost of investment:			
Balance at beginning and end of year	P542,952,113	P658,432,096	P1,201,384,209
Accumulated equity in net earnings (losses):			
Balance at beginning of year	270,081,494	-	270,081,494
Effect of application of equity method	(15,652,668)	(64,414,272)	(80,066,940)
Equity in net earnings for the year	84,173,682	-	84,173,682
Balance at end of year	338,602,508	(64,414,272)	274,188,236
	P881,554,621	P594,017,824	P1,475,572,445

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.

Notes

On June 1, 2009, the Parent Company purchased 5,428,740,000 common shares of ISM through Uscon Limited, a Hongkong-based company. The total additional investment amounted to P172,250,000 which was also paid in the same month. This brought the holdings of the Parent Company to ISM from 41.1 billion shares or 21.47% to 46.6 billion shares or 24.30%.

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

ISM is listed on the PSE and the fair value of the Group's investment is P1.6 billion based on its closing price of P3.34 per share at the reporting date.

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

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

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

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

	2010	
	ISM	Acentic
Total assets	P4,971,874,333	P2,340,751,457
Total liabilities	1,256,375,733	1,760,016,128
Total revenue	1,004,943,310	2,007,202,049
Net income attributable to equity holders	282,091,579	(198,197,762)

Investment Held for Sale

On December 22, 2009, the Parent Company entered into an Agreement relating to the sale and purchase in January 2010 of certain shares of Acentic GmbH with LBC Capital Sarl (LBC Capital), Host Union International Limited and ISM.

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

The above investment was presented as held for sale in 2010 following the commitment of the Group's management on June 16, 2010, to a plan to sell the assets. Efforts to sell the investment have commenced, and a sale was expected by 2011.

Notes

Nevertheless, on November 14, 2011, the BOD approved to keep the above investment and withdrew the previous authorization to sell due to economic slowdown in Europe. As a result, the investment ceases to be classified as held for sale and equity method accounting has been applied and the carrying amount of the investment previously classified as held for sale was remeasured using the equity method of accounting. The difference between the remeasured equity amount and the carrying amount of the investment amounted to P80.1 million and is included in profit or loss.

Management assessed that there is no indication of impairment on the asset. In view thereof, no impairment loss was recognized in the books.

9. Property and Equipment

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

	Computer Equipment and Software	Leasehold and Site Improvements	Network and Data Communication Equipment	Furniture and Fixtures	Office Equipment	Transportation Equipment	Total
Gross carrying value:							
December 31, 2009	P235,615	P75,762	P85,625	P34,707	P11,277	P22,116	P465,102
Additions	11,940	32,927	15,572	10,689	2,019	1,052	74,199
Disposals	(635)	(2,071)	-	(279)	-	-	(2,985)
December 31, 2010	246,920	106,618	101,197	45,117	13,296	23,168	536,316
Additions	64,301	10,786	11,131	8,572	959	8,996	104,745
Disposals	(3,014)	(10,123)	-	(3,065)	-	(1,484)	(17,686)
December 31, 2011	308,207	107,281	112,328	50,624	14,255	30,680	623,375
Accumulated depreciation and amortization:							
December 31, 2009	136,028	30,455	50,885	23,639	6,403	12,816	260,226
Depreciation and amortization for the year	33,270	14,651	18,547	5,212	1,824	6,751	80,255
Disposals	(225)	(674)	-	(87)	-	-	(986)
December 31, 2010	169,073	44,432	69,432	28,764	8,227	19,567	339,495
Depreciation and amortization for the year	28,711	17,830	19,305	7,399	2,149	3,833	79,227
Disposals	(2,778)	(797)	(5,004)	(2,377)	-	(1,372)	(12,328)
December 31, 2011	195,006	61,465	83,733	33,786	10,376	22,028	406,394
Net carrying value:							
December 31, 2010	P77,847	P62,186	P31,765	P16,353	P5,069	P3,601	P196,821
December 31, 2011	P113,201	P45,816	P28,595	P16,838	P3,879	P8,652	P216,981

Notes

10. Other Noncurrent Assets

This account at December 31 consists of:

	2011	2010
Advances for projects	P10,222,064	P10,179,082
Rental and other deposits	30,736,480	23,304,100
	40,958,544	33,483,182
Less allowance for impairment loss	(5,378,199)	(5,378,199)
	35,580,345	28,104,983
Other assets from discontinued operations	61,590,318	61,590,318
Less allowance for impairment loss	(61,590,318)	(61,590,318)
	-	-
	P35,580,345	P28,104,983

Rental and other deposits include advance payment of rent and security deposits equivalent to two to four months rental.

Other assets from discontinued operations represent receivables and related assets from the Group's ISP business which was discontinued when the Group focused operations on the internet gaming business. The Group has provided full allowance for impairment loss on these assets.

11. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	2011	2010
Accounts payable - trade	P122,933,384	P84,091,473
Accrued expenses and other payables	46,540,800	23,076,437
Commissions payable	3,792,608	3,603,617
	P173,266,792	P110,771,527

Trade accounts payable mainly consists of commissions payable to PeGS operators and PAGCOR.

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

	2011	2010
Due to government agencies	P14,207,421	P635,839
Contractors	11,754,319	8,082,922
ISBS Operators advance payment	6,810,440	3,330,810
Manpower services	5,454,867	4,085,817
Utilities and communications	2,882,563	2,241,044
Ads and promo	2,875,118	1,925,187
Travel expenses	1,352,862	1,611,118
Audit fees	1,203,210	1,163,700
	P46,540,800	P23,076,437

Notes

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

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

12. Notes Payable

This account represents unsecured short-term notes payable to the Bank of Commerce bearing an interest of 5% per annum. The notes were paid on January 28, 2011.

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

13. Income Taxes and Registration with the Board of Investments (“BOI”)

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

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

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

	2011	2010	2009
Current tax expense	P12,218,284	P -	P568,499
Deferred tax expense (benefit)	(4,148,209)	-	900,323
	P8,070,075	P -	P1,468,822

Deferred tax expense (benefit) recognized in 2009 pertain to the tax effect of a subsidiary’s NOLCO amounting to P23,534 and MCIT amounting to P876,789 as of December 31, 2008 respectively, which were both applied in 2009.

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

Notes

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

	2011	2010	2009
Unamortized portion of preoperating expenses capitalized for tax reporting purposes	P -	P -	P40,876,142
Allowance for impairment loss	75,690,581	75,690,581	75,690,581
NOLCO	52,090,552	43,652,263	22,454,161
Retirement benefits liability	13,759,358	8,849,597	5,773,644
Unrealized foreign exchange gain	-	(4,654,781)	-
	P141,540,491	P123,537,660	P144,794,528

Details of benefits arising from NOLCO and the corresponding analysis of deferred income tax assets as of December 31 follow:

Incurred In	Amount	Expired/ Applied	December 31, 2011	Tax Effect	Available Until
2008	P9,993,286	(P9,993,286)	P -	P -	2011
2009	14,810,382	-	14,810,382	4,443,115	2012
2010	18,848,595	(548,801)	18,299,794	5,654,579	2013
2011	18,980,376	-	18,980,376	5,529,472	2014
	P62,632,639	(P10,542,087)	P52,090,552	P15,627,166	

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

	<i>Note</i>	2011	2010	2009
Provision for income tax at statutory rates		P276,643,424	P188,695,629	P165,801,451
Adjustments resulting from:				
Income tax holiday on BOI - registered operations		(225,167,296)	(182,798,996)	(128,440,150)
Unrecognized deferred income tax assets arising from temporary differences and NOLCO		5,400,849	(6,377,060)	(27,795,790)
Tax effects of:				
Equity in net earnings of an associate	8	(54,666,799)	(1,232,023)	(10,387,982)
Interest subjected to final tax		(6,586,208)	(10,519,844)	(6,494,739)
Non-deductible expenses		12,446,105	12,232,294	8,786,032
Provision for income tax		P8,070,075	P -	P1,468,822

14. Related Party Transactions

In 2011, 2010 and 2009, ISM recognized administrative expenses amounting to P13.7 million, P13.0 million and P10.7 million, respectively. The Parent Company bills ISM for the latter's share in administrative expenses which include salaries of common personnel, rental, communication and utility expenses. The total amount of outstanding receivables from ISM as of December 31, 2011 and 2010 is P61.5 million and P57.2 million, respectively, included in receivables. These are unsecured and payable on demand.

Compensation and short-term employee benefits of key management personnel of the Group in 2011, 2010 and 2009 amounted to P66.3 million, P57.6 million and P32.2 million, respectively. The Group has no key management compensation relating to post-employment benefits or other long-term benefits for the years ended December 31, 2011, 2010 and 2009.

15. Capital Stock

Change in Par Value of Capital Stock

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

Surplus from Write-down of Capital Stock

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

Stock Option Plan

On February 15, 2000, the BOD approved the Parent Company's Stock Option Plan ("Plan") covering all employees, officers and directors of the Parent Company, its subsidiaries as well as such other qualified persons determined as eligible by the BOD. The aggregate number of shares that may be purchased under the Plan shall not be more than five percent (5%) of the total number of shares of the outstanding capital stock of the Parent Company, at a price not less than eighty percent (80%) of the fair market value of the shares on the date the option is granted. Effectivity date is one (1) year after an option is awarded to the participant. 1/3 of the total number of options covered by a grant shall vest upon effectivity date; 1/3 shall vest one year after effectivity date and 1/3 shall vest two years after the effectivity date. Options may be exercised within a period of three (3) years, starting after the lapse of one (1) year from the date of grant.

The fair value of stock option is estimated using an option pricing method, which considered annual stock volatility, risk-free interest rate, expected life of option and exercise price.

The Company had the following grants:

<u>Date of Grant</u>	<u>Number of Shares Granted</u>
March 2, 2005	1,249,972,739
January 20, 2006	1,786,500,000
November 29, 2006	1,156,000,000

Notes

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

	2011		2010		2009	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options ^(a)	Weighted Average Exercise Price of Options ^(a)	Number of Options ^(a)	Weighted Average Exercise Price of Option ^(a)
Options outstanding, beginning of year	-	P -	12,247,334	P1.869604	2,377,336,701	P1.869604
Adjustment in number of shares as a result of increase in par value	-	-	-	-	(2,353,395,034)	-
Exercised	-	-	(11,933,334)	-	(11,694,197)	-
Granted	-	-	-	-	-	-
Forfeited/expired	-	-	(314,000)	-	(136)	-
Options outstanding, end of year	-	P -	-	P -	12,247,334	P -
Options exercisable, end of year	-	P -	-	P -	12,247,334	P -

(a) This does not consider the impact of the change in the par value of the common shares in 2009.

The options outstanding at December 31, 2010 and 2009 have an exercise price in the range of P1.30 to P2.48 per share, as adjusted for the increase in par value of the common shares in 2009.

The weighted average share price at the date of exercise for share options exercised in 2010 and 2009 was P1.8696 per share.

Retained Earnings

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

Date Approved	Per Share	Total Amount	Stockholders of Record Date	Date Paid/Issued
August 19, 2010	P0.10	P125,832,262	September 3, 2010	September 20, 2010
April 13, 2011	0.10	126,155,597	April 28, 2011	May 13, 2011
September 7, 2011	0.10	126,155,597	September 21, 2011	October 04, 2011

16. Salaries and Benefits

This account consists of:

	Note	2011	2010	2009
Salaries and wages		P114,739,787	P89,265,095	P63,552,159
Retirement benefits cost	19	4,909,761	3,075,953	1,505,453
Vested stock options	15	-	-	25,819,202
		P119,649,548	P92,341,048	P90,876,814

Notes

17. Earnings Per Share

	2011	2010	2009
Common shares outstanding at beginning of year	P1,261,555,973	P1,249,622,601	P1,237,928,404
Weighted average number of shares issued during the year	-	4,692,371	797,001
Weighted average common shares outstanding - basic	1,261,555,973	1,254,314,972	1,238,725,405
Effects of share options	-	-	11,247,334
Weighted average common shares outstanding - diluted	P1,261,555,973	P1,254,314,972	P1,249,972,739

(a) The number of shares was adjusted for the impact of the change in par value of common shares in 2009.

Basic EPS is computed as follows:

	2011	2010	2009
Net income (a)	P915,695,014	P628,985,430	P551,202,680
Weighted average number of shares outstanding - basic (b)	1,261,555,973	1,254,314,972	1,238,725,405
Basic EPS (a/b)	P0.7258	P0.5015	P0.4450

Diluted EPS is computed as follows:

	2011	2010	2009
Net income (a)	P915,695,014	P628,985,430	P551,202,680
Weighted average common shares outstanding - diluted (c)	1,261,555,973	1,254,314,972	1,249,972,739
Diluted EPS (a/c)	P0.7258	P0.5015	P0.4410

18. Lease Commitments

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

Total rentals recognized in profit or loss for the years ended December 31, 2011, 2010 and 2009 amounted to about P40.6 million, P45.7 million, P28.9 million, respectively.

Noncancellable operating lease rentals as of December 31 are payable as follows:

	2011	2010	2009
Less than one year	P37,231,028	P25,601,993	P12,103,765
Between one and five years	65,970,156	58,979,953	36,311,439
	P103,201,184	P84,581,946	P48,415,204

Notes

19. Retirement Benefits

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

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

	2011	2010
Present value of defined benefit obligation	P15,307,736	P13,802,769
Unrecognized actuarial loss	(1,548,378)	(4,953,172)
Recognized liability for defined benefit obligation	P13,759,358	P8,849,597

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

	2011	2010
Present value of the defined benefit obligation at the beginning of year	P13,802,769	P7,828,808
Current service cost and interest cost (see below)	4,777,432	3,028,831
Actuarial gain (loss)	(3,272,465)	2,945,130
Present value of the defined benefit obligation at the end of year	P15,307,736	P13,802,769

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

	2011	2010	2008
Current service cost	P3,682,872	P2,302,318	P1,081,004
Interest cost	1,094,560	726,513	442,032
Actuarial loss (gain) recognized for the year	132,329	47,122	(17,583)
	P4,909,761	P3,075,953	P1,505,453

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

	2011	2010	2008
Discount rate	7.05%	7.93%	9.28%
Future salary increases	5.00%	6.00%	5.00%

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

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

20. Operators' Deposits

Operator's deposits account consists of cash received from operators upon opening of PeGS Station. This serves as a bond/security in case an operator defaults from payments. This deposit shall be returned to the operator after the termination of the contract.

21. Financial Risk and Capital Management

Financial Instruments

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

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

- a. *Credit Risk* is the risk arising from inability of a debtor to make payments when receivables are due. The Group's internet gaming businesses are made on cash basis and internet gaming operators are covered by required security deposits. Other receivables arise from one-off transactions and are due and demandable on a short term basis. Due to these reasons, management believes that the Group's exposure to credit risk is manageable as of December 31, 2011 and 2010.

The carrying amount of receivables represents the Group's maximum exposure to credit risk in relation to financial assets. The maximum exposure to credit risk as of December 31, 2011 and 2010 amounted each to P1.4 billion and P0.9 billion, respectively.

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

	2011		2010	
	Gross Amount	Impairment	Gross Amount	Impairment
Current	P21,126,857	P -	P9,152,909	P -
Past due 0-30 days	24,640,740	-	14,290,638	-
Past due 31-60 days	2,474,691	-	2,627,122	-
More than 60 days	181,183,742	672,490	127,576,056	672,490
	P229,426,030	P672,490	P153,646,725	P672,490

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

The Group's ratio of current assets to current liabilities as of December 31, 2011 and 2010 are 8.5:1 and 6.7:1, respectively. The current liabilities of the Group are expected to be paid within one year.

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

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

Notes

The Group's exposure to foreign exchange risk is minimal and limited to its US dollar denominated receivable amounting to \$1.4 million as of December 31, 2011. In 2010, the Group's exposure the foreign exchange risk is also minimal and limited to its US dollar denominated notes receivable and notes payable amounting to \$1.5 million and \$3.2 million, respectively.

The US dollar exchange rate as of December 31, 2011 and 2010 are US dollar 1 = P43.84.

Sensitivity Analysis

A 10% strengthening of the Philippine peso against US dollar as at December 31, 2011 would have decreased the equity and profit by P6.1 million and increased in 2010 by P7.5million.

A 10% weakening of the peso against US dollar as at December 31, 2011 and 2010 would have had the equal but opposite effect, on the basis that all other variables remain constant.

Fair Values

The fair values of the Group's financial instruments approximate their carrying amounts as of reporting date because of their relatively short-term nature.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

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

The Group is not subject to externally imposed capital requirement.

22. Segment Reporting

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

In 2011, the Group launched scratch cards or instant-win type product in Timor-Leste. Likewise, the Group opened its Sweepscenter business in Guam in October 2011. These scratch cards, instant-win type products and Sweepstakes business are not material to the Group at the moment. These lead management to conclude that there is no distinguishable operating segments; hence, there is no particular disclosure on segment reporting.

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

23. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

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INDEPENDENT PUBLIC ACCOUNTANTS

KPMG MANABAT SANAGUSTIN & CO.

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BANCO DE ORO UNIBANK
BANK OF COMMERCE
BANK OF THE PHILIPPINE ISLANDS
BANK OF MANDIRI
CAMBODIAN PUBLIC BANK
CANADIA BANK PLC
FIRST HAWAIIAN BANK
MAYBANK
METROPOLITAN BANK AND TRUST COMPANY
PHILIPPINE BANK OF COMMUNICATIONS
PHILIPPINE NATIONAL BANK
SECURITY BANK & TRUST CORPORATION
STERLING BANK OF ASIA
UNION BANK OF THE PHILIPPINES
UNITED COCONUT PLANTERS BANK

STOCK TRANSFER SERVICE AGENT

AB STOCK TRANSFERS CORPORATION

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