



philweb  
CORPORATION



2015 Annual Report

## About Us

PhilWeb Corporation is the leading gaming technology provider in the Asia Pacific Region. We have a nationwide network of over 268 operating e-Games cafés, with over 90,000 members.

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



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## Letter to Shareholders

The writing of this annual Letter to Shareholders is always an occasion to look back and see where your Company has been and where it is heading. This year, we take a longer look back instead of limiting ourselves to just a peek at the previous year.

Last year marked the final months of the current PAGCOR administration, as a new board will be appointed come July 2016. It is interesting to look at the performance of your Company over the five-year period of this administration as we prepare for the coming of a new regulatory team.

Back in 2010, PAGCOR's electronic casino business had only 190 e-Games cafés delivering a Total Casino Win of P3.3 billion. As the technology services provider to the regulatory agency, your Company provides the software and a host of other services to enable their business to be successful. We work hand in hand with PAGCOR to deliver a quality gaming experience to all our customers, while at the same time delivering revenues to support the government's role in nation building.

Indeed, the current PAGCOR administration must congratulate itself for overseeing the greatest growth period that the Philippine gaming industry has ever seen. Aside from growing PAGCOR's own gaming businesses, it has overseen the opening of three new "integrated resort" casinos in Manila, each of a scale akin to similar casino-resorts in Macau, Las Vegas and Singapore. The entry of these world-class integrated resorts has solidified gaming as a core industry in our country.

Through this period, the e-Games business has continued to be a key component of PAGCOR's role in nation building. By the end of 2015, the e-Games network had grown to a total of 268 operating e-Games outlets with over 8,800 gaming terminals, delivering a Total Casino Win of P5.5 billion, 67% more than in 2010. Clearly, over the past five years, we built a strong and thriving business in full partnership with the stewards of PAGCOR.

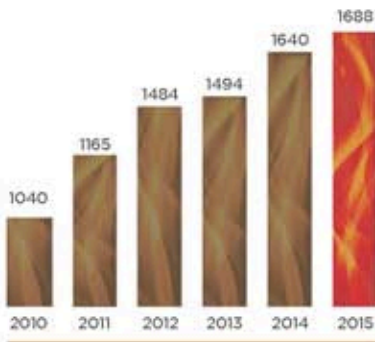
PAGCOR's share of the Casino Win enabled it to earn P2.1 billion in cash from its e-Games electronic casino business last year. Indeed, over the past five years, we have remitted over ten billion pesos to PAGCOR. All that was provided by your Company without any capital expenditures or operating expenses on the part of PAGCOR.



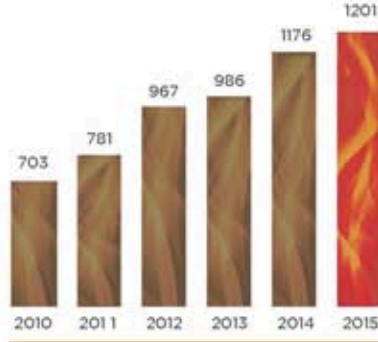
ROBERTO V. ONGPIN  
CHAIRMAN

DENNIS O. VALDES  
PRESIDENT

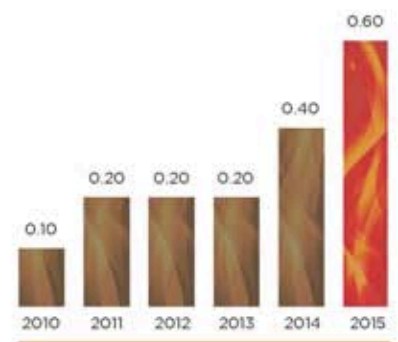
**REVENUE**  
MILLIONS OF PESOS



**EBITDA**  
MILLIONS OF PESOS



**CASH DIVIDENDS PER SHARE**



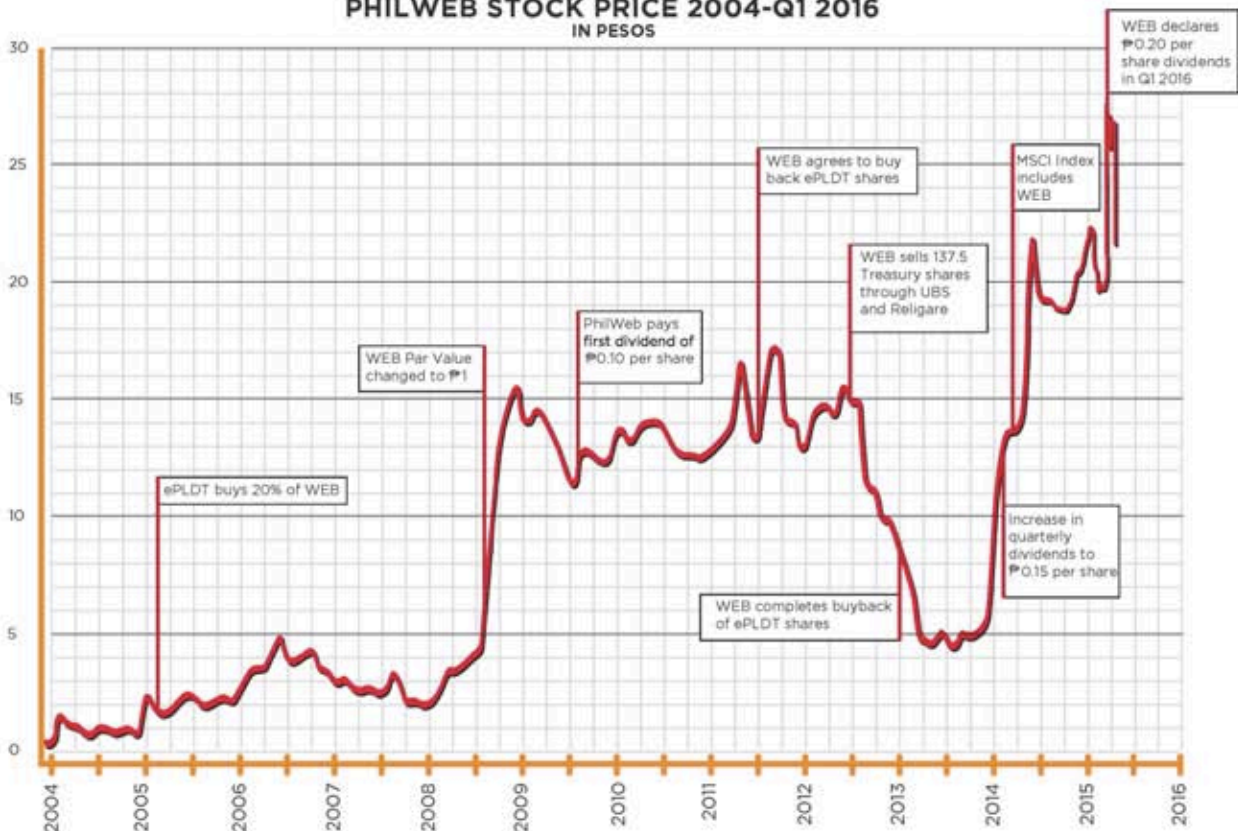
Looking back, it has been a challenging half-decade. We are proud of the fact that we took what could have been a difficult business atmosphere, with huge, new industry entrants, and through hard work and commitment to our technology services partnership with PAGCOR on their electronic casino business, we established a solid relationship with the new regulators, showing them our professionalism and convincing them of our integrity in building this industry.

We focused on improving our e-Games electronic casino business, launching new games and renovating various outlets, all to improve the customer experience in our sites. As a result, we have built a solid and profitable business, both for the country and you, our Shareholders.

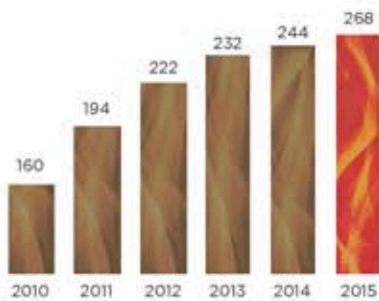
In 2015, your Company had Revenues of P1.7 billion, our tenth consecutive year of growth. On an EBITDA basis, we ended the year with P1.2 billion in EBITDA, a 2.1% improvement on 2014. Our strong cash flows enabled us to pare down our debt levels by P500 million, the same amount of debt we repaid the previous year. As a result, our total bank debt is down to just the final P200 million, with a billion pesos repaid in two years. We will be debt free by the end of this year.

One of our highlights for 2015 is in the area of Cash Dividends. Over the past three years, our total payout has gone from P0.20 per share in 2013, to P0.40 in 2014, and to P0.60 in 2015. Our four dividend payments in 2015 were of P0.15 per share each, and in February 2016, this month, we declared our first dividend for 2016 of P0.20 per share.

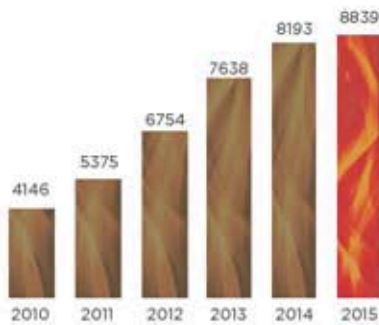
**PHILWEB STOCK PRICE 2004-Q1 2016**  
IN PESOS



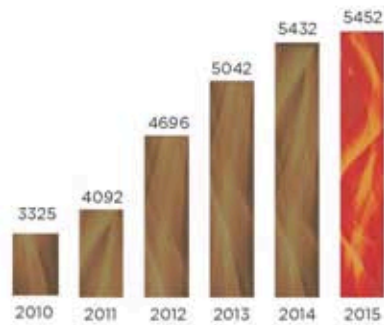
### OPERATING E-GAMES CAFÉS



### E-GAMES TERMINAL COUNT



### CASINO WIN MILLIONS OF PESOS



It is also important to note that of our 1.5 billion issued shares, a total of 355 million or over 23% are now held in Treasury. The treasury shares hark back to the time when a significant minority interest in PhilWeb was owned by e-PLDT, the Internet-focused business arm of PLDT Corporation. In 2012, PLDT decided to cash out, having made an over fivefold gain on their initial investment, and your Company decided to buyback the shares ourselves.

As a result, majority of the treasury shares were acquired at a price average of P11 per share, less than half the current market price of the shares. The appreciation in the investment value cannot be recognized as a gain, under accounting rules. But the undeniable fact is that the funds we invested in our treasury shares now have a current market value over eight billion pesos, a figure which is unrealized and unrecognized in our financial statements.

Let us dwell a bit on our core business, the e-Games café. We have over 90,000 members nationwide who patronize our network, each of whom have given us an email address and cellphone number. In 2015, we fully transformed each account into a full-fledged, closed-loop electronic wallet, which allows our members to keep their gaming funds in the account without having to withdraw cash.

Aside from the marketing possibilities that an e-wallet brings to our business, the account also allows our members to more easily avail of our new offerings in the e-Games outlets. One such offering is sports betting, which is now available on every terminal. Today we are working on the marketing and technical components to allow our patrons to place a wager on a PBA basketball game, or any sporting event in the world for that matter, while continuing to play slot games, an enhancement that we feel will further increase customer traffic in our stores.

On the sports betting side, total 2015 turnover was P2.5 billion. The growth in this new business segment was 51.5% year on year, and for the coming year, we expect growth to be even greater. It's exciting to find a new customer segment that's attracted to our network of e-Games outlets, and the potential of what we can market to this group makes the coming years even more exciting.

Let us end once again, by thanking our Board of Directors and shareholders. They have remained supportive during the past sixteen years of your Company's life, and remain as bullish as we are over the future. We look forward to continuing to make you happy in the years to come.

ROBERTO V. ONGPIN  
CHAIRMAN

DENNIS O. VALDES  
PRESIDENT

## PhilWeb Management Team



Dennis O. Valdes (President), Brian K. Ng (SVP Gaming), Zaldy M. Prieto (SVP and CFO), Atty. Rodolfo Ma. A. Ponferrada (SVP and Group Legal Counsel), Mona Liza I. Navarro (VP Information Technology), Anne Charlotte G. Reyes (AVP Human Resources) and Antonio Jose K. Garcia (SVP e-Magine Gaming)

# e-GAMES

## e-Games

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

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

## Gaming Team



Brian K. Ng (SVP - Gaming)  
Samuel A. Dela Cuesta (AVP - Casino Operations), Ronald M. Cuevas (VP - Quality Assurance),  
Ma. Teresita R. Gonzales (AVP - Casino Rollout), Paulo J. Perez (AVP - BigGame, Inc.) and  
Kathryn F. Encarnacion (AVP - Customer Support)

## OPERATOR PARTNERSHIPS

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

## CONTENT AND SERVICES

2015 saw significant enhancements made to gaming content and player user interface. The first enhancement was the addition of new and exciting progressive slot machine games to the e-Games platform. For the first time, e-Games members were exposed to multi-level progressive jackpots, providing an experience parallel to the large integrated resort-casinos. High-jackpot games provided the single biggest jackpot payout in e-Games history, with a player winning a pot worth nearly P 2.6 Million. Most of these new games were launched in a new virtual casino called Swinging Singapore, and were made exclusively available only to sites in the Platinum Partner Program. Apart from providing a new user experience, PhilWeb also worked with PAGCOR to revise the progressive seed contribution system, which ensures a fair apportioning of the cost of the jackpot contribution between the different stakeholders.



SVIP Relationship Manager Vaughn Edward Ramirez (right) hands over the Balesin Island Club Gold Membership Share to the winner of the "All In for Balesin" raffle promotion conducted last October 23, 2015.

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

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

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



PhilWeb President Dennis O. Valdes (left) assisted by Brian K. Ng (3rd from left) and Sam Dela Cuesta (rightmost), congratulates the e-Games patron from Alaminos, Laguna who won the largest Progressive Jackpot payout in the history of e-Games. The nearly 2.6 million peso payout was from the game "Happy Golden Ox of Happiness".

## MARKETING

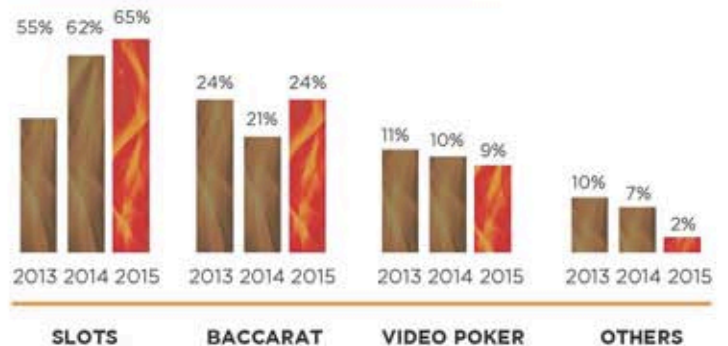
Continuing into 2015, the eGames Club Platinum program for SVIP customers continued to provide increasing value to the player experience. This concierge service allowed PhilWeb to strengthen its relationships with its key customers, despite increased competition from the larger Integrated Resort Casinos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

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

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

## GAME DISTRIBUTION

(2013-2015)



PhilWeb President Dennis O. Valdes (right) and Senior Vice President for Gaming Brian K. Ng (left) with the One Million Peso prize winner of "A Car or a Million" Raffle Draw conducted on January 9, 2015.

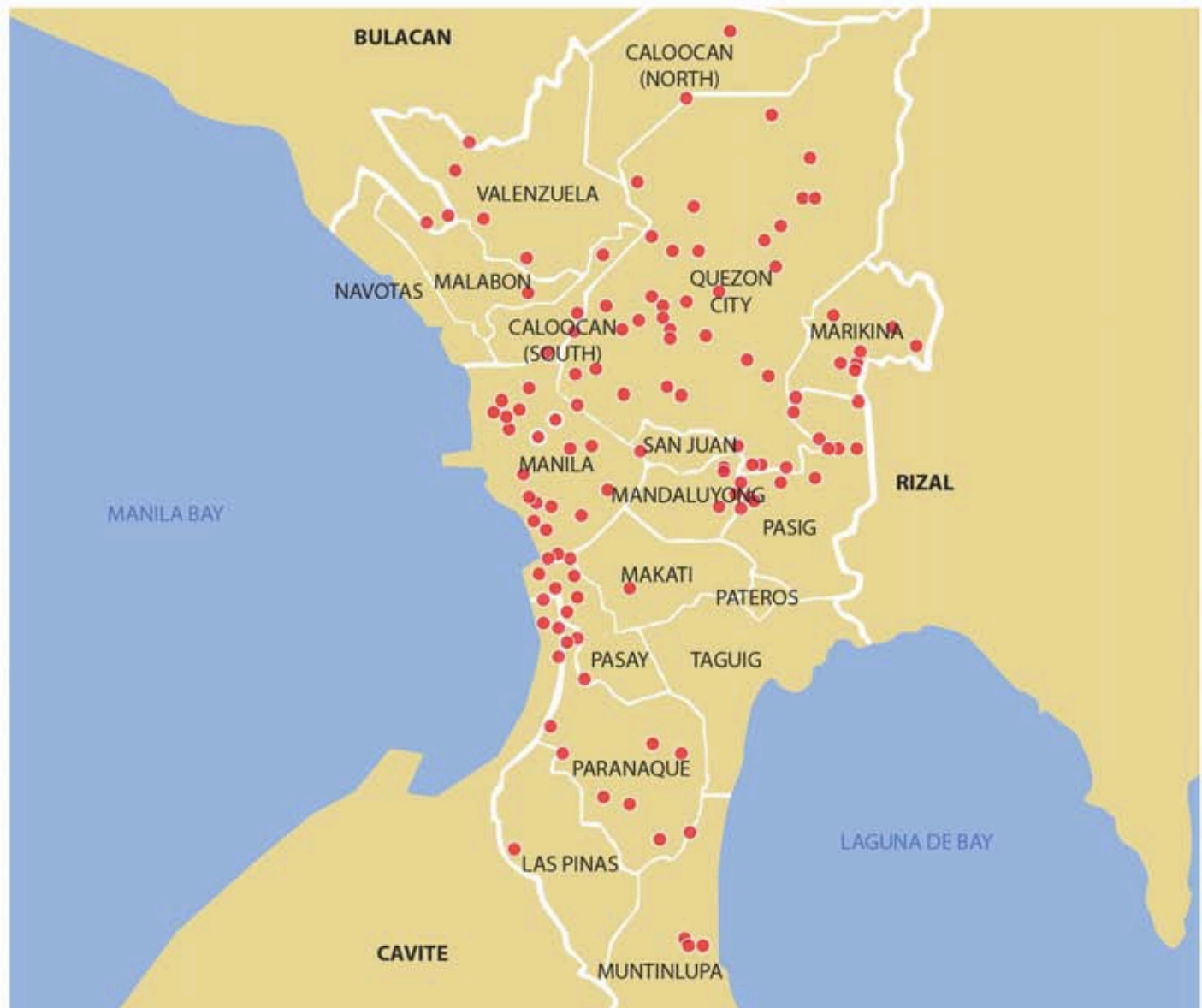


PhilWeb President Dennis O. Valdes (left) and Senior Vice President for Gaming Brian K. Ng (right) present the symbolic key to the winner of a Lexus IS 350 drawn last January 9, 2015.

## ROLL-OUT AND EXPANSION

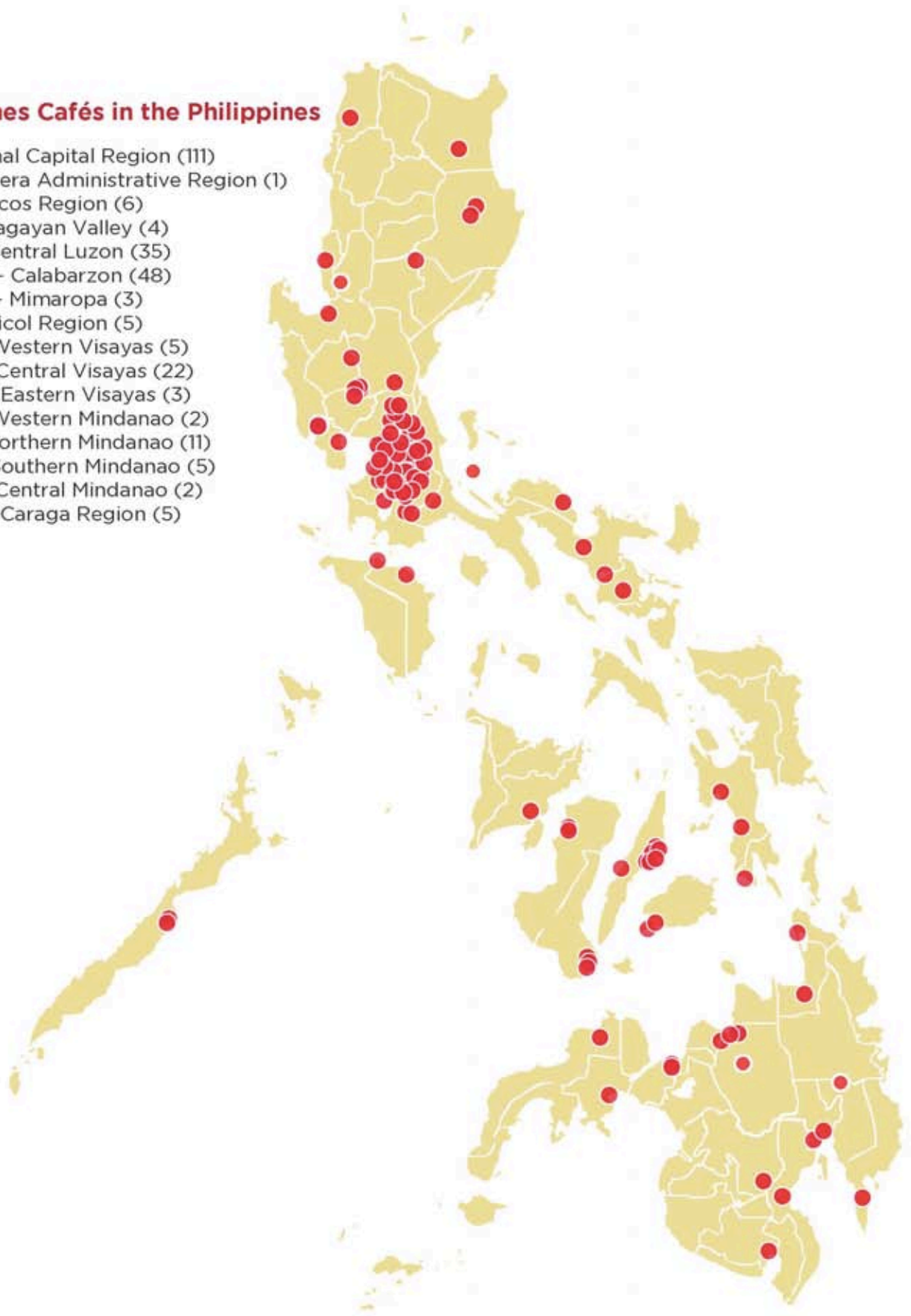
The e-Games nationwide network grew by 24 new locations in 2015, bringing the total operating e-Games to 268. Most of the e-Games are in the National Capitol Region and across Luzon, to include Quezon Province, Batangas and within the Balesin Island resort, where there were no e-Games previously. These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

### 111 e-Games Cafés in Metro Manila



## 268 e-Games Cafés in the Philippines

- NCR - National Capital Region (111)
- CAR - Cordillera Administrative Region (1)
- Region I - Ilocos Region (6)
- Region II - Cagayan Valley (4)
- Region III - Central Luzon (35)
- Region IV A - Calabarzon (48)
- Region IV B - Mimaropa (3)
- Region V - Bicol Region (5)
- Region VI - Western Visayas (5)
- Region VII - Central Visayas (22)
- Region VIII - Eastern Visayas (3)
- Region IX - Western Mindanao (2)
- Region X - Northern Mindanao (11)
- Region XI - Southern Mindanao (5)
- Region XII - Central Mindanao (2)
- Region XIII - Caraga Region (5)



# BIG GAME

## BigGame

BigGame, Inc. is a wholly owned subsidiary of PhilWeb Corporation. It owns and operates 23 e-Games cafés, making it one of the largest operators in the business.

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

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

## BEST GAMING EXPERIENCE

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

## BIGGAME IN 2016

BigGame will continue its site expansion, renovation and refurbishment activities in 2016. Plans are already underway for the Tanauan site in March, the first of its kind in Batangas.

The year ahead will also see more innovations and improvements in player experience. Player acquisition efforts will also be a focus through activation activities in various entertainment establishments.

BigGame remains committed to increasing customer service levels, as well as adding site amenities and creating an ambiance that extends the best gaming experience for our target market.

## CUSTOMER SUPPORT

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

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



BigGame, Inc.'s Semicon, Pasig e-Games site.



Antonio K. Garcia  
(SVP - e-Magine Gaming)

## e-Magine Gaming

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

## 2015 HIGHLIGHTS

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

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

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

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

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



e-Magine terminal allows customer to play using e-Safe account without cashier's intervention



Customer using bill validator and card reader functions of Genesis 103



Genesis 103 terminals at e-Games Parkmall, Cebu

# Corporate Services

## FINANCE

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

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

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

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

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



e-SAFE: Secured Account Facility for e-Games

## LEGAL

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

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



Zaldy M. Prieto (SVP and CFO), Atty. Rodolfo Ma. A. Ponferrada (SVP and Group Legal Counsel),  
Alexius D. Coliat (AVP Finance) and Atty. Raymund S. Aquino (VP - Legal)



Mona Liza I. Navarro  
(VP-Information Technology)

## INFORMATION TECHNOLOGY

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

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

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

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

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

## **HIGHLIGHTS IN 2015**

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

## **2016 GOALS**

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



Jose Michael D. Tagle  
(AVP-Information Security)

## INFORMATION SECURITY

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

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

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

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

## GOALS AND OBJECTIVES

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

Information Security plays a vital role in:

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

## INFORMATION SECURITY TEAMS

### Network Security

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

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

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

### Security Engineering

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

The Security Engineering team provides the following services to PhilWeb:

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

## 2015 HIGHLIGHTS

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

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

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

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

# Human Resources and Administration



Anne Charlotte G. Reyes  
(AVP-Human Resources)

## ORGANIZATIONAL STRUCTURE

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

## THE HUMAN RESOURCES TEAM

### Recruitment & Selection

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

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

### Compensation and Benefits

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

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

## Workplace Learning & Development

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

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

## Employee Engagement

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

# Corporate Social Responsibility

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

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

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

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

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

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



Forest rangers of Haribon Foundation's Bahay Punlaan lead PhilWeb employees and management, in tree planting activities, in Caliraya, Laguna.

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

1. Childhope Asia Inc.
2. Tanay Ville Elementary School
3. Lorenzo A. Ramos Elementary School
4. Manhain Elementary School
5. Don Domingo Capistrano Memorial Elementary School
6. Rawang Elementary School
7. Doña Paz Tanjuatco Elementary School
8. Mace Learning Center, Inc.
9. ERDA Tech Foundation, Inc.
10. Sioco Cariño Elementary School
11. Mariano Sabarino Elementary School
12. San Pascual Elementary School
13. Toybongan Elementary School
14. Poyopoy Elementary School

Logistics and planning were spearheaded by the Administration Team.

#### The Administration Team

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

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

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



Mariano Sabarino Elementary School Tuba, Benguet. On stage is Hon. Vice-Mayor Clarita Pagnas Sal-Ongan.



Lorenzo A. Ramos Elementary School. On the left is Domingo M. Rearte with school principal Teresita A. Camangon.



ERDA Tech Foundation. Standing 4th and 6th from the right are Brian K. Ng and Aristotle Dy, ERDA Tech President.



Childhope Asia Philippines Inc. Seated from left are Zaldy M. Prieto, Dennis O. Valdes, Samuel Guevara and Teresita Silva with Childhope officers and staff.



New Bilibid Prison Maximum Security Compound for their Alternative Learning System (ALS). Seated from left are PGI Eduardo Cabuhat, PGI Mariano Guarino, Raymund Aquino and Domingo M. Rearte

# Board of Directors

## **ROBERTO V. ONGPIN**

He was elected Chairman of the Company in January 2000, the year he founded the Company. He is also the Chairman of Alphaland Corporation and Atok-Big Wedge Co., Inc. Mr. Ongpin joined SGV & Co. in 1964 and was Chairman and Managing Partner of the firm from 1970 to 1979. He served as the Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. Mr. Ongpin graduated cum laude in Business Administration from the Ateneo de Manila University, is a Certified Public Accountant and has an MBA from the Harvard Business School.

## **MARIO A. ORETA**

*(Resigned effective December 31, 2015)*

He was elected Director of the Company in March 2005 and Vice Chairman in July 2014. He is also currently the President of Alphaland Corporation, Alphaland Development, Inc., Alphaland Balesin Island Resort Corporation, Alphaland Makati Place, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Property Management 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 Atok-Big Wedge Co., Inc. He was the Founder and Managing Partner of Tanjuatco Oreta and Factoran Law Offices. He obtained his law degree from the Ateneo de Manila University.

## **DENNIS O. VALDES**

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

## **TOMAS I. ALCANTARA**

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





### **EDGARDO J. ANGARA**

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

### **GREGORIO MA. ARANETA III**

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

### **VICTOR C. MACALINCAG**

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

### **MICHAEL ANGELO PATRICK M. ASPERIN**

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

## **EDGAR BRIAN K. NG**

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

## **ANNA BETTINA ONGPIN**

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

## **RAFAEL B. ORTIGAS**

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

## **ZALDY M. PRIETO**

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





### **CLIBURN ANTHONY A. ORBE**

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

### **RODOLFO MA. A. PONFERRADA**

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

### **CRISANTO ROY B. ALCID**

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



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PhilWeb Corporation (the "Company")**, is responsible for the preparation and fair presentation of the consolidated financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Handwritten signature of Roberto V. Ongpin in black ink.

**ROBERTO V. ONGPIN**  
Chairman

Handwritten signature of Dennis O. Valdes in blue ink.

**DENNIS O. VALDES**  
President

Handwritten signature of Zaldy M. Prieto in blue ink.

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

Signed this 1st day of March 2016



**R.G. Manabat & Co.**  
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Makati City 1226, Metro Manila, Philippines

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Branches: Subic - Cebu - Bacolod - Iloilo

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

PRC-BOA Registration No. 0003, valid until December 31, 2016  
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017  
IC Accreditation No. F-2014014-R, valid until August 25, 2017  
BSP Accredited, Category A, valid until December 17, 2017

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PhilWeb Corporation and Subsidiaries as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

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



**ADOR C. MEJIA**

Partner

CPA License No. 0029620

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

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

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

PTR No. 5321505MD

Issued January 4, 2016 at Makati City

March 1, 2016

Makati City, Metro Manila

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

		December 31	
	<i>Note</i>	2015	2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4, 22	P210,314,159	P374,949,875
Accounts receivable - net	5, 15, 22	203,004,280	299,627,945
Inventories	6	-	106,252,113
Current portion of notes receivable	7, 22	234,221,902	360,248,864
Prepaid expenses and other current assets - net	8	90,004,483	92,707,211
<b>Total Current Assets</b>		<b>737,544,824</b>	<b>1,233,786,008</b>
<b>Noncurrent Assets</b>			
Investments in associates	9	14,768,220	15,090,229
Noncurrent notes receivable	7, 22	510,300,000	583,200,000
Property and equipment - net	10	251,398,249	218,178,406
Deferred tax assets	14	13,642,042	14,724,999
Other noncurrent assets - net	11, 22	52,513,406	49,536,262
<b>Total Noncurrent Assets</b>		<b>842,621,917</b>	<b>880,729,896</b>
		<b>P1,580,166,741</b>	<b>P2,114,515,904</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12, 22	P303,891,471	P227,705,155
Notes payable	13, 22	200,000,000	700,000,000
Income tax payable		106,906,834	126,117,876
<b>Total Current Liabilities</b>		<b>610,798,305</b>	<b>1,053,823,031</b>
<b>Noncurrent Liabilities</b>			
Retirement benefits liability - net	20	14,887,570	18,497,425
Operators' deposits	21, 22	57,055,000	52,055,000
<b>Total Noncurrent Liabilities</b>		<b>71,942,570</b>	<b>70,552,425</b>
<b>Total Liabilities</b>		<b>682,740,875</b>	<b>1,124,375,456</b>
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	16	1,389,874,997	1,388,916,731
Additional paid-in capital	16	1,091,982,096	1,081,882,866
Stock options reserve	16	6,757,960	4,604,050
Retained earnings	16	2,617,356,756	2,450,743,551
Cumulative translation adjustment		6,165,227	5,495,982
Remeasurement losses on defined benefit liability - net of tax	20	(4,458,764)	(1,148,147)
Treasury stock	16	(4,211,137,736)	(3,941,779,041)
		<b>896,540,536</b>	<b>988,715,992</b>
<b>Non-controlling Interest</b>		<b>885,330</b>	<b>1,424,456</b>
<b>Total Equity</b>		<b>897,425,866</b>	<b>990,140,448</b>
		<b>P1,580,166,741</b>	<b>P2,114,515,904</b>

*See Notes to the Consolidated Financial Statements.*

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

		<b>Years Ended December 31</b>		
	<i>Note</i>	<b>2015</b>	2014	2013
<b>REVENUES</b>				
Internet application services		<b>P1,427,591,374</b>	P1,399,551,444	P1,236,339,986
Commission		<b>240,019,102</b>	233,173,213	222,292,802
Scratch cards		-	7,231,918	35,066,976
		<b>1,667,610,476</b>	1,639,956,575	1,493,699,764
<b>OPERATING EXPENSES</b>				
Salaries and benefits	<i>15, 16, 17, 20</i>	<b>130,451,283</b>	118,036,531	128,755,412
Depreciation and amortization	<i>10</i>	<b>109,649,183</b>	103,445,643	131,724,161
Outsourced services		<b>92,069,605</b>	89,180,634	94,198,851
Impairment losses	<i>5, 6, 8, 10, 11</i>	<b>76,260,998</b>	44,400,909	198,472,147
Utilities and communications		<b>68,634,432</b>	88,011,890	70,739,545
Rental	<i>19</i>	<b>64,594,145</b>	66,727,033	70,858,880
Representation and entertainment		<b>46,424,335</b>	42,154,396	56,977,076
Supplies		<b>21,656,858</b>	19,407,022	26,386,566
Taxes and licenses		<b>20,524,765</b>	11,390,830	14,251,192
Professional fees		<b>9,408,037</b>	8,853,134	12,136,793
Advertising and promotion		<b>4,245,089</b>	4,434,649	15,777,742
Operator incentives and commissions		-	1,273,092	9,917,553
Miscellaneous		<b>6,429,003</b>	10,535,037	8,788,123
		<b>650,347,733</b>	607,850,800	838,984,041
<b>OPERATING INCOME</b>		<b>1,017,262,743</b>	1,032,105,775	654,715,723
<b>OTHER INCOME (CHARGES)</b>				
Interest income	<i>4, 5, 7</i>	<b>51,767,383</b>	59,799,886	22,500,401
Foreign exchange gain (loss) - net		<b>28,611</b>	(3,121,758)	3,579,333
Equity in net earnings of associates	<i>9</i>	<b>(322,009)</b>	325,368	86,072,773
Bank charges		<b>(2,847,315)</b>	(719,437)	-
Interest expense	<i>13</i>	<b>(22,727,535)</b>	(49,569,583)	(22,072,431)
Loss on sale of equity investment	<i>9</i>	-	-	(551,958,543)
Miscellaneous - net		<b>404,750</b>	(107,345)	(2,856,444)
		<b>26,303,885</b>	6,607,131	(464,734,911)
<b>INCOME BEFORE INCOME TAX</b>		<b>1,043,566,628</b>	1,038,712,906	189,980,812
<b>INCOME TAX EXPENSE (BENEFIT) - Net</b>	<i>14</i>	<b>173,940,595</b>	134,837,218	(12,913,743)
<b>NET INCOME</b>		<b>P869,626,033</b>	P903,875,688	P202,894,555
<b>Net Income (Loss) Attributable to</b>				
Equity holders of the Parent Company		<b>P870,165,159</b>	P903,990,032	P209,875,685
Non-controlling interest		<b>(539,126)</b>	(114,344)	(6,981,130)
		<b>P869,626,033</b>	P903,875,688	P202,894,555
<b>EARNINGS PER SHARE</b>				
<b>ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>				
Basic	<i>18</i>	<b>P0.7421</b>	P0.7712	P0.1577
Diluted	<i>18</i>	<b>P0.7389</b>	P0.7706	P0.1577
<b>EBITDA</b>	<i>25</i>	<b>P1,200,758,970</b>	P1,176,003,787	P985,634,920

*Forward*

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

*See Notes to the Consolidated Financial Statements.*

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

**Years Ended December 31**

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 1 and 16)	Paid in Capital (Note 16)	Additional Paid in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Net of Tax Liability - Defined Benefit (Note 20)	Treasury Stock (Note 16)	Total	Non-controlling Interest	Total Equity
<b>As at January 1, 2013</b>	P1,388,913,231	P1,081,837,366	P4,422,064	P2,073,440,678	(P3,168,962)	(P4,887,375)	(P1,060,476,020)	P8,519,930	P3,480,080,782	-	P3,488,600,712
Acquisition of treasury stock	-	-	-	-	-	-	(2,881,303,021)	-	(2,881,303,021)	-	(2,881,303,021)
Cash dividends	-	-	-	-	(267,673,591)	-	-	-	(267,673,591)	-	(267,673,591)
Reversal of stock option	-	-	(379,246)	-	-	-	-	-	(379,246)	-	(379,246)
	-	-	(379,246)	(267,673,591)	-	-	(2,881,303,021)	-	(3,149,355,858)	-	(3,149,355,858)
<b>Total comprehensive income (loss)</b>	-	-	-	209,875,685	-	-	-	-	209,875,685	(6,981,130)	202,894,555
Net income (loss) for the year	-	-	-	209,875,685	-	-	-	-	209,875,685	(6,981,130)	202,894,555
Other comprehensive income for the year:	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange translation adjustment	-	-	-	-	5,501,730	-	-	-	5,501,730	-	5,501,730
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income (loss)</b>	-	-	-	209,875,685	5,501,730	-	-	-	215,377,415	(6,981,130)	211,897,995
<b>As at December 31, 2013</b>	1,388,913,231	1,081,837,366	4,042,818	2,015,642,772	2,332,768	(1,388,865)	(3,941,779,041)	-	549,604,049	1,538,890	551,142,949
Stock subscription	3,500	45,500	-	-	-	-	-	-	49,000	-	49,000
Cash dividends	-	-	-	(468,889,253)	-	-	-	-	(468,889,253)	-	(468,889,253)
Cost of stock option	-	-	561,232	-	-	-	-	-	561,232	-	561,232
	3,500	45,500	561,232	(468,889,253)	-	-	-	-	(468,279,021)	-	(468,279,021)
<b>Total comprehensive income (loss)</b>	-	-	-	903,990,032	-	-	-	-	903,990,032	(114,344)	903,875,688
Net income (loss) for the year	-	-	-	903,990,032	-	-	-	-	903,990,032	(114,344)	903,875,688
Other comprehensive income for the year:	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange translation adjustment	-	-	-	-	3,163,214	-	-	-	3,163,214	-	3,163,214
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income (loss)</b>	-	-	-	903,990,032	3,163,214	-	-	-	907,153,246	(114,344)	907,038,902
<b>As at December 31, 2014</b>	P1,388,916,731	P1,081,882,866	P4,604,050	P2,450,743,551	P5,495,982	(P1,148,147)	(P3,941,779,041)	-	P888,715,992	P1,424,456	P990,140,448

*Forward*

Years Ended December 31

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Defined Benefit Liability - Net of Tax (Note 20)	Treasury Stock (Note 16)	Total	Non-controlling Interest	Total Equity
<b>As at December 31, 2014</b>	P1,388,916,731	P1,081,882,866	P4,604,080	P2,450,743,551	P5,495,982	(P1,148,147)	(P3,941,779,041)	P988,715,992	P1,424,456	P990,140,448
Stock subscription	958,266	9,092,048	-	-	-	-	-	10,050,314	-	10,050,314
Cash dividends	-	-	-	(703,551,954)	-	-	-	(703,551,954)	-	(703,551,954)
Acquisition of treasury stock	-	-	-	-	-	-	(269,338,695)	(269,338,695)	-	(269,338,695)
Cost of stock option	-	-	3,161,092	-	-	-	-	3,161,092	-	3,161,092
Exercised stock option	-	1,007,182	(1,007,182)	-	-	-	-	-	-	-
	958,266	10,099,230	2,153,910	(703,551,954)	-	-	(269,338,695)	(959,699,243)	-	(959,699,243)
<b>Total comprehensive income (loss)</b>										
Net income for the year	-	-	-	870,165,159	-	-	-	870,165,159	(539,126)	869,626,033
Other comprehensive income (loss) for the year:										
Foreign exchange translation adjustment	-	-	-	-	669,245	-	-	669,245	-	669,245
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	(3,310,617)	-	(3,310,617)	-	(3,310,617)
<b>Total comprehensive income (loss)</b>	-	-	-	870,165,159	669,245	(3,310,617)	-	867,523,787	(539,126)	866,984,661
<b>As at December 31, 2015</b>	P1,389,874,997	P1,091,982,096	P6,757,960	P2,617,356,756	P6,165,227	(P4,458,764)	(P4,211,137,736)	P896,540,536	P888,330	P897,425,866

See Note to the Consolidated Financial Statements

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

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

*Forward*

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

*See Notes to the Consolidated Financial Statements.*

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

**1. Reporting Entity**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2. Basis of Preparation

### Statement of Compliance

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

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

### Basis of Measurement

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

### Functional and Presentation Currency

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

### Basis of Consolidation

#### *Subsidiaries*

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

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

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

#### *Non-controlling Interests*

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

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

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

#### *Loss of Control*

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

#### *Transactions Eliminated on Consolidation*

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

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

#### Use of Judgments and Estimates

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

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

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

#### Judgments

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

##### *Functional Currency*

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

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

##### *Determination of Control and Significant Influence*

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

### *Classifying Financial Instruments*

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

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

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

### *Determining Fair Values*

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

### *Determining whether an Arrangement Contains a Lease*

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

### *Operating Leases*

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

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

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

Rent expense recognized in profit or loss amounted to P64.6 million, P66.7 million, and P70.9 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 19).

#### *Contingencies*

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

#### Estimates

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

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

Allowance for impairment losses on receivables amounted to P120.1 million and P105.0 million as at December 31, 2015 and 2014, respectively (see Note 5).

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

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

Allowance for inventory write-down to NRV amounted to P4.1 million and P7.4 million as at December 31, 2015 and 2014, respectively (see Note 6).

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

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

Allowance for impairment losses on input VAT amounted to P193.4 million and P164.5 million as at December 31, 2015 and 2014, respectively (see Note 8).

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

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

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

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

Allowance for impairment losses on property and equipment and other noncurrent assets amounted to P15.5 million and P5.4 million as at December 31, 2015 and 2014 (see Notes 10 and 11).

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

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

The carrying amount of the Group's property and equipment amounted to P251.4 million and P218.2 million as at December 31, 2015 and 2014, respectively (see Note 10).

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

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

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

The Group's deferred tax assets amounted to P13.6 million and P14.7 million as at December 31, 2015 and 2014, respectively. On the other hand, the Group has temporary differences aggregating to P173.9 million and P178.3 million as at December 31, 2015 and 2014, respectively for which no deferred tax assets have been recognized (see Note 14).

#### *Estimating Retirement Benefits Obligation*

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

Retirement benefits liability amounted to P14.9 million and P18.5 million as at December 31, 2015 and 2014, respectively. Retirement benefits cost amounted to P5.1 million, P5.9 million, and P7.2 million for the years ended December 31, 2015, 2014 and 2013 respectively (see Note 20).

#### *Share-based Payments*

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

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

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

Cost (reversal) of stock options recognized in profit or loss under "salaries and benefits" account amounted to P3.2 million, P0.6 million and (P0.4 million) for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 16).

#### *Provisions*

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

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

The Group does not have any contingent legal or constructive obligation that requires provision as at December 31, 2015 and 2014.

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### 3. Summary of Significant Accounting Policies

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

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

The Group has adopted the following amendments to standards starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- **Defined Benefit Plans: Employee Contributions (Amendments to PAS 19).** The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- *Annual Improvements to PFRS: 2010 - 2012 and 2011 - 2013 Cycles - Amendments* were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Earlier application is permitted, in which case the related consequential amendments to other PFRS would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40.
- **Meaning of 'vesting condition' (Amendment to PFRS 2).** PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition.' The amendment also clarifies both: how to distinguish between a market and a non-market performance condition; and the basis on which a performance condition can be differentiated from a non-vesting condition.
- **Disclosures on the aggregation of operating segments (Amendment to PFRS 8).** PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- *Scope of portfolio exception (Amendment to PFRS 13).* The scope of the PFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of PAS 39 and PFRS 9.

PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32 - e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans.

#### Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

#### *Effective January 1, 2016*

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to PAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.
- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
  - Information should not be obscured by aggregating or by providing immaterial information.
  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

*Effective January 1, 2018*

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

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

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

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

*Pending approval of local adoption of PFRS 15 Revenue from Contracts with Customers*

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

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the impact on the financial statements.

## Financial Instruments

### *Non-derivative Financial Instruments*

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

### *Date of Recognition*

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

### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received in case of a liability. The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

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

The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as at December 31, 2015 and 2014.

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

### *Loans and Receivables*

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

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

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

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

#### *Other Financial Liabilities*

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:  
(a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

### Determination of Fair Value

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

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

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

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

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

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

### Offsetting of Financial Instruments

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

### Inventories

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

#### Prepaid Expenses and Other Current Assets

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

Input VAT is stated at its estimated NRV.

#### Property and Equipment

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

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

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

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

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

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

#### Impairment of Assets

##### *Financial Assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower

or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

#### *Nonfinancial Assets*

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

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

#### Investments in Associates

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

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

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

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

#### Retained Earnings

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

### Treasury Shares

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

### Transactions under Common Control

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

### Segment Reporting

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

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

### Share-based Transactions

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

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

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

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

#### Revenue and Expense Recognition

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

##### *Internet Application Services*

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

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

##### *Commission*

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

##### *Scratch Cards*

Revenues from scratch cards are recognized when sold.

##### *Interest*

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

##### *Other Income*

Other income is recognized when earned.

##### *Expenses*

Expenses are recognized when incurred.

#### Operating Leases

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

### Foreign Currency Transactions

#### *Foreign Currency Translations*

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

#### *Foreign Operations*

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

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

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

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

### Income Taxes

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

#### *Current Tax*

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

### *Deferred Tax*

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

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

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

### Employee Benefits

#### *Short-term Employee Benefits*

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

#### *Retirement Benefits*

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

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

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

### Earnings Per Share

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

### Related Parties

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

### Provisions and Contingencies

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

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

### Events After the Reporting Date

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

#### 4. Cash and Cash Equivalents

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Cash on hand		<b>P9,013,780</b>	P5,393,655
Cash in banks	22	<b>201,300,379</b>	148,511,929
Short-term investments	22	-	221,044,291
	22	<b>P210,314,159</b>	P374,949,875

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

Interest income derived from cash in banks and short-term investments amounted to P0.9 million, P2.5 million and P6.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

#### 5. Accounts Receivable

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Trade receivables		<b>P89,261,448</b>	P84,759,162
Advances to customers/suppliers		<b>77,937,641</b>	82,642,572
Receivables from non-affiliated entities		<b>37,973,275</b>	72,821,506
Receivable from PAGCOR		<b>33,478,483</b>	33,478,483
Receivables from PeGS operators		<b>30,387,188</b>	32,707,925
Advances to related a party	15	<b>22,734,175</b>	34,150,738
Interest receivable	7	<b>14,489,766</b>	46,763,548
Claims from telecommunication companies		<b>12,615,999</b>	13,091,913
Others		<b>4,237,041</b>	4,225,807
		<b>323,115,016</b>	404,641,654
Less allowance for impairment losses on:			
Trade receivables		<b>82,507,006</b>	79,359,076
Advances to customers/suppliers		<b>27,933,678</b>	24,074,630
Claims from telecommunication companies		<b>8,090,049</b>	-
Receivable from PAGCOR		<b>1,580,003</b>	1,580,003
		<b>120,110,736</b>	105,013,709
	22	<b>P203,004,280</b>	P299,627,945

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

	2015	2014
Balance at beginning of year	P105,013,709	P114,525,524
Impairment losses during the year	33,102,118	-
Write-off of receivables	(18,005,091)	(9,511,815)
Balance at end of year	P120,110,736	P105,013,709

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

Advances to customers/suppliers pertain to advance payments on services to be incurred or goods to be delivered in connection with the Group's operations which can be refunded or collected under the terms of agreement. The account includes unsecured interest bearing loans extended to the operators amounting to P31.0 million and P26.7 million as at December 31, 2015 and 2014, respectively. These loans are short-term in nature and bear interests of 8% to 12% per annum. Interest income pertaining to the loans amounted to P3.7 million, P3.7 million and P3.6 million in 2015, 2014 and 2013, respectively.

Receivables from non-affiliated entities pertain mainly to unpaid balance from the disposal of the Group's investments in ISM Corporation (ISM) amounting to P45.1 million (see Note 9) in 2014 and the amount was collected in full in 2015. These also include foreign exchange losses/gains on notes receivable in Note 7 to the financial statements that are being charged to ISM. The related foreign exchange gains (losses) amounted to (P10.3) million, (P25.6) million and P24.8 million in 2015, 2014 and 2013, respectively.

Receivable from PAGCOR represents the aforesaid government agency's unpaid share in marketing expenses incurred for the PeGS operation advanced by the Parent Company. These marketing expenses are pre-approved and shall be reimbursed by PAGCOR upon completion of its review of all the documentations required. In 2013, the Company collected P9.9 million. During the year, PAGCOR put on-hold the release of remaining fund due to the Notice of Disallowance (ND) issued by Commission on Audit (COA). The ND is on appeal with COA's En Banc. The release of the remaining fund is under discussion with PAGCOR, in which, they agreed to release upon finalization of the Memorandum of Agreement and execution of Letter of Credit by Parent Company (see Note 24).

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

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

## 6. Inventories

This account at December 31 consists of:

	2015	2014
At NRV:		
Gaming terminals	P -	P106,252,113
Scratch cards	-	-
	P -	P106,252,113

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

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

Due to the cessation, the Group written down its inventories to NRV. The allowance for impairment losses of gaming terminals amounted to P4.1 million and nil as at December 31, 2015 and 2014, respectively. The allowance for impairment losses of scratch cards amounted to nil and P7.4 million as at December 31, 2015 and 2014, respectively.

## 7. Notes Receivable

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

	Note	2015	2014
At original currency			
Euro 3.9 million	5	P204,196,251	P214,448,864
PHP 729 million		540,325,651	729,000,000
		744,521,902	943,448,864
Less: Current portion			
Euro 3.9 million		204,196,251	214,448,864
PHP 540.3 million		30,025,651	145,800,000
	22	234,221,902	360,248,864
Noncurrent notes receivables	22	P510,300,000	P583,200,000

The Euro loan bears an annual interest of 90-day Euro LIBOR plus 550 basis points (bps). Any foreign exchange exposure (gains/losses) and all income and expenses arising from this loan is shouldered equally with ISM (see Note 5). The balance will mature on September 30, 2016.

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

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

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

On December 15, 2015, upon the proposal of Lucktime, the BOD approved the payment of notes receivable by way of transferring its ownership in the shares of the Parent Company. The agreed price is set based on the actual trading price at the time of transfer, and the transfers were made on December 15 and 16, 2016. As a result, PCIL received 12.8 million shares of Parent Company's common shares at a total cost of P269.4 million, which represent full payment of the amount due and partial advance payment for 2016 amounting to P42.9 million. The transaction has been accounted for as treasury shares in the consolidated financial statements at cost (see Note 16). The current market value of these shares is at P22.4 per share. After this payment, the remaining balance of the said loan will be P30.0 million due within one year and P510.3 million beyond one year. While there is no issue of unpaid balance to date, the Group believes that in the event that Lucktime defaults, the Group has legal remedy to rescind the sale under Philippine law and therefore, recover the subject asset sold.

The interest income earned on the notes receivable amounted to P47.2 million, P53.6 million, and P12.7 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is shown as part of "interest income" in profit or loss.

## 8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2015	2014
Input value-added tax (VAT) - net of allowance for impairment losses	P72,708,967	P63,696,819
Prepaid insurance	4,874,588	6,016,694
Prepaid fees	2,688,085	1,147,735
Prepaid rent	1,803,974	16,184,446
Creditable withholding tax	1,314,542	-
Other prepaid expenses	6,420,580	5,348,171
Other current assets	193,747	313,346
	<b>P90,004,483</b>	<b>P92,707,211</b>

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

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

	2015	2014
Balance at beginning of year	P164,488,976	P127,502,630
Impairment losses during the year	28,898,071	36,986,346
Balance at end of year	P193,387,047	P164,488,976

## 9. Investments in Associates

This account at December 31 consists of:

	2015		
	Choice Insurance	Alphaforce	Total
<b>Percentage Ownership</b>	30%	40%	
<b>Cost of Investment</b>			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
<b>Accumulated Equity in Net Earnings (Losses)</b>			
Balance at beginning of year	(1,169,105)	1,307,924	138,819
Equity in net earnings (losses) for the year	(722,975)	400,966	(322,009)
Balance at end of year	(1,892,080)	1,708,890	(183,190)
	P5,059,430	P9,708,790	P14,768,220
	2014		
	Choice Insurance	Alphaforce	Total
Percentage Ownership	30%	40%	
<b>Cost of Investment</b>			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
<b>Accumulated Equity in Net Earnings (Losses)</b>			
Balance at beginning of year	(503,365)	316,816	(186,549)
Equity in net earnings (losses) for the year	(665,740)	991,108	325,368
Balance at end of year	(1,169,105)	1,307,924	138,819
	P5,782,405	P9,307,824	P15,090,229

### Investment in ISM

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

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

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

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

On November 19, 2013, the BOD approved the disposal of investment in ISM. On November 19, 2013, the Parent Company executed a Stock Purchase Agreement with Monfortino Holdings, Inc. and agreed to sell its 466 million shares or 24.30% interest in ISM for a price of P1.50 per share. The loss on disposal of the investment amounting to P552.0 million is recognized as part of "other charges" in profit or loss. Based on acquisition cost, the Parent Company made a cash gain of P60.4 million from this transaction.

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

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

Under the provisions of the agreement, the Parent Company has power to govern the financial and operating policies of MAGCOR. As a result, MAGCOR became a subsidiary of the Parent Company effective January 1, 2012 and is included in the consolidated financial statements as at December 31, 2015 and 2014.

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

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

#### Investment in Alphaforce Corporation

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

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

	2015	
	Choice Insurance	Alphaforce
Current assets (a)	P2,503,119	P33,413,078
Noncurrent assets (b)	23,070,280	8,053,194
Current liabilities (c)	8,708,633	17,194,296
Revenues	822	9,605,983
Net income (loss)	(2,409,917)	1,002,414
Total comprehensive income (loss)	(2,409,917)	1,002,414
Net assets (a+b-c)	16,864,766	24,271,976
% Ownership	30%	40%
Share in the net assets	5,059,430	9,708,790
Carrying value of the investment	P5,059,430	P9,708,790
	2014	
	Choice Insurance	Alphaforce
Current assets (a)	P886,082	P33,852,805
Noncurrent assets (b)	24,519,278	3,356,124
Current liabilities (c)	6,130,676	13,939,368
Revenues	1,144	13,324,453
Net income (loss)	(2,219,134)	2,477,769
Total comprehensive income (loss)	(2,219,134)	2,477,769
Net assets (a+b-c)	19,274,684	23,269,561
% Ownership	30%	40%
Share in the net assets	5,782,405	9,307,824
Carrying value of the investment	P5,782,405	P9,307,824

## 10. Property and Equipment

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

Cost	Computer Equipment and Software	Leasehold and Site Improvements	Network and Data				Transportation Equipment	Total
			Communication Equipment	Furniture and Fixtures	Office Equipment			
January 1, 2014	P373,862	P216,665	P148,371	P87,510	P17,536	P32,360	P876,304	
Additions	21,449	12,030	38,323	1,382	1,201	830	75,215	
Disposals	(47)	-	-	-	-	-	(47)	
December 31, 2014	395,264	228,695	186,694	88,892	18,737	33,190	951,472	
Additions	11,904	19,811	9,084	2,607	143	5,071	48,620	
Transfer from inventories	102,119	-	-	-	-	-	102,119	
Disposals	-	-	-	-	-	(3,997)	(3,997)	
<b>December 31, 2015</b>	<b>509,287</b>	<b>248,506</b>	<b>195,778</b>	<b>91,499</b>	<b>18,880</b>	<b>34,264</b>	<b>1,098,214</b>	
<b>Accumulated Depreciation and Amortization</b>								
January 1, 2014	277,041	137,783	119,258	55,143	16,602	24,068	629,895	
Depreciation and amortization for the year	32,981	33,300	22,994	9,441	1,216	3,514	103,446	
Disposals	(47)	-	-	-	-	-	(47)	
December 31, 2014	309,975	171,083	142,252	64,584	17,818	27,582	733,294	
Depreciation and amortization for the year	38,953	33,541	21,982	10,811	333	4,029	109,649	
Impairment loss	-	7,870	-	-	-	-	7,870	
Disposals	-	-	-	-	-	(3,997)	(3,997)	
<b>December 31, 2015</b>	<b>348,928</b>	<b>212,494</b>	<b>164,234</b>	<b>75,395</b>	<b>18,151</b>	<b>27,614</b>	<b>846,816</b>	
<b>Carrying Amount</b>								
December 31, 2014	P85,289	P57,612	P44,442	P24,308	P919	P5,608	P218,178	
<b>December 31, 2015</b>	<b>P160,359</b>	<b>P36,012</b>	<b>P31,544</b>	<b>P16,104</b>	<b>P729</b>	<b>P6,650</b>	<b>P251,398</b>	

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## 11. Other Noncurrent Assets

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Rental and other deposits	19, 22	<b>P54,833,633</b>	P49,598,489
Advances for projects		<b>5,315,972</b>	5,315,972
		<b>60,149,605</b>	54,914,461
Less allowance for impairment losses on:			
Advances for projects		<b>5,315,972</b>	5,315,972
Other deposits		<b>2,320,227</b>	62,227
		<b>7,636,199</b>	5,378,199
		<b>P52,513,406</b>	P49,536,262

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

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

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

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## 12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Accounts payable - trade	22	<b>P259,311,120</b>	P186,109,730
Accrued expenses and other payables	22	<b>44,580,351</b>	41,595,425
		<b>P303,891,471</b>	P227,705,155

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

The average credit period for payable to suppliers and PeGS operators are 30-60 days and 15-30 days, respectively. Payable to PAGCOR is normally remitted on a daily basis.

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

	<i>Note</i>	<b>2015</b>	<b>2014</b>
Contractors	22	<b>P19,831,332</b>	P20,623,097
Manpower services	22	<b>7,960,444</b>	9,297,364
Utilities and communications	22	<b>5,072,450</b>	4,753,314
Due to government agencies		<b>5,347,282</b>	481,398
Interest	13, 22	<b>2,695,135</b>	2,731,007
Audit fees	22	<b>1,474,711</b>	1,222,305
Ads and promo	22	<b>1,304,015</b>	1,448,905
Travel expenses	22	<b>313,812</b>	509,699
Others	22	<b>581,170</b>	528,336
		<b>P44,580,351</b>	P41,595,425

### 13. Notes Payable

The Parent Company has peso-denominated short-term notes payable from local banks amounting to P200.0 million and P700.0 million as at December 31, 2015 and 2014 with maturities of less than a year and bear annual interest at average rates of 6.1% and 4.5% in 2015 and 2014, respectively. Of the total outstanding loan, P150.0 million of which is fully secured by the 100% ownership of the Parent Company in BGI.

The Group recognized interest expense of P22.7 million, P49.6 million and P22.1 million in profit or loss for the years ended December 31, 2015, 2014 and 2013, respectively.

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

#### a) BOI

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

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

On January 23, 2013, the BOI approved a one year extension of the Parent Company's ITH covering the period from March 1, 2013 to February 28, 2014. One of the conditions for the approved ITH bonus year is to undertake Corporate Social Responsibilities (CSR) activities and the total cost incurred for these activities amounted to P3.7 million, P1.8 million and P2.6 million in 2015, 2014 and 2013, respectively.

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

#### PEZA

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

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

	2015	2014	2013
Current tax expense	<b>P171,438,803</b>	P132,098,290	P1,260,327
Deferred tax expense (benefit)	<b>2,501,792</b>	2,738,928	(14,174,070)
	<b>P173,940,595</b>	P134,837,218	(P12,913,743)

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

	2015	2014
<b>Items recognized in profit or loss</b>		
Allowance for impairment losses on input VAT	<b>P8,701,770</b>	P8,701,770
Retirement benefits liability	<b>2,555,372</b>	5,057,165
Allowance for impairment losses on receivables	<b>474,001</b>	474,001
	<b>11,731,143</b>	14,232,936
<b>Items recognized directly in other comprehensive income</b>		
Remeasurement losses on defined benefit liability	<b>1,910,899</b>	492,063
	<b>P13,642,042</b>	P14,724,999

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

	2015	2014	2013
Allowance for impairment losses on input VAT, receivables and notes receivable	<b>P89,546,067</b>	P91,051,515	P112,831,040
NOLCO	<b>84,357,466</b>	87,199,222	84,749,724
	<b>P173,903,533</b>	P178,250,737	P197,580,764

Details of NOLCO as at December 31 are as follow:

Incurring In	Amount	Expired/ Applied	As at December 31, 2015	Available Until
2012	P26,922,507	(P26,922,507)	P -	2015
2013	38,846,841	-	38,846,841	2016
2014	21,429,874	-	21,429,874	2017
2015	24,080,751	-	24,080,751	2018
	<b>P111,279,973</b>	<b>(P26,922,507)</b>	<b>P84,357,466</b>	

All these NOLCO pertains to non-operating subsidiaries.

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

	2015	2014	2013
Income before tax	<b>P1,043,566,628</b>	P1,038,712,906	P189,980,812
Income tax expense at statutory rate (30%)	<b>P313,069,988</b>	P311,613,872	P56,994,244
Adjustments resulting from:			
Income tax holiday on BOI-registered operations	<b>(153,930,681)</b>	(176,573,678)	(269,157,231)
Unrecognized deferred tax assets arising from temporary differences and NOLCO	<b>9,379,625</b>	3,815,792	43,985,748
Tax effects of:			
Equity in net earnings of associates	<b>96,603</b>	(97,610)	(25,821,832)
Interest/other income not subject to corporate tax	<b>(12,287,018)</b>	(14,982,938)	(6,750,120)
Non-deductible expenses/losses	<b>17,612,078</b>	11,061,780	187,835,448
Income tax expense (benefits)	<b>P173,940,595</b>	P134,837,218	(P12,913,743)

## 15. Related Party Transactions

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

- a) The Parent Company and Alphaland Corporation are entities under common control. The Parent Company bills Alphaland for its share in common expenses which includes common personnel cost and rental expense. Common personnel cost amounted to P19.3 million, P21.9 million and P24.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. While, common rental expense amounted to P5.2 million, P7.4 million and P9.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. Receivable from Alphaland amounted to P22.7 million and P34.2 million as at December 31, 2015 and 2014, respectively. The account is unsecured, non-interest bearing and payable on demand and is expected to be settled in cash.
- b) Compensation and short-term employee benefits of key management personnel of the Group in 2015, 2014 and 2013 amounted to P47.9 million, P45.2 million, and P48.3 million, respectively. The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to P3.5 million, P4.0 million and P4.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 16. Equity

### Common Stock

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

	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Authorized common stock	2,600,000,000		2,600,000,000	
Balance at beginning of year	1,350,618,379	P1,350,618,379	1,350,614,879	P1,350,614,879
Issuance during the year	958,266	958,266	3,500	3,500
Subscribed shares (net of subscriptions receivable)	163,378,780	38,298,352	163,378,780	38,298,352
Issued shares at end of year	1,514,955,425	1,389,874,997	1,513,997,159	1,388,916,731
Less treasury shares	(354,621,621)		(341,773,099)	
Issued and outstanding shares at end of year	1,160,333,804		1,172,224,060	

### Change in Par Value of Capital Stock

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

### Additional Paid-In Capital

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

	Additional Paid-In Capital		Stock Options Reserve	
	2015	2014	2015	2014
Balance at beginning of year	P1,081,882,866	P1,081,837,366	P4,604,050	P4,042,818
Stock Subscription	9,092,048	45,500	-	-
Cost of stock option	-	-	3,161,092	561,232
Exercised stock option	1,007,182	-	(1,007,182)	-
Balance at end of year	P1,091,982,096	P1,081,882,866	P6,757,960	P4,604,050

### Stock Option Plan

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

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

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

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

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

	2015	2014
Expected volatility	33.18%	33.18%
Risk-free interest rate	3.09%	3.09%
Expected life option	3 years	3 years

Expected volatility is estimated by considering average share price volatility.

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

	2015		2014	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	6,896,500	P -	6,000,000	P -
Granted	-	-	1,500,000	-
Exercised	(958,266)	-	(3,500)	-
Forfeited/expired	(833,334)	-	(600,000)	-
Options outstanding, end of year	5,104,900	P -	6,896,500	P -
Options exercisable, end of year	P -	P -		

Stock option cost (reversal) recognized in profit or loss is included under "salaries and benefits" account amounted to P3.2 million, P0.6 million and (P0.4 million) in 2015, 2014 and 2013, respectively (see Note 17).

### Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2015, 2014 and 2013 follow:

Date Approved	Per Share	Total Amount (in Php)	Stockholders of Record Date	Date Paid/Issued
February 28, 2013	0.10	138,699,693	March 5, 2013	March 15, 2013
October 10, 2013	0.10	128,973,898	October 15, 2013	October 25, 2013
March 4, 2014	0.10	117,222,050	March 18, 2014	March 28, 2014
May 26, 2014	0.10	117,222,401	June 9, 2014	June 23, 2014
July 11, 2014	0.10	117,222,401	September 1, 2014	September 15, 2014
July 11, 2014	0.10	117,222,401	November 21, 2014	December 5, 2014
January 27, 2015	0.15	175,833,601	January 20, 2015	February 16, 2015
May 4, 2015	0.15	175,833,601	May 7, 2015	May 21, 2015
August 11, 2015	0.15	175,936,376	August 14, 2015	August 28, 2015
November 9, 2015	0.15	175,948,376	November 12, 2015	November 26, 2015

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

### Treasury Stock

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

	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	341,773,099	P3,941,779,041	341,773,099	P3,941,779,041
Purchase during the year	12,848,522	269,358,695	-	-
Balance at end of year	354,621,621	P4,211,137,736	341,773,099	P3,941,779,041

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

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

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

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

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

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

## 17. Salaries and Benefits

This account consists of:

	<i>Note</i>	<b>2015</b>	2014	2013
Salaries and wages		<b>P122,155,284</b>	P111,605,062	P121,896,603
Retirement benefits cost	20	<b>5,134,907</b>	5,870,237	7,238,055
Cost (reversal) of stock option	16	<b>3,161,092</b>	561,232	(379,246)
		<b>P130,451,283</b>	P118,036,531	P128,755,412

## 18. Earnings Per Share

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

	<b>2015</b>	2014	2013
Net income attributable to equity holders of the parent (a)	<b>P870,165,159</b>	P903,990,032	P209,875,685
Weighted average number of shares outstanding (b)	<b>1,172,561,122</b>	1,172,222,602	1,330,852,173
Dilutive shares arising from stock options	<b>5,104,900</b>	875,000	-
Adjusted weighted average number of common shares for diluted earnings per share (c)	<b>1,177,666,022</b>	1,173,097,602	1,330,852,173
Earnings per share (a/b)	<b>P0.7421</b>	P0.7712	P0.1577
Diluted earnings per share (a/c)	<b>P0.7389</b>	P0.7706	P0.1577

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

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## 19. Lease Commitments

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

The Group has rental deposits amounting to P29.9 million and P31.6 million as at December 31, 2015 and 2014, respectively.

Total rentals recognized in profit or loss for the years ended December 31, 2015, 2014 and 2013 amounted to about P64.6 million, P66.7 million, and P70.9 million, respectively.

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

	2015	2014	2013
Less than one year	P55,454,410	P56,222,266	P49,470,583
Between one and five years	124,157,575	165,295,616	40,730,759
	<b>P179,611,985</b>	<b>P221,517,882</b>	<b>P90,201,342</b>

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## 20. Retirement Benefits

The Group has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. The plan is administered by a local bank appointed as trustee. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date was made on December 31, 2015. Valuations are obtained on an annual basis.

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

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

	Present Value of		Fair Value of Plan Assets		Retirement	
	Defined Benefit Obligation	Benefit Obligation	2015	2014	Benefit	Liability
	2015	2014	2015	2014	2015	2014
<b>Balance at beginning of year</b>	P33,497,425	P27,966,784	(P15,000,000)	P -	P18,497,425	P27,966,784
<b>Recognized in profit or loss</b>						
Current service cost	4,598,315	4,564,456	-	-	4,598,315	4,564,456
Interest expense	1,504,034	1,784,281	-	-	1,504,034	1,784,281
Interest income	-	-	(967,442)	(478,500)	(967,442)	(478,500)
	6,102,349	6,348,737	(967,442)	(478,500)	5,134,907	5,870,237
<b>Recognized in other comprehensive income</b>						
Remeasurement (gains) losses:						
Actuarial (gains) losses arising from:						
Experience adjustments	2,001,273	(3,692,494)	-	-	2,001,273	(3,692,494)
Changes in financial assumptions	(1,538,266)	4,320,601	-	-	(1,538,266)	4,320,601
Changes in demographic assumptions	2,793,419	(1,446,203)	-	-	2,793,419	(1,446,203)
Return on plan assets	-	-	1,473,027	478,500	1,473,027	478,500
	3,256,426	(818,096)	1,473,027	478,500	4,729,453	(339,596)
<b>Others</b>						
Benefits paid	(381,012)	-	381,012	-	-	-
Contributions	-	-	(13,474,215)	(15,000,000)	(13,474,215)	(15,000,000)
<b>Balance at end of year</b>	P42,475,188	P33,497,425	(P27,587,618)	(P15,000,000)	P14,887,570	P18,497,425

The principal actuarial assumptions used as at December 31 follow:

	2015	2014	2013
Discount rate	4.89%	4.49%	6.38%
Future salary increases	5.00%	5.00%	5.00%

The Group does not expect to make contributions to the plan in 2016.

#### Assumptions and Relevant Information

##### *Sensitivity Analysis*

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

	Defined Benefit Obligations			
	Increase		Decrease	
Discount rate	(P3,426,360)	(8.1%)	P4,051,119	9.5%
Future salary increases	3,701,097	8.7%	(3,212,103)	(7.6%)

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

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

The weighted-average duration of the defined benefit liability as at December 31, 2015 and 2014 is 16.6 years.

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

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

	2014				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 2 - 5 Years	More than 5 Years
Defined benefit obligation	P33,497,425	P35,677,739	P12,207,300	P1,011,634	P22,458,805

##### *Funding Arrangements*

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

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

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

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## 21. Operators' Deposits

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

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

### Financial Instruments

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

	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Current assets:</b>			
Cash in banks and cash equivalents	4	<b>P210,314,159</b>	P374,949,875
Accounts receivable	5	<b>203,004,280</b>	299,627,945
Notes receivable	7	<b>234,221,902</b>	360,248,864
<b>Total current financial assets</b>		<b>647,540,341</b>	1,034,826,684
<b>Noncurrent assets:</b>			
Noncurrent notes receivable	7	<b>510,300,000</b>	583,200,000
Rental and other deposits under "Other noncurrent asset - net"	11	<b>52,513,406</b>	49,536,262
<b>Total noncurrent financial assets</b>		<b>562,813,406</b>	632,736,262
<b>Total financial assets</b>		<b>P1,210,353,747</b>	P1,667,562,946

### Fair Values

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

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

### Financial Risk Management

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

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

#### *Credit Risk*

Credit risk represents the risk of loss the Group would incur if counterparties fail to perform their contractual obligations. The Group's internet gaming businesses are made on cash basis and internet gaming operators are covered by required security deposits. Other receivables arise from one-off transactions and are due and demandable on a short term basis. Due to these reasons, management believes that the Group's exposure to credit risk is manageable as at December 31, 2015 and 2014. The carrying amount of each financial asset represents the Group's maximum credit exposure.

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

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

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
<b>December 31, 2014</b>					
Cash in banks and cash equivalents	P369,556,220	P -	P -	P -	P369,556,220
Accounts receivable	180,819,920	83,759,283	14,844,567	20,204,175	299,627,945
Notes receivable	943,448,864	-	-	-	943,448,864
Rental and other deposits under "Other noncurrent assets - net"	49,536,262	-	-	-	49,536,262
	P1,543,361,266	P83,759,283	P14,844,567	P20,204,175	P1,662,169,291

#### *Credit Quality*

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

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

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

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

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

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

	Neither Past Due nor Impaired				Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
	Total	High Grade	Standard Grade	Low Grade			
<b>December 31, 2015</b>							
Cash in banks	P201,300,379	P201,300,379	P -	P -	P201,300,379	P -	P -
Accounts receivable	323,115,016	107,957,860	-	-	107,957,860	95,046,420	120,110,736
Notes receivable	234,221,902	234,221,902	-	-	234,221,902	-	-
Noncurrent notes receivable	510,300,000	510,300,000	-	-	510,300,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	60,149,605	52,513,406	-	-	52,513,406	-	7,636,199
	<b>P1,329,086,902</b>	<b>P1,106,293,547</b>	<b>P -</b>	<b>P -</b>	<b>P1,106,293,547</b>	<b>P95,046,420</b>	<b>P127,746,935</b>

	Neither Past Due nor Impaired				Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
	Total	High Grade	Standard Grade	Low Grade			
<b>December 31, 2015</b>							
Cash in banks	P148,511,929	P148,511,929	P -	P -	P148,511,929	P -	P -
Short-term investments	221,044,291	221,044,291	-	-	221,044,291	-	-
Accounts receivable	404,641,654	180,819,920	-	-	180,819,920	118,808,025	105,013,709
Notes receivable	360,248,864	360,248,864	-	-	360,248,864	-	-
Noncurrent notes receivable	583,200,000	583,200,000	-	-	583,200,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	54,914,461	49,536,262	-	-	49,536,262	-	5,378,199
	<b>P1,772,561,199</b>	<b>P1,543,361,266</b>	<b>P -</b>	<b>P -</b>	<b>P1,543,361,266</b>	<b>P118,808,025</b>	<b>P110,391,908</b>

### Liquidity Risk

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

The Group's ratio of current assets to current liabilities as at December 31, 2015 and 2014 is 1.21:1 and 1.17:1, respectively. The current liabilities of the Group are expected to be paid within one year.

	As at December 31, 2015			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P298,544,189	P298,544,189	P298,544,189	P -
Notes payable	200,000,000	202,119,135	202,119,135	-
Operator's deposits	57,055,000	57,055,000	-	57,055,000

	As at December 31, 2014			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P227,223,757	P227,223,757	P227,223,757	P -
Notes payable	700,000,000	717,062,500	717,062,500	-
Operator's deposits	52,055,000	52,055,000	-	52,055,000

(a) Due to government agencies are excluded

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk managements is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group is subject to various risks, including foreign currency and prices.

*Interest Rate Risk.* Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to notes receivable. Receivables issued at variable rates expose the Group to cash flow interest rate risk.

As at December 31, 2015 and 2014, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Nominal Amount	
	2015	2014
<b>Fixed-rate Financial Instruments</b>		
Financial Assets		
Cash in bank	P201,300,379	P148,511,929
Short-term investments	-	221,044,291
Notes receivable	540,325,651	729,000,000
	741,626,030	1,098,556,220
Financial Liabilities		
Notes payable	200,000,000	700,000,000
<b>Variable-rate Financial Instruments</b>		
Financial Asset		
Notes receivable	204,196,251	214,448,864

#### *Fair Value Sensitivity Analysis for Fixed-rate Instruments*

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### *Cash Flow Sensitivity Analysis for Variable-rate Instruments*

A reasonably possible change of 1% in interest rate at December 31, 2015 and 2014 would have increased or decreased equity and profit or loss by P2.0 million and P2.1 million, respectively. This assumes that all other variables, in particular foreign exchange currency rates, remain constant.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charges on Group's borrowings are optimal and benchmarked against the rates charged by other creditor banks.

#### *Foreign Currency Exchange Risk*

The Group has no foreign currency exchange risk on its Euro loan as this is offset with the receivable from ISM.

#### Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To manage or adjust the capital structure, the Group may obtain additional advances from stockholders, adjust the return of the capital to stockholders or issue new shares. The Group's overall strategy remains unchanged from 2014. The Group monitors capital using the monthly cash position report and financial statements.

The Group defines capital as total equity, which includes capital stock, additional paid-in capital, stock options outstanding and retained earnings, net of treasury stock as shown in the consolidated statements of financial position.

The Company is compliant with the minimum public float requirements of the PSE as at December 31, 2015 and 2014.

## 23. Segment Reporting

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

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

In 2012 and 2011, the Group launched scratch cards or instant-win type product in Cambodia and Timor-Leste, respectively. Likewise, the Group opened its Sweepcenter business in Guam in October 2011. These scratch cards, instant-win type products and Sweepstakes business are not material to the Group in 2015, 2014 and 2013.

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

Analysis of financial information by geographical segment in 2015 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
<b>Net Revenues</b>				
External revenue	P1,667,610,476	P -	P -	P1,667,610,476
Operating expenses	(613,404,839)	(36,942,894)	-	(650,347,733)
Interest income	51,759,961	7,422	-	51,767,383
Interest expense	(22,727,535)	-	-	(22,727,535)
Others	(2,270,241)	(143,713)	-	(2,413,954)
	(586,642,654)	(37,079,185)	-	(623,721,839)
<b>Income before Income Tax</b>	1,080,967,822	(37,079,185)	-	1,043,888,637
Income tax expense	173,940,595	-	-	173,940,595
<b>Segment Profit (Loss)</b>	907,027,227	(37,079,185)	-	869,948,042
Equity in net earnings of associates	(322,009)	-	-	(322,009)
<b>Consolidated Profit</b>	P906,705,218	(P37,079,185)	P -	P869,626,033
<b>Other Information</b>				
Additions to property and equipment	P150,739,187	P-	P -	P150,739,187
Depreciation and amortization	101,385,984	8,263,199	-	109,649,183
<b>Assets and Liabilities</b>				
Current assets	P707,714,027	P218,233,687	(P188,402,890)	P737,544,824
Noncurrent assets	840,917,573	1,704,344	-	842,621,917
<b>Total Assets</b>	1,548,631,600	P219,938,031	(P188,402,890)	1,580,166,741
Current liabilities	P575,017,772	P224,183,423	(P188,402,890)	P610,798,305
Noncurrent liabilities	71,942,570	-	-	71,942,570
<b>Total Liabilities</b>	P646,960,342	P224,183,423	(P188,402,890)	P682,740,875

Analysis of financial information by geographical segment in 2014 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
<b>Net revenues</b>				
External revenue	P1,632,724,657	P7,231,918	P -	P1,639,956,575
<b>Operating expenses</b>				
Operating expenses	(573,895,228)	(33,955,572)	-	(607,850,800)
Interest income	59,665,241	179,572	(44,927)	59,799,886
Interest expense	(49,569,583)	(44,927)	44,927	(49,569,583)
Others	(3,930,911)	(17,629)	-	(3,948,540)
	(567,730,481)	(33,838,556)	-	(601,569,037)
Income before income tax	1,064,994,176	(26,606,638)	-	1,038,387,538
Income tax expense	134,837,218	-	-	134,837,218
Segment profit (loss)	930,156,958	(26,606,638)	-	903,550,320
Equity in net earnings of associates	325,368	-	-	325,368
<b>Consolidated Profit</b>	<b>P930,482,326</b>	<b>(P26,606,638)</b>	<b>P -</b>	<b>P903,875,688</b>
<b>Other Information</b>				
Additions to property and equipment	P71,644,685	P3,570,764	P -	P75,215,449
Depreciation and amortization	100,485,001	2,960,642	-	103,445,643
<b>Assets and Liabilities</b>				
Current assets	P1,175,589,960	P238,740,112	(P180,544,064)	P1,233,786,008
Noncurrent assets	871,857,741	8,872,155	-	880,729,896
<b>Total Assets</b>	<b>P2,047,447,701</b>	<b>P247,612,267</b>	<b>(P180,544,064)</b>	<b>P2,114,515,904</b>
Current liabilities	P1,017,984,200	P216,382,895	(P180,544,064)	P1,053,823,031
Noncurrent liabilities	70,552,425	-	-	70,552,425
<b>Total Liabilities</b>	<b>P1,088,536,625</b>	<b>P216,382,895</b>	<b>(P180,544,064)</b>	<b>P1,124,375,456</b>

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## 24. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and the Group's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements as at and for the years ended December 31, 2015 and 2014.

On January 30, 2014, the Parent Company filed a case against Playtech Software Limited for damages and loss of revenue it caused by violating the provision of the agreement with the Parent Company. On May 11, 2015, the Regional Trial Court dismissed the complaint.

On May 14, 2015, the Parent Company filed a Motion for Reconsideration (MR) relative to COA's decision dismissing the Petition for Review to nullify COA's Notice of Disallowance (ND). The disallowance pertains to Parent Company's alleged under remittance for the share in software license fee in 2006 and 2007. PAGCOR used this ND to defer the release of the remaining fund due to the Parent Company for the reimbursement of PAGCOR's share in the Incentive and Promotions Fund for 2009 and 2010 amounting to P34.6 million (see note 5).

## 25. Earnings before Interest, Taxes and Depreciation and Amortization (EBITDA)

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

	2015	2014	2013
Net income attributable to equity holders of the parent	P870,165,159	P903,990,032	P209,875,685
Minority interest	(539,126)	(114,344)	(6,981,130)
Net income	869,626,033	903,875,688	202,894,555
Add (deduct):			
Gain on sale of equity investment	-	-	551,958,543
Impairment losses	76,260,998	44,400,909	198,472,147
Depreciation and amortization	109,649,183	103,445,643	131,724,161
Provision for income tax	173,940,595	134,837,218	(12,913,743)
Equity in net earnings of associates	322,009	(325,368)	(86,072,773)
Interest expense	22,727,535	49,569,583	22,072,431
Interest income	(51,767,383)	(59,799,886)	(22,500,401)
EBITDA	P1,200,758,970	P1,176,003,787	P985,634,920
Issued and outstanding shares at end of year	1,160,333,804	1,172,224,060	1,172,220,560
EBITDA - EPS	P1.0348	P1.003	P0.8408

EBITDA and EBITDA - EPS are non-PFRS measures.

**LEGAL COUNSEL**

PONFERRADA ORBE & ALTUBAR LAW OFFICES

**INDEPENDENT PUBLIC ACCOUNTANT**

KPMG R.G. MANABAT & CO.

**BANKS**

ASIA UNITED BANK  
BANCO DE ORO UNIBANK  
BANK OF COMMERCE  
BANK OF THE PHILIPPINE ISLANDS  
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

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





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