



2013 Annual Report

## About Us

PhilWeb Corporation is the leading gaming technology provider in the Asia Pacific Region. We operate a nationwide network of close to 300 e-Games cafés, with over 70,000 members.

We excel in the gaming industry by providing superior and innovative products with the highest standards of customer service. With less than 300 employees at the end of 2013, 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 year 2013 has seemingly been a challenging one for your Company, PhilWeb Corporation. While we have seen a number of significant changes in our businesses and a significant decline in our net income, a deeper dive into the financials reveals continuing strong fundamentals, especially with our cash flow. We can best characterize the past year as a rebuilding year, wherein we have laid the building blocks towards a more fruitful future ahead, one that is more focused on our core business of e-gaming.

Let me start with a discussion of our financials. Our Net Income indeed went down to ₱202 million. A look at the Income Statement shows that much of the decline was attributable to two, one-time, non-recurring events, which are discussed in more detail below.

More importantly, when we check EBITDA, which is a better indicator of the cash health of your company, we registered a total of ₱985 million, a 1.9% increase versus 2012. This is borne out in our Consolidated Statements of Cash Flows, which shows Operating Income before working capital changes of virtually the same figure, ₱991 million.

The key, one-time event that brought down our Net Income was the sale of our investment in ISM Communications Corporation in November 2013. This transaction brought us ₱700 million in cash, which we used to partially fund the last tranche of the ePLDT share buyback. As you may recall, in June 2012, our Board voted to buyback ePLDT's entire 27% stake in our Company over four semi-annual tranches, the last ending in December 2013. The final tranche of the ePLDT transaction involved a cash payment of ₱1.3 billion, and

ROBERTO V. ONGPIN (CHAIRMAN) AND  
DENNIS O. VALDES (PRESIDENT)



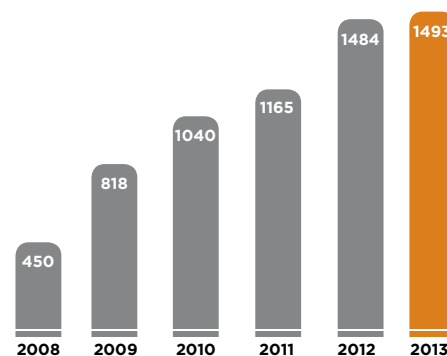
the sale of our ISM assets enabled us to keep our borrowings at reasonable levels. Be that as it may, the sale of our stake in ISM resulted in a one-time, non-cash loss of ₱552 million, as our asset had increased in value due to the equitized earnings from ISM over the years we held the investment.

Thus, the drop in our Net Income is not a cause for worry about our current business. Our cash flows remain intact, and because of this we were able to pay two ₱0.10 cash dividends last year, which is our fourth year in a row of paying dividends. We believe that our Company remains a valuable stock to own on the Philippine Stock Exchange, one with solid financial performance and the added potential for price appreciation.

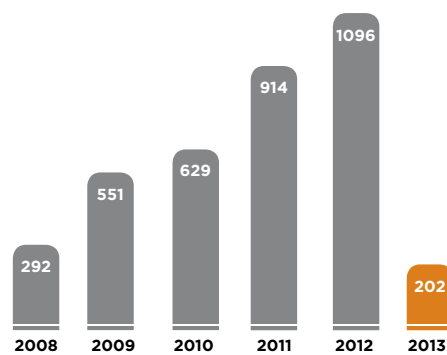
As noted, our cash flows are strong, and in fact, so are our Revenues. For the year, Revenues increased to ₱1.493 billion, 0.7% higher than previous year. In fact, our core e-Games business grew by 7.3% last year, with a total of 7,638 gaming terminals spread over 299 e-Games outlets.

All our e-Games patrons are now full-fledged, card-carrying members, with everyone having given appropriate identification details to obtain membership. We have over 70,000 members nationwide who enjoy the gaming and sports betting offerings in our e-Games outlets. This network delivered total Gross Bets of ₱133 billion, 6.5% more than the previous year. Total Casino Win, or the net earned by the system after deducting all payouts from bets, totaled ₱5.04 billion for a winning percentage of 3.80%, slightly higher than the previous year's 3.77%.

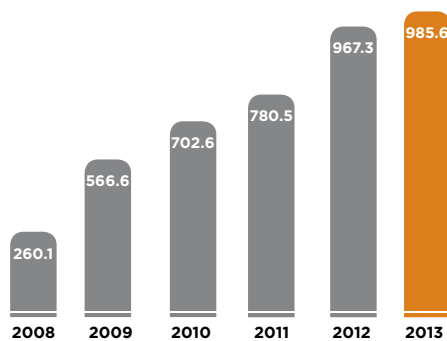
Of the Casino Win, a total of ₱2.1 billion was remitted to PAGCOR, solidifying our position as one of the biggest contributors



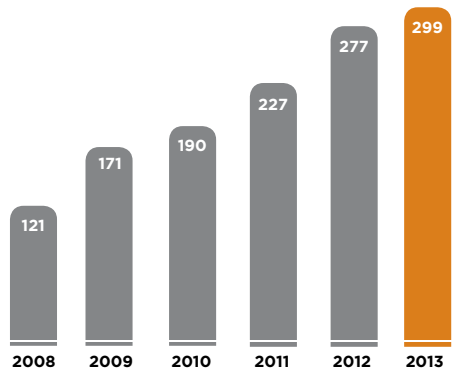
**REVENUE**  
MILLIONS OF PESOS



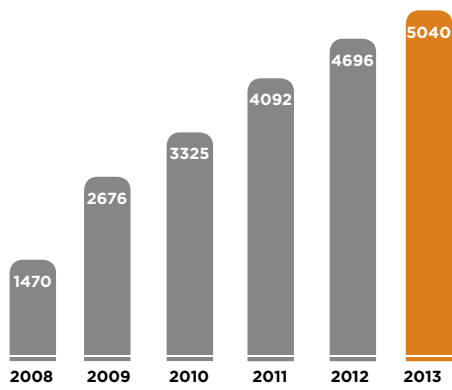
**NET INCOME**  
MILLIONS OF PESOS



**EBITDA**  
MILLIONS OF PESOS



### E-GAMES CAFÉS



### CASINO WIN MILLIONS OF PESOS

of revenue to the government, all of which comes with no capital expenditures or operating expenses on their part. Every peso we give to PAGCOR flows directly to their nation-building efforts.

On the Asia Pacific side of the business, we are reassessing our commitment to a number of markets. We remain optimistic that we can operate in Guam and some other countries, but have decided to scale down our scratch card operations in others. We continue to believe that there are exciting gaming opportunities in the region, but will be more conservative as we move forward in choosing projects that are right for us.

Let me end on a high note, as we once again thank our Board of Directors, which has remained supportive during this challenging year, and our stockholders, who have continued to trust us to deliver results in the future. We also note that we were once again recognized by Forbes Asia magazine in its Best Under a Billion list, one of only a handful of companies in the entire region to have been recognized for four years in a row. This recognition is given by the magazine's editors to the 200 best-performing, publicly listed companies in Asia Pacific with sales under US\$1 billion. We look forward to continuing to serve our stakeholders in the years to come.

02 June 2014

  
ROBERTO MONGPIN  
Chairman

  
DENNIS O. VALDES  
President

## PhilWeb Management Team



**FROM CENTER COUNTER-CLOCKWISE:  
DENNIS O. VALDES (PRESIDENT), ZALDY M. PRIETO (SVP AND CFO),  
CARLA VARGAS NUYDA (AVP, HUMAN RESOURCES AND ADMINISTRATION),  
ANTONIO K. GARCIA (SVP, PHILWEB ASIA PACIFIC),  
MONA LIZA I. NAVARRO (VP, INFORMATION TECHNOLOGY),  
ATTY. RODOLFO MA. A. PONFERRADA (SVP AND LEGAL COUNSEL),  
JOE PISANO (PRESIDENT, E-MAGINE GAMING), AND BRIAN K. NG (SVP, E-GAMES)**

The logo for e-GAMES, featuring the text "e-GAMES" in a stylized, bold, white font with a black outline, set against a yellow background with a rainbow gradient border.

## e-Games

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

There are now 299 e-Games cafés all over the country, with the majority 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.

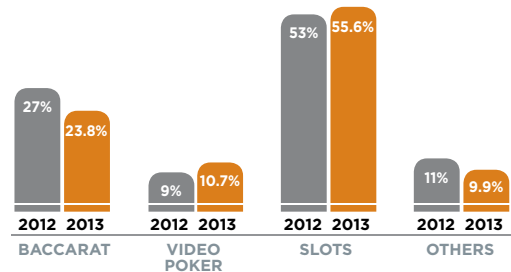
BRIAN K. NG (SVP, E-GAMES)

**In 2013, e-Games had another milestone year.** From 277 e-Games cafés, the Company was able to add 22 more sites to its network, bringing up the nationwide count to 299. This increase brought up Terminal Count to 7,638, a 13% increase from last year's figures. Total Casino Win reached ₱5 billion. PAGCOR Remittances exceeded last year's record total by 7.3%. e-Games remains a valued contributor to PAGCOR's income, remitting a record total of ₱2.1 billion in 2013. These figures prove that despite the entry of new players such as Solaire, Resorts World Manila, and the forthcoming City of Dreams Manila, e-Games' growth and operations have not been affected.

Another major highlight for e-Games was the roll-out of a new version of their, back-end software provider, Realtime Gaming (RTG) and the installation of a new server. This enabled e-Games to accommodate more players and paved the way for account-based play. e-Games also achieved the highest winnings in one day of ₱19 million. Apart from RTG, Microgaming continues to provide its suite of casino games into various cafés.

In accordance with PAGCOR regulations, e-Games sites began renovation in 2013. Renovating the sites brought about an enhanced player experience, with newly-installed bars, lounges and crap tables. These site renovations will continue through 2014.

## GAME DISTRIBUTION (2012 - 2013)





TOP: NEW MEMBERSHIP AND REWARDS PROGRAM  
 BOTTOM: GRAND PRIZE WINNER OF TOYOTA 86  
 RAFFLE DRAW



Finally, e-Games operators are moving away from the entrepreneurial model with sites consolidating operations under larger corporations. This approach will lead to a more professional, improved, and uniform operations.

The game distribution for the past year is split into four major categories: slots games, baccarat games, video poker games and others. Slots made up more than half of PhilWeb’s game distribution with a 56% market share in 2013, which shows that slots are the preferred choice for the majority of e-Games customers. Meanwhile, Baccarat was the second highest at 24%. Video poker encompassed 11% of the total game distribution, while other games took up the remaining 9%.

### MARKETING HIGHLIGHTS

e-Games launched a new Membership and Rewards Program which has more than 50,000 active accounts to date. Here, players have access to a web-based interface that allows them to manage their accounts, participate in quarterly promotions, and redeem exclusive reward items. Three nationwide raffle draws were held, with more than ₱50 million in prizes given away. To ease the logistics of a raffle of this scale, an Electronic Raffle Draw system was used. Aside from winning through raffle coupons, members can now redeem premium items and avail of exclusive perks from partner brands and establishments. These include lifestyle, travel and dining rewards.

e-Games also held events and product activations, which focused more on geographic segments. e-Games brand ambassadors would conduct product demonstrations and host events in high-traffic establishments near each e-Games venue. Participants were given merchandise and free credits which could be claimed upon registration at featured e-Games outlets. The combined effort of events, mobile and social media campaigns have brought in several hundred new e-Games players.

e-Games also tapped different marketing channels. One channel utilized was an SMS campaign to augment player acquisition by capturing participants' contact information and measuring player conversion at the same time. Social media campaigns were also used wherein promotions required fans to register online and activate their membership onsite.

The e-Games website was also revamped, with a newly-integrated Online Registration Module and a partnership with Double Down, a free play app that links to social networking sites.

e-Games turned to print media with its advertisements featured in magazines such as FHM, Cosmopolitan, Rogue, and Forbes Asia. A reader response mechanism was included in the advertising material.



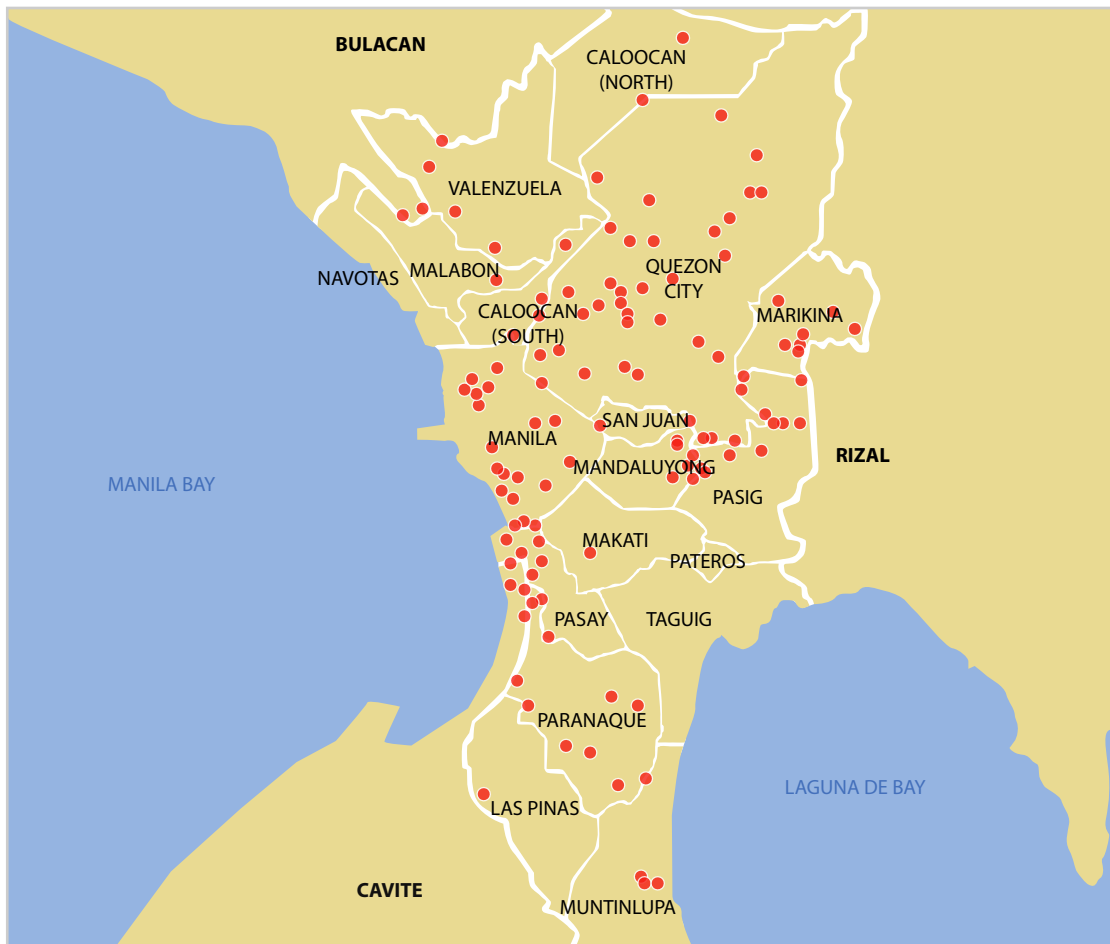
SAMUEL A. DELA CUESTA (AVP, E-GAMES OPERATIONS) AND RONALD M. CUEVAS (AVP, E-GAMES OPERATIONS QUALITY)

## PLANS FOR 2014

In 2014, e-Games has two key goals in mind. The first is to focus on direct-to-player marketing through a membership and rewards program. This will be achieved by conducting nationwide and site-level draws every quarter, identifying and securing partnership deals with upscale brands and establishments, and launching the SVIP Rewards Program which will offer exclusive treats and a dedicated concierge for established high rollers.

The second goal is twofold. e-Games intends to expand its VIP base through strategic events activations and amplify the brand reach through various channels. To do this, e-Games will conduct a series of on-ground activations and participate in events with wide brand mileage; continue utilizing SMS, digital marketing, and direct mail to promote brand awareness and reach new customers; and place advertisements in magazines, newspapers, and adult establishments.


### e-Games Cafés in Metro Manila

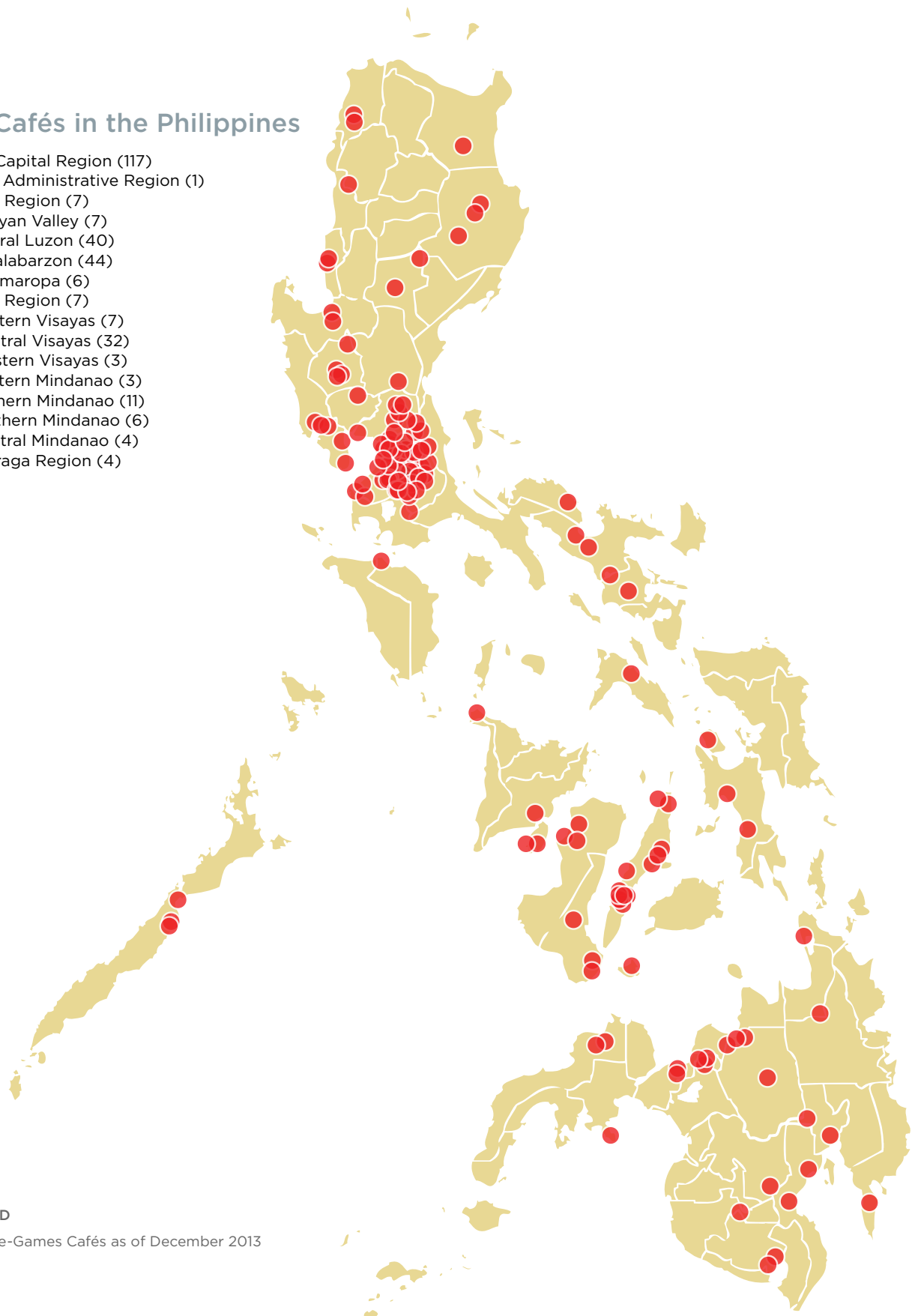


## e-Games Cafés in the Philippines

- NCR - National Capital Region (117)
- CAR - Cordillera Administrative Region (1)
- Region I - Ilocos Region (7)
- Region II - Cagayan Valley (7)
- Region III - Central Luzon (40)
- Region IV A - Calabarzon (44)
- Region IV B - Mimaropa (6)
- Region V - Bicol Region (7)
- Region VI - Western Visayas (7)
- Region VII - Central Visayas (32)
- Region VIII - Eastern Visayas (3)
- Region IX - Western Mindanao (3)
- Region X - Northern Mindanao (11)
- Region XI - Southern Mindanao (6)
- Region XII - Central Mindanao (4)
- Region XIII - Caraga Region (4)

### LEGEND

-  e-Games Cafés as of December 2013





PAULO J. PEREZ (AVP, BIGGAME)

### BigGame, Inc.

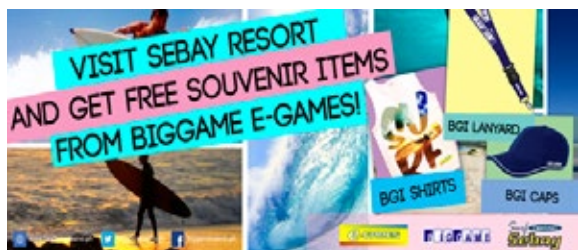
BigGame, Inc. (BGI) is a wholly owned subsidiary of PhilWeb Corporation. It owns and operates 16 e-Games cafés, making it one of the largest operators in the business.

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

**2013 was a challenging yet productive year for BigGame.** BigGame delivered top-line revenue of ₱211 million in 2013, 15% more than in 2012. BGI was able to acquire Imus, Cavite site, thus keeping its total site count steady at 16. Total gaming terminals is up by 24%, from 858 terminals in 2012 to 1063 terminals in 2013.

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

- VIP Couple Seats, which were tested in the Morato and Blue Wave branches. This new feature allows couples to play alongside each other. This produced high daily terminal wins.
- VIP Pods in Morato. These pods were patterned after the “business class” concept as seen in the airline industry, where everything is within easy reach. Additional pods will be rolled out in the JAKA branch in 2014.
- For a different look, curved terminals were introduced. This type of terminal produced twice daily terminal wins than regular terminals.
- First introduced in 2012, lounge chairs with dedicated tables continued to receive positive feedback from players. With more accurate data tracking, the Daily Terminal Win from the lounge chair set-up was well over 50% more than the Daily Terminal Win of a standard cubicle.
- The VIP booth was further enhanced with the addition of push recliner chairs. This comfy recliner allows players to relax while playing their favorite casino games.



TOP: CEBU ACTIVATION  
 MIDDLE: LA UNION SOUL SURF ACTIVATION  
 BOTTOM: SCRATCH, MATCH & DROP RAFFLE WINNER

## BGI MARKETING

In 2013, BGI's marketing efforts were focused on player retention and taking care of its VIP clients. Player retention was handled by way of the "I Won BIG" raffle, a mid-year raffle activity that garnered around 50,000 to 60,000 entries. ₱5,000 bet vouchers were given as prizes for this event. Another was the "Scratch, Match & Drop" Christmas raffle, where players stood the chance of winning instant prizes like ₱5,000 load. For its VIP clients, BGI gave free trips to Balesin Island Club to top patrons.

BGI Marketing also focused on site-specific strategies. These activities were based on player demographics. Some of the activities that BGI joined in 2013 include the "Soul Surf" and "Panagbenga" festival for its La Union branch players, "Sinulog" festival for its Cebu branch players, and the "Grand Wine Event", of which BGI was one of the major sponsors. BGI sponsored events at nearby cockfighting arenas to introduce patrons to the BGI gaming experience.

BGI Marketing also had an increased presence in social media in 2013. Twitter and Facebook are two of the heavily used social media apps where BGI made its presence felt. Players were also informed of various BGI promotions via SMS. The referral program, that began in 2012, was continued.

## **BGI in 2014**

In 2014, BGI will carry on with its site expansions and renovations to existing cafés. One site to watch out for is the Bauang, La Union branch which will have 40 terminals from an existing count of 28 terminals in 2013. The group also hit several important milestones, namely the launching of the JAKA site in November and the launch of the VIP Pods in Morato. Growth, not only in terms of the number of terminals but also manpower, marketing efforts, reach and operations, was achieved in 2013.

The group will also look out for innovative ways to keep player experience fresh and up-to-date with the current trends in the gaming industry. The group will adapt to these new trends to ensure continuous improvements are being carried out at its sites.

The BGI premiere lounge, which is being planned as a high roller/VIP exclusive room will be similar to junket rooms that are common in large casinos relying on a special VIP service.

BGI's marketing group will continue to expand and carry on with activities focused on player acquisition and on-ground activations. It aims to grow the player base and keep players engaged in BGI promotions and events. Future BGI raffle promotions will be based more on player deposits.



### e-Magine Gaming

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

JOE PISANO (PRESIDENT, E-MAGINE GAMING)

**2013 was a milestone year for e-Magine gaming.** This was the year the company became fully-operational, with the introduction of its Genesis console to the Global market. To move e-Magine into the international gaming arena, selected members of the e-Magine team were sent to major trade shows in Macau (May) and Las Vegas (December) where they put the machine through its paces in front of a discerning gaming clientele. The positive feedback to these roadshow events was overwhelming. Majority of the positive inquiries generated came from distributors interested in harnessing the machine's capabilities, as well as prospective partners willing to integrate their software with e-Magine's hardware.

e-Magine's Genesis console represents a bold leap forward for the gaming arena, both locally and internationally. There has never been anything quite like it; a machine which utilizes a Windows-based operating platform to handle a multitude of unique and varied gaming applications. Unlike traditional slot machines which are one-dimensional in nature, the e-Magine Genesis console offers all that and more. An idea whose time has come, e-Magine's Genesis has given the gaming market a product that is wholly different.

The Company further cemented its status with the formal opening of its new production plant in Biñan, Laguna in November 2013. When operating at full production capacity, the plant can produce 30,000 units a year.



INAUGURATION OF NEW PLANT IN BINAN, LAGUNA



LONDON ICE



MACAU TRADE SHOW

## THE GENESIS CONSOLE

The Genesis, with its touch-screen console, distinctive red and black piping, and futuristic LED lights, was given a few significant upgrades to enhance its already powerful capabilities. The first improvement was made on its touch screen. Initial touch screens were seen as being less responsive and e-Magine's R&D team immediately responded to the challenge with a new screen that performs at a rate on par with most of today's current crop of smart phone and tablet devices. The second improvement was made to its CPU. Early units were bulky and prone to overheating. The latest Genesis CPU has been reduced in size and generates less heat, making it more efficient for long-term use. A third improvement was made to its internal machinery. With better and cleaner wiring, maintenance of the console will be less of a hassle. Finally, a new compact and lightweight design to its exterior shell casing will allow for easier transportability.

In addition to these, the colors of the Genesis console can be customized. Customers can choose their own colorways for their specific units, adding a touch of individuality to the machine. Likewise, the unit's LED lights can also be modified to match the overall look of the external shell casing.



## GOALS FOR 2014

The future is indeed bright for e-Magine Gaming. The Company realized an unfulfilled market need for a console that integrated hardware and software into one device. The Genesis is a firm realization of that need.

Moving forward in 2014, the Company will adhere to the same winning game plan as last year. That is, to attend more trade shows and put up more exhibits capitalizing on the Genesis' unique capabilities. Hand in hand with that is the opportunity to forge new partnerships and tap into unexplored areas, specifically the European market.

On the horizon is the possibility of manufacturing a Bingo machine. This would add another dimension to e-Magine's gaming platform capabilities. As of this report, it is already in the Research and Development phase.

As far as the Genesis is concerned, there will be no let up on its improvements. Tests will continuously be done to ensure it performs to the highest standards possible. Additional cabinet designs will also be explored, such as a stand-alone kiosk as one potential variant.

Finally, a gaming table is also in the early R&D stages. Such table would allow players to have the convenience of playing their favorite games on a table-top setting.

# Corporate Services

## FINANCE

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

Finance, thru its Top-up Division, uses a company-proprietary POS system. This enables the Company to monitor and manage on a 24/7 and real-time basis the cash balances of all e-Games across the country, thereby minimizing the cash risk of each and every site.

In 2013, thru our partnership with a financial institution, the Company is now able to replenish the cash requirements of all sites wherever, whenever.

## CUSTOMER SERVICES

In 2013, the Customer Services Department with its two (2) working groups - Contact Center and Field Support - continued to render 24/7 support to the technical requirements and daily operational issues of e-Games, Premyo sa Resibo and International Business.

The department's Contact Center which serves as the heart of all customer transactions, embarked on process improvements to simplify the handling of inquiries and requests. Soft skills were reinforced through weekly calibrations, mentoring, and coaching. To gauge the impact of this endeavour to the outlets, a satisfaction survey was conducted during the first quarter of 2013. The results were encouraging after these yielded an overall rating of 97%.

Furthermore, the Field Support Group successfully carried out several major projects for e-Games' gaming terminals. These projects included: transitioning from terminal-based game play to account-based play; RTG version 12 Costello installation; switching to the new cashiering system using Launchpad-Spyder Client; deployment of the Teamviewer Corporate Account Centralization and preventive maintenance works. The team was also material in the nationwide expansion of the number of game terminals. To enhance their technical skills, the group had the opportunity to attend external trainings on Comprehensive Computer Hardware Troubleshooting and CCNA CISCO networking. Support processes and SLAs were also established.

For 2014, the Customer Services Group will continue to strive for improvement and consistent service across all channels. New processes and support systems will be made available to both local and international products. A customer satisfaction survey is planned to extend up to the services of other teams like Field Support and Liaison Officers. Field Support will also explore new systems and processes to reduce dispatch works and eventually shorten turnaround time of technical isolation, restoration and system deployment. This move will pave the way for more staff productivity.

The Contact Center will carry on with their training programs to align skills and demeanor of its frontliners.



MA. TERESITA R. GONZALES (AVP, CUSTOMER SERVICES)  
AND ZALDY M. PRIETO (SVP AND CFO)



MONA LIZA I. NAVARRO (VP, INFORMATION TECHNOLOGY)

## INFORMATION TECHNOLOGY

PhilWeb's Information Technology group is composed of four functional departments. These departments were put in place to support PhilWeb's 24/7 operations. The IT division consists of the following: Software Development, Infrastructure, Security, and Service Delivery. Each department's functions are aligned with PhilWeb's operational requirements as well as its corporate needs.

The IT Software Development Department contributes to the software design and customization of homegrown software to ensure the achievement of the company's goal in managing its day-to-day business operations and reporting. Always forward thinking, the department focuses on research and development that will help PhilWeb improve its services.

The Infrastructure Department's primary function is to ensure that PhilWeb's core services are working at the optimum level in order to provide seamless service 24/7. PhilWeb's network and servers are the lifeline of the business. Services rely on this network to function smoothly and without interruption. The Infrastructure Department is there to make sure nothing goes wrong by performing day-to-day support and maintenance. PhilWeb's internal corporate clients are the main recipients of this service, however this expert support service is also extended to e-Games operators.

The Security team ensures that PhilWeb's daily operations are kept free from malicious activities, attacks, and unauthorized access from both the internet and within the network. The department manages the implementation of the hardware and software components, including its policies, to ensure a safe and secure environment for PhilWeb's business and its operators.

The Service Delivery Department focuses on the implementation and management of quality IT services. The department ensures quality in the delivery of its services by providing 24/7 monitoring and level one support for IT-related issues, managing projects from requirements gathering to deployment, managing changes in the production environment and doing quality assurance on customizations done on homegrown software.

### **Highlights in 2013**

In 2013, the IT division strengthened security within the critical e-Games network by taking full control of its network. This was achieved by creating a private network through a leased line. With this installation, the response time to casino operations lessened and security risks were minimized.

Key e-Games franchise holders also availed of the private network lines thus getting the same benefit experienced by BGI-owned sites.

### **2014 Goals**

Moving forward, the IT Division's transformational goal is to become a true service-oriented department propelled by continuous improvement. As IT impacts through all departments, it seeks to be both responsive and proactive in anticipating the needs of users. It also aims to document and regularly engineer processes for simplification and better efficiency while enabling the entire organization to effectively reach their growth targets.

IT aims to improve the skill sets of its team by introducing new technology and sending a team representative for a skill upgrade training - be it technical or soft skill development. This ensures that new IT leaders are trained and honed with the right skills to carry on the Company's set goals and objectives.

## HUMAN RESOURCES AND ADMINISTRATION

2013 marked another strong year for the Company's Human Resources and Administration Department whose directives are (1) to ensure that employees receive timely compensation and benefits services and offer greater opportunities for growth, and (2) to provide efficient company-wide purchasing and logistics services.

The employee health benefit package was significantly upgraded with Management directing an increase to the maximum health benefits limits of employees and their dependents. The move allowed employees greater flexibility in meeting the health care needs of their immediate family members.

More opportunities were given to employees for outside training and development, mostly in the areas of IT development and marketing. Selected supervisors attended a four day Essentials of Supervision program customized for PhilWeb Corporation by the Ateneo Center for Continuing Education - graduates were able to implement what they learned once they returned to work with positive results.

Already on its 6th year, PhilWeb's Management Trainee Program continues to develop young talent into exceptional business leaders. The program lasts for one calendar year, with Management Trainees on rotational assignments in different departments of the Company. During the program, Management Trainees are exposed to the various types of operations, management viewpoints, and company practices and policies that affect each phase of the business. In 2013, the Company's Asia-Pacific division expansion opened a window of opportunity for three Management Trainees to work abroad.

Keeping employees actively engaged through wellness programs, regular general assemblies and other means of communication is another aspect of the



CARLA VARGAS NUYDA (AVP, HR AND ADMINISTRATION)

Human Resources and Administration Department. From October until the end of the year, the Department hosted free Yoga and Zumba classes as a way for employees to keep fit and stay in shape. Fifty employees participated in the first Eco-Awareness Program which was held at La Mesa Nature Reserve - they transplanted seedlings of indigenous trees, learned about vermicomposting and its benefits, walked six kilometers around the reserve, and learned some handy forest survival tips.



In order to effectively provide better benefits services to employees, develop and nurture new talent, and keep employees engaged, the HR team moved into a Business Partner Model where several HR personnel were assigned as point persons for each business unit. This provided more focus in quickly addressing each department's needs and customizing solutions for them. The Administration team also grew and reorganized to address the Company's growing purchasing needs, to oversee site renovations, and to provide fixed asset management.



## 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.

**As PhilWeb grows and delivers profit to its stakeholders,** it also amasses resources that can make a positive difference in the lives of the less privileged. In 2013, the Company continued to be of service to its direct constituents and the country at large. By being responsible corporate citizens, Management is confident that PhilWeb can be a positive force in transforming society.

### TYPHOON YOLANDA RELIEF EFFORTS

The month of November was a difficult time for the Philippines. Super typhoon “Yolanda” (international code name: “Haiyan”), with maximum gale force winds and strong torrential rains, devastated an already ravaged Visayas region that was recovering from a 7.2 magnitude earthquake that occurred a month before. Tacloban was the area that sustained the most damage from what pundits have called “the strongest storm on record”. PhilWeb, along with many other Philippine companies, actively participated in relief efforts, beginning by using its budget for the traditional year-end Christmas party to purchase much needed medicine and medical equipment and donating these to survivors in Central Visayas through Operation Blessing.



Donations, in cash and kind (mostly food, drinking water, clothes and toiletries), were given freely. Employees raised money to purchase more medicine that was donated to survivors. Personal time was also set aside by employees to help sort, repack and move relief goods at the

Alphaland-Balesin Island Club Hangar. The response was a success as everyone in PhilWeb did their own small part in helping ensure smooth and quick distribution of goods in hard-to-reach areas in Aklan, Capiz, Cebu, Leyte, Palawan and Samar. Together with the Alphaland Relief Operations Team, the PhilWeb Foundation was able to disburse 62 tons of relief goods to over 15,000 people affected by the typhoon.



## COMPUTER DONATIONS

The Company recognizes the importance of IT in the development of our country and that to be able to raise experts in this field, the next generation workforce have to be exposed as early as possible. As such, the Company donated hundreds of computers, mostly to public schools, to train students in IT related subjects. To name a few recipients:

- a) Jose P. Laurel Sr. High School, Quezon City
- b) Manggahan Pasig Elementary School
- c) Santolan Pasig Elementary School
- d) Dela Paz Pasig Elementary School
- e) Bacuit La Union Elementary and National High School





Aside from schools, the Company also donated twenty (20) personal computers to the Makati City Jail (MCJ). This is to help the MCJ equip its inmates with relevant skills to ease their transition back to society and find jobs at the end of their prison terms. The MCJ has already set up livelihood programs such as jewelry-making and cooking classes, and the addition of computer classes gives the inmates a chance to fill the high demand for computer-literacy in the workforce.



### **CHRISTMAS OUTREACH PROGRAM**

Another event PhilWeb participated in was the Christmas Outreach Program in Balesin Island. Last December, ten employees of the Company, representing different departments, joined forces with Alphaland Corporation personnel in packing Christmas ham and fruit baskets that were given away to residents of the local Balesin island community. The event started with a mass followed by a magic show and parlor games for the children in attendance. The children received an extra special treat in the form of loot bags, 300 of which were given away. PhilWeb employees interacted with the community by sharing a simple but delicious meal together and playing games with the children.



## **PHILWEB FOUNDATION**

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

The Foundation awarded deserving students with scholarships to the University of the Philippines. These scholars have been provided their full tuition and living allowance. The scholarship is offered to deserving and qualified students who will take up IT-related courses such as BS Computer Science or BS Computer Engineering.

## **PREMYO SA RESIBO**

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

Online presence via Twitter and Facebook as well as on-ground activities increased participation in the program to over 1.5 million users who have tried the service at least once in 2013.

To join, consumers text in their Official Receipt details (TIN#, OR# and OR amount) to PhilWeb's special access numbers. Each valid transaction serves as a raffle entry to the PSR draws, in which the texter can win prizes up to a million pesos. PhilWeb submits all the information gathered to the BIR for validation and cross-referencing with their list of registered establishments. This aids the BIR in determining the legitimacy of receipts being issued to consumers nationwide. In 2013, PSR received over 9 million SMS entries, from over 1.7 million official receipts representing over 250,000 establishments. Since its inception, the program has received close to 200 million SMS entries and has awarded close to ₱200 million in prizes.

In 2014, Premyo sa Resibo will continue to build and establish program association that is synonymous with the best prizes, the hippest gadgets, and the coolest events.

## Press Quotes

### **PhilWeb expands overseas presence, to open Indonesia operations**

GMA News Online  
February 20, 2013

PhilWeb Corporation, encouraged by robust earnings from its overseas operations, is aggressively pursuing its expansion program starting with a foray into the Indonesian market next month. This upcoming launch will expand the group's presence to four countries in the region, PhilWeb Asia Pacific President, Mike Grandinetti noted in an e-mailed statement.

The Company's increase in income in last year was partly fuelled by the strong performance of its Asian Pacific operations in Cambodia and Timor Leste where it operates a scratch card business. Nearly 10% of revenues came from Asia Pacific operations outside the Philippines, which lifted PhilWeb's consolidated revenues to ₱1.5 billion or 27% higher year-on-year.

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### **PhilWeb posts 20% profit jump**

Philippine Daily Inquirer  
February 21, 2013

PhilWeb Corporation reported a net income of ₱1.1 billion for 2012, 20% higher than the previous year, with all divisions contributing to the growth, especially its new businesses in the Asia-Pacific region.

Dennis Valdes, President of PhilWeb, said there were "several bellwether events that contributed to making 2012 a record-breaking year. First and foremost, we are now a true multinational corporation, with the realization of solid revenues from our Asia-Pacific expansion."

Valdes also put emphasis on the ever growing e-Games café business which now has a total of 278 outlets in the country. Just recently, PhilWeb has just set-up a new Company that will produce electronic gaming terminals with a built-in bill acceptor, card reader and a ticket-in, ticket-out printer.

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### **PhilWeb's goal: become a multinational firm**

By Aya Lowe  
Rappler.com  
April 2, 2013

PhilWeb Corporation, the gaming solutions provider, is looking at further expanding its network of Internet casinos in Asia Pacific to grow its bottom line.

The Company has planned business ventures in Thailand, Laos, Nepal, Mongolia, Laos and Myanmar that will be rolled out over the next few years. The Company will put up e-Games casinos and introduce its scratch-and-win cards in these markets.

The year 2012 was PhilWeb Asia Pacific's (PWAP) first full year of operations. PWAP contributed 9% to the Company's overall revenue. PWAP is currently operating in Timor Leste, Cambodia and Guam.

The Company will soon launch its first e-Games casino in Dili, the capital of Timor Leste. The country has proven to be a profitable market for PhilWeb. PWAP sold 4.6 million scratch-and-win cards to a population of 1.1 million.

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### **PhilWeb completes 3rd tranche of ePLDT share sale**

By Danessa Rivera  
GMA News Online  
June 13, 2013

Ongpin-led online gaming firm PhilWeb Corporation bought another 93.46 million shares in ePLDT, a wholly-owned unit of Philippine Long Distance Telephone Company (PLDT), for ₱1.015 billion.

PhilWeb Casino Corporation transacted the third tranche of PhilWeb shares in PLDT's data center totalling 93,457,944 by means of a special block sale through the facilities of the exchange.

On July 11, 2012, PhilWeb Corporation signed a share purchase agreement with PLDT to buy back its 27% equity, or 397.892 million shares, in ePLDT for ₱4.257 billion. It was supposed to add value to the earnings per share of shareholders.

The four-installment transaction is expected to be fully consummated at the end of 2013, with the first tranche executed at ₱10.70 per PhilWeb share on July 13, 2012 and the second tranche also at ₱10.7 per share on October 22, 2012.

"PLDT and PhilWeb shall make another disclosure as and when the sale and purchase of the fourth and final tranche of PhilWeb shares shall have been executed," the Company said.

### **PhilWeb lands on Forbes list of high flyers for '13**

By Doris C. Dumlao  
Philippine Daily Inquirer  
August 4, 2013

Online gaming firm PhilWeb Corporation has landed on Forbes Asia magazine's roster of 200 best up-and-coming companies for 2013. Being the lone Philippine company on the list this year, PhilWeb has been on Forbes Asia's list of top Asian companies with less than \$1 billion in market capitalization for four straight years.

In making the selection, Forbes Asia's editors tapped databases of 15,000 stock-traded companies in Asia Pacific with revenues between \$5 million and \$1 billion and narrowed the list to those that satisfied the following criteria: five-year average return on equity and pre-tax margin greater than 10%, positive sales and earnings per share growth for both the most recent fiscal one and three-year periods, debt less than 75% of shareholders' equity, and a trading history of at least one year.

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### **Ongpin-led PhilWeb, Alphaland post higher income**

By Neil Jerome C. Morales  
Philstar.com  
August 18, 2013

Gaming solutions provider PhilWeb Corporation reported higher earnings in the first half due to strong turnover. Its net income climbed 9.4 percent to ₱528.72 million from ₱482.98 million a year ago. Net service revenues, derived from Internet application service income, scratch cards and commission income, rose 7.67 percent to ₱745.24 million in the first half from ₱692.11 million last year.

As of end-June, PeGS cafés reached 282 outlets from 277 as of end-2012. "The network of total gaming terminals increased 25% from the same period last year to 7,237 despite the slowdown in getting business permits due to the local elections in May 2013," PhilWeb said.

Being the first and largest Internet gaming company in the country, PhilWeb has a total market capitalization of ₱20 billion. It currently serves over 40,000 customers a day via its network of online cafés, sports betting kiosks and mobile games nationwide.

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### **PhilWeb cash dividend at ₱0.10 a share**

By Rocerick L. Abad  
Business Mirror  
October 2, 2013

PhilWeb Corporation has declared a cash dividend of ₱0.10 per share payable on October 25. Its board approved the cash incentive to all shareholders on record as of October 15.

For the second quarter in 2013, PhilWeb posted an increase of 8% in total revenues to ₱745.2 million from ₱692.1 million in the same period last year. This was attributed by the improved businesses of Pagcor e-Games and BigGame Inc., particularly in the increase in number of sites, stations and higher amount of customer's deposits.

The Company registered a net income of ₱528.4 million for the first half of this year, 10% higher than the ₱480.1 million generated in the first six months of 2012.

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### **PhilWeb posts healthy 2Q 2013 revenue numbers**

By Kirby Garlitos

CalvinAyre.com

October 2, 2013

In the latest round of its financial disclosures to the public, PhilWeb's total revenue for the second quarter of 2013 has amounted to ₱745.2 million, a dramatic 8% increase from the ₱692.1 million it earned in the same time a year ago. PhilWeb's impressive increase in revenue total for the given time frame was largely attributed to the continuously growing and ever-improving businesses made by PAGCOR e-Games boutiques throughout the country.

For the first half of the year, PhilWeb's net income reached ₱528.4 million, a full 10% better than the ₱480.1 million it generated during the first six months of last year. For the entire year, the gaming technology provider earned a record ₱1.48 billion. Taking into account what PhilWeb has earned in the first half of this year, the Company is on pace to eclipse 2012's 12-month total with revenues estimated to hit a conservative peg of ₱1.49 billion.

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### **PhilWeb sells ₱698-m stake in ISM to Recto**

By Lailany P. Gomez

Manila Standard Today

November 21, 2013

ISM is a publicly listed telecommunications company, which is majority-owned and controlled by a group led by Chairman Roberto Ongpin. Other shareholders are Ashmore Investment Management Limited and other strategic partners.

Gaming solutions provider PhilWeb Corporation sold a 24.3% stake in the telecommunication company to a company led by businessman Eric Recto. The Company signed a stock purchase agreement with Recto's Monfortino Holdings Inc. involving 465.6 million common shares in ISM Communications, including shares held by Uscon Limited, a wholly-owned subsidiary of the Company. The shares were sold at ₱1.50 apiece, for a total value of ₱698.4 million.

## **PLDT completes sale of 27% ePLDT stake to PhilWeb**

By Cherrie Regalado  
Rappler.com  
December 13, 2013

Philippine Long Distance Telephone Company (PLDT) concluded the sale of 27% of its stake in ePLDT Incorporated to Roberto Ongpin's PhilWeb Corporation.

In a disclosure to the Philippines Stock Exchange (PSE) on December 13, 2013, PLDT first vice president Melissa Vergel de Dios said that the PLDT Group has finalized the sale of the 397.892 million common shares of its wholly-owned subsidiary to PhilWeb Casino Corporation (PCC).

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## **Philippines Asia's No.1 in online casino**

By Jaime Pilapil  
Manila Times  
May 25, 2014

Harmen Brenninkmejer, Senior Vice President of Inspired Interactive, who spoke at a conference in Macau last week, said that Asian countries envy the Philippines since it could handle this technology-based casino.

In Macau, online gaming is called "igaming," short for Internet gaming. In the Philippines it is called "e-Games," short for electronic gaming.

At present, online gaming technology provider Philweb has 227 outlets nationwide. Philweb said e-Games is an Internet outlet dedicated to casino games. Patrons can choose from over 300 casino games, including Baccarat, Blackjack, various slot machine games and video poker. Most e-Games cafés operate 24/7. Players can easily switch from one game to another with just a click.

A typical e-Games outlet would have at least 10 ordinary PCs connected in a local area network set-up and a cashier's terminal. At any given time, there are at least three staff in the outlet. Players can access casino games instantly by handing cash (minimum of ₱500 initial load) to the cashier, which will then be loaded to the gaming terminal of the player's choice using an online Point of Sale system.

## Disclosures

### Jan. 20, 2013

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PhilWeb Corporation registered an audited net income of ₱1.1 billion in 2012, driven by excellent results from all operations, especially in new businesses in the Asia Pacific region. The company also approved the declaration of a ₱0.10 dividend, payable to stockholders on record as of March 5 and PhilWeb will pay the dividend on March 15, 2013.

PhilWeb's Asia Pacific subsidiary, which operates scratch card businesses in Cambodia and Timor Leste, and a Sweeps Center in Guam delivered the fastest growth. Asia Pacific contributed 9% to PhilWeb's total revenues, which drove the firm's consolidated total revenue line to ₱1.5 billion, up 27% from 2011.

### Feb. 19, 2013

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During the meeting of the Board of Directors of PhilWeb Corporation, the Board declared a cash dividend of ten centavos (₱0.10) per share, payable on March 15, 2013, to shareholders of record as of March 5, 2013.

### Feb. 20, 2013

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PhilWeb's audited Net Income for 2012 was ₱1.1 billion, 20% higher than the previous year. The Board of Directors of PhilWeb Corporation has declared a ₱0.10 dividend during its meeting on February 19, 2013. The dividend is payable to all stockholders on record as of March 5, and will be paid out on March 15, 2013.

PhilWeb has been paying dividends since 2010, when it declared a ₱0.10 dividend for the first time in its history. In 2011, there were two dividends for a total of ₱0.20. The dividend payout further increased in 2012, when a total of ₱0.20 was paid out in cash plus an additional 20% stock dividend. The Company notes that it plans to keep increasing its dividends in the future.



ATTY. RODOLFO MA. A. PONFERRADA (SVP AND LEGAL COUNSEL)  
AND ATTY. RAYMUND S. AQUINO (AVP, LEGAL)

### **Apr. 15, 2013**

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In compliance with the Memo for Brokers No. 225 dated August 28, 2003 of the Exchange, the Top 100 stockholders as of 31 March 2013 was submitted and prepared by the company's stock transfer agent, AB Stock Transfers Corporation. The top two shareholders of PhilWeb Corporation are PCD Nominee Corporation and ePLDT, Inc. with 447,683,634 and 210,976,419 shares respectively.

### **Apr. 29, 2013**

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PhilWeb Corporation ("WEB" or the "Corporation") furnished the Exchange a copy of the SEC Form 18-A (Report By Owner of More Than Five Percent) of Proa Partners Pte. Ltd., which reported its shareholdings in the Corporation as of April 22, 2013.

### **May 02, 2013**

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This is in response to the letter dated April 30, 2013 regarding the Revenue Memorandum Circular No. 33-2013 issued by the Bureau of Internal Revenue. It stated that RMC has no effect on the financials and/or operations of the Corporation. The RMC deals with the corporate income tax on PAGCOR's income from its operations and licensing of gambling casinos, gaming clubs and other similar recreation or amusement places, gaming pools, and other related operations. Then and now, WEB has not claimed any income tax benefit from PAGCOR's charter.

### **June 13, 2013**

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The sale by ePLDT of its 397,892,307 common shares to PhilWeb represents approximately 27% of the then outstanding capital stock of the Corporation. The transaction involves four tranches, the first of which covering 93,457,944 PhilWeb shares was transacted last July 13, 2012 at the facilities of the Exchange, at a price of ₱10.70 per share. The second tranche covering 93,457,944 PhilWeb shares was transacted on October 19, 2012 by ePLDT and PhilWeb Casino Corporation ("PCC") at the same price. The third tranche was transacted on June 13, 2013, with PhilWeb shares totaling 93,457,944 by means of a special block sale through the facilities of the Exchange. The total price paid for the third tranche is ₱1.015 billion or ₱10.8632 per share computed at a base price of ₱10.70 per share with an adjustment of 3% per annum.

### **Aug. 16, 2013**

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This disclosure informs the Exchange that during the Board of Directors meeting, Ms. Anna Bettina Ongpin was elected as a member of the Board of Directors of the Company.

### **Oct. 1, 2013**

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The Company's Board of Directors declared a cash dividend of ten centavos (₱0.10) per share, payable on October 25, 2013, to shareholders on record as of October 15, 2013.

### **Nov. 19, 2013**

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This disclosure informs the Exchange that during the Executive Committee of the Board of Directors meeting, Mr. Zaldy M. Prieto, Ms. Marriana H. Yulo and Ms. Ma. Lourdes A. Torres were designated as Corporate Information Officers of the Company in lieu of Mr. Dennis O. Valdes, Atty. Rodolfo Ma. A. Ponferrada and Ms. Josephine A. Manalo.

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PhilWeb Corporation (the "Company") wishes to disclose the Company executed a Stock Purchase Agreement with Monfortino Holdings, Inc. ("MHI"). Under the agreement, the Company agreed to sell its 465,597,499 common shares in ISM Communications Corporation ("ISM") including shares held by Uscon Limited (a wholly-owned subsidiary of the Company) to MHI for a price of Php1.50 per share (or an aggregate price of ₱698,396,248.50). The shares represent approximately 24.30% of the outstanding capital stock of ISM.

The Company and MHI have agreed to transact the sale and purchase as a special block sale thru the facilities of the Exchange as soon as possible.

MHI is Philippine corporation majority-owned and controlled by Mr. Eric O. Recto.

### **Dec. 13, 2013**

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This is regarding the execution of a Share Purchase Agreement by ePLDT, Inc. ("ePLDT"), a wholly-owned subsidiary of Philippine Long Distance Telephone Company ("PLDT"), and PhilWeb Corporation ("PhilWeb") covering the sale by ePLDT of its 397,892,307 common shares to PhilWeb (the "Transaction"). These shares represent approximately 27% of the then outstanding capital stock of PhilWeb.

The Transaction involves four tranches, the first of which covering 93,457,944 PhilWeb shares was transacted last July 13, 2012 at the facilities of the Exchange. The second tranche covering 93,457,944 PhilWeb shares was transacted on October 19, 2012 by ePLDT and PhilWeb Casino Corporation ("PCC"), a wholly-owned subsidiary of PhilWeb and assignee of its obligations under the Share Purchase Agreement. The third tranche covering 93,457,944 PhilWeb shares was transacted on June 13, 2013 by ePLDT and PCC.

On December 13, 2013, ePLDT and PCC transacted the fourth and last tranche of Philweb shares totaling 117,518,475 shares by means of a special block sale through the facilities of the Exchange.

## Board of Directors

**ROBERTO V. ONGPIN** was elected Chairman of the Company in January 2000, the year he founded the Company. He is also the Chairman of Alphaland Corporation and Atok-Big Wedge Co., Inc. in Hong Kong, he is the Deputy Chairman of the South China Morning Post, listed in the Hong Kong Stock Exchange. He is a Non-Executive Director of Forum Energy PLC (London). Mr. Ongpin joined SGV & Co. in 1964 and was Chairman and Managing Partner of the firm from 1970 to 1979. He served as the Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. Mr. Ongpin graduated cum laude in Business Administration from the Ateneo de Manila University, is a Certified Public Accountant and has an MBA from the Harvard Business School.

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

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

**ANNA BETTINA ONGPIN** 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.

**TOMAS I. ALCANTARA** was elected Independent Director of the Company in May 2002. He is the Chairman and President of Alsons Consolidated Resources, Inc., Alto Power Management Corp., Alsons Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc., among others. He is a Director of Holcim Philippines and an Independent Director of DBP-Daiwa Securities Corp. and Philippine Bank of Communications. He studied at the Ateneo de Manila University, the Columbia University Graduate School of

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

**BENITO R. ARANETA** was elected Independent Director of the Company in March 2003. He is the Chairman of Takeda Pharmaceutical (Philippines), Inc., a Director of the Araneta Properties, Inc., Boie, Inc., Southeast Asia Cement Corp., Honda Philippines, Inc., and the Philippine-American Drug Co. Mr. Araneta studied at the University of Portland where he earned his Bachelor of Science Degree in Business Administration.

**MARIO A. ORETA** was elected Independent Director of the Company in March 2005. 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.

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

**VICTOR C. MACALINCAG** was elected as Independent Director last May 2014. He is also currently an Independent Director of AB, Crown Equities, Inc. and a Director of Semirara Mining Corporation, Republic Glass Holdings Corp., SEM Calcaca Power Corporation and Finman Rural Bank. 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.

**GREGORIO MA. ARANETA III** was elected Independent Director of the Company last May 26, 2014. He is the Chairman and Chief Executive Officer of Araneta Properties, Inc. since 2010. He is President and Chairman of ARAZA Resources Corporation and Carmel Development Inc., Chairman of Gregorio Araneta Inc., Gamacor, Gamma Properties, Inc. and Energy City Philippines 1 Ltd. 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.

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

**CLIBURN ANTHONY A. ORBE** was elected Director of the Company last May 26, 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.

**ZALDY M. PRIETO** was elected as the CFO and Treasurer of the Company in November 2008. He is also the CFO of ISM Communications Corporation. 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.

**EDGAR BRIAN K. NG** was elected Director of the Company last May 2014. He is currently the Senior Vice-President for PhilWeb Gaming. 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.

**SENATOR EDGARDO J. ANGARA** was elected Director of the Company in May 2014. As a former Senator of the Republic of the Philippines, he holds the distinction of being the longest serving senator in the post-EDSA Senate. Except for a mandatory term break, he was elected to four consecutive terms of six years each (1987-1998; 2001-2013). While in public office, Senator Angara authored or sponsored many laws including the Free High School Education Act, Government Assistance to Students and Teachers in Private School (GASTPE), the Generics Act, Philhealth Act, the Senior Citizens Act, the Renewable Energy Act, among several others. Senator Angara graduated from the University of the Philippines in 1958 where he finished among the top of his law class. He passed the bar a year later and joined the law firm of Ponce-Enrile Siguion-Reyna Montecillo & Belo Law Offices. He then pursued further studies in law, having been granted a Columbia Law School scholarship but ultimately accepting the DeWitt Fellowship at the University of Michigan, where he obtained his Master of Laws degree majoring in International Relations and Corporate Laws. 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 (ALA). While in law practice, Senator Angara had served on the boards of many leading companies, including San Miguel, RCBC, Insular Life, Malayan Insurance and IBM.

He has been conferred with honorary doctorate degrees by the University of the Philippines, Philippine Normal University, Dela Salle University, Far Eastern University and other universities. He has been honored by Spain (Premio Casa Asia Award, November 2, 2010), Japan (Grand Cordon of the Order of the Rising Sun, conferred by His Majesty the Emperor of Japan, April 29, 2013), Singapore (Lee Kuan Yew Fellow, 1997) and France (Commandeur dans l'ordre des Palmes).



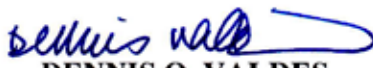
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

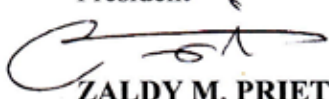
The management of **Philweb Corporation (the "Company")**, is responsible for the preparation and fair presentation of the consolidated financial statements as at and for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed 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.

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

  
**ROBERTO MONGPIN**  
Chairman

  
**DENNIS O. VALDES**  
President

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

Signed this 18<sup>th</sup> day of March 2014



**R.G. Manabat & Co.**  
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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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

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PRC-BOA Registration No. 0003, valid until December 31, 2016  
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014  
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014  
BSP Accredited, Category A, valid until December 17, 2014



*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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2013 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. 4225135MC

Issued January 2, 2014 at Makati City

March 18, 2014

Makati City, Metro Manila

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

		December 31	
	<i>Note</i>	2013	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4, 22	<b>P341,990,428</b>	P1,052,170,913
Accounts receivable - net	5, 7, 9, 15, 22	<b>253,868,791</b>	266,820,041
Inventories	6	<b>56,010,531</b>	9,948,126
Notes receivable - net	7, 9, 22	<b>312,910,738</b>	497,215,526
Prepaid expenses and other current assets - net	8	<b>98,368,624</b>	104,048,307
<b>Total Current Assets</b>		<b>1,063,149,112</b>	1,930,202,913
<b>Noncurrent Assets</b>			
Investments in associates	9	<b>14,764,861</b>	1,073,067,311
Noncurrent notes receivable	9, 22	<b>656,100,000</b>	486,000,000
Property and equipment - net	10	<b>246,408,600</b>	280,576,031
Deferred tax assets - net	14	<b>17,565,805</b>	4,892,468
Other noncurrent assets - net	11, 22	<b>44,170,803</b>	42,458,993
<b>Total Noncurrent Assets</b>		<b>979,010,069</b>	1,886,994,803
		<b>P2,042,159,181</b>	P3,817,197,716
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12, 15, 22	<b>P212,294,548</b>	P254,565,832
Notes payable	13, 22	<b>1,200,000,000</b>	-
<b>Total Current Liabilities</b>		<b>1,412,294,548</b>	254,565,832
<b>Noncurrent Liabilities</b>			
Retirement benefits liability	20, 25	<b>27,966,784</b>	25,731,172
Operators' deposits	21, 22	<b>50,755,000</b>	48,300,000
<b>Total Noncurrent Liabilities</b>		<b>78,721,784</b>	74,031,172
<b>Total Liabilities</b>		<b>1,491,016,332</b>	328,597,004
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	16	<b>1,388,913,231</b>	1,388,913,231
Additional paid-in capital	16	<b>1,081,837,366</b>	1,081,837,366
Stock options reserve		<b>4,042,818</b>	4,422,064
Retained earnings		<b>2,085,982,906</b>	2,073,440,678
Cumulative translation adjustment		<b>2,332,768</b>	(3,168,962)
Remeasurement losses on defined benefit liability	20, 25	<b>(1,385,865)</b>	(4,887,575)
Treasury stock	16	<b>(3,941,779,041)</b>	(1,060,476,020)
		<b>619,944,183</b>	3,480,080,782
<b>Non-controlling interest</b>		<b>(68,801,334)</b>	8,519,930
<b>Total Equity</b>		<b>551,142,849</b>	3,488,600,712
		<b>P2,042,159,181</b>	P3,817,197,716

*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>2013</b>	2012	2011
<b>REVENUES</b>				
Internet application services		<b>P1,247,766,350</b>	P1,161,787,503	P993,400,836
Commission		<b>210,866,438</b>	183,311,753	142,183,577
Scratch cards		<b>35,066,976</b>	138,490,667	29,483,300
		<b>1,493,699,764</b>	1,483,589,923	1,165,067,713
<b>OPERATING EXPENSES</b>				
Salaries and benefits	<i>15, 17, 20</i>	<b>128,755,412</b>	151,845,477	119,649,548
Depreciation and amortization	<i>10</i>	<b>131,724,161</b>	96,727,428	79,227,049
Outsourced services		<b>94,198,851</b>	85,321,188	65,106,440
Rental	<i>19</i>	<b>70,858,880</b>	60,201,799	40,575,558
Utilities and communications		<b>70,739,545</b>	58,186,003	44,061,893
Representation and entertainment		<b>56,977,076</b>	50,124,463	53,137,694
Supplies		<b>26,386,566</b>	28,719,474	8,572,286
Impairment losses	<i>5, 7, 8</i>	<b>198,472,147</b>	19,145,556	4,455,336
Advertising and promotion		<b>15,777,742</b>	15,893,244	4,207,256
Taxes and licenses		<b>14,251,192</b>	15,025,769	11,606,034
Professional fees		<b>12,136,793</b>	16,744,483	18,144,594
Operator incentives and commissions		<b>9,917,553</b>	24,647,224	4,615,783
Miscellaneous		<b>8,788,123</b>	9,749,154	14,479,460
		<b>838,984,041</b>	632,331,262	467,838,931
<b>OPERATING INCOME</b>		<b>654,715,723</b>	851,258,661	697,228,782
<b>OTHER INCOME (CHARGES)</b>				
Equity in net earnings of associates	<i>9</i>	<b>86,072,773</b>	39,906,058	182,222,663
Interest income	<i>4, 7</i>	<b>22,500,401</b>	36,644,180	44,130,837
Interest expense	<i>13</i>	<b>(22,072,431)</b>	-	(1,026,432)
Gain (loss) on sale of equity investment	<i>9</i>	<b>(551,958,543)</b>	181,242,227	-
Miscellaneous - net		<b>722,889</b>	126,000	(411,105)
		<b>(464,734,911)</b>	257,918,465	224,915,963
<b>INCOME BEFORE INCOME TAX</b>		<b>189,980,812</b>	1,109,177,126	922,144,745
<b>INCOME TAX EXPENSE</b>				
<b>(BENEFITS) - Net</b>	<i>14</i>	<b>(12,913,743)</b>	12,889,548	8,070,075
<b>NET INCOME</b>		<b>P202,894,555</b>	P1,096,287,578	P914,074,670
<b>Net Income (Loss) Attributable to</b>				
Equity holders of the Parent				
Company		<b>P280,215,819</b>	P1,092,992,616	P915,695,014
Non-controlling interest		<b>(77,321,264)</b>	3,294,962	(1,620,344)
		<b>P202,894,555</b>	P1,096,287,578	P914,074,670
<b>EARNINGS PER SHARE</b>				
<b>ATTRIBUTABLE TO EQUITY</b>				
<b>HOLDERS OF THE PARENT</b>				
<b>COMPANY</b>				
Basic and diluted	<i>18</i>	<b>0.2106</b>	0.7411	0.6049
<i>EBITDA</i>	<i>26</i>	P985,634,920	P967,257,645	P780,500,062

*Forward*

	<b>Years Ended December 31</b>			
<i>Note</i>	<b>2013</b>	2012	2011	
<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	<i>20</i>	<b>P5,002,443</b>	(P5,433,871)	(P1,548,378)
Deferred tax effect on remeasurement gains (losses) on defined benefit liability		<b>(1,500,733)</b>	1,630,161	464,513
		<b>3,501,710</b>	(3,803,710)	(1,083,865)
<b>Item that can be reclassified to profit or loss</b>				
Foreign exchange translation adjustment		<b>5,501,730</b>	(3,168,962)	-
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>				
		<b>9,003,440</b>	(6,972,672)	(1,083,865)
<b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>				
		<b>P211,897,995</b>	P1,089,314,906	P912,990,805
<b>Total Comprehensive Income (Loss) Attributable to</b>				
Equity holders of the Parent Company		<b>P288,008,878</b>	P1,086,717,116	P914,611,149
Non-controlling interest		<b>(76,110,883)</b>	2,597,790	(1,620,344)
		<b>P211,897,995</b>	P1,089,314,906	P912,990,805

*See Notes to the Consolidated Financial Statements.*

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

**Years Ended December 31**

	Attributable to Equity Holders of the Parent Company					Remeasurement		Total Equity	
	Capital Stock (Note 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)		Non-controlling Interest
<b>As at January 1, 2011</b>	P1,111,355,369	P536,002,322	P -	P846,393,432	P -	P -	(P126,492)	P2,200,000	P2,495,824,631
Stock subscription	126,668	493,334	-	-	-	-	-	-	620,002
Increase in non-controlling interest	-	-	-	-	-	-	-	3,470,312	3,470,312
Cash dividends	-	-	-	(252,311,194)	-	-	-	-	(252,311,194)
	126,668	493,334	-	(252,311,194)	-	-	-	3,470,312	(248,220,880)
<b>Total comprehensive income (loss)</b>	-	-	-	915,695,014	-	-	-	(1,620,344)	914,074,670
Net income (loss) for the year	-	-	-	915,695,014	-	-	-	-	-
Other comprehensive loss for the year:	-	-	-	-	-	-	-	-	-
Remeasurement losses on defined benefit liability - net of tax	-	-	-	-	-	(1,083,865)	-	-	(1,083,865)
Total comprehensive income (loss)	-	-	-	915,695,014	-	(1,083,865)	-	(1,620,344)	912,990,805
<b>As at December 31, 2011</b>	1,111,482,037	536,495,656	-	1,509,777,252	-	(1,083,865)	(126,492)	4,049,968	3,160,594,556
Stock subscription	25,120,000	545,341,710	-	-	-	-	-	-	570,461,710
Stock dividends	252,311,194	-	-	(252,311,194)	-	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	(2,540,791,229)	-	-	(2,540,791,229)
Reissuance of treasury stock	-	-	-	-	-	1,480,441,701	-	-	1,480,441,701
Increase in non-controlling interest	-	-	-	-	-	-	-	1,175,000	1,175,000
Cash dividends	-	-	-	(277,017,996)	-	-	-	-	(277,017,996)
Cost of stock option	-	-	4,422,064	-	-	-	-	-	4,422,064
	277,431,194	545,341,710	4,422,064	(529,329,190)	-	(1,060,349,528)	-	1,175,000	(761,308,750)
<b>Total comprehensive income (loss)</b>	-	-	-	1,092,992,616	-	-	-	3,294,962	1,096,287,578
Net income for the year	-	-	-	1,092,992,616	-	-	-	-	-
Other comprehensive loss for the year:	-	-	-	-	(3,168,962)	-	-	-	(3,168,962)
Foreign exchange translation adjustment	-	-	-	-	(3,168,962)	-	-	-	-
Remeasurement losses on defined benefit liability - net of tax	-	-	-	-	-	(3,803,710)	-	-	(3,803,710)
Total comprehensive income (loss)	-	-	-	1,092,992,616	(3,168,962)	(3,803,710)	-	3,294,962	1,089,314,906
<b>As at December 31, 2012</b>	P1,388,913,231	P1,081,837,366	P4,422,064	P2,073,440,678	(P3,168,962)	(P4,887,575)	(P1,060,476,020)	P8,519,930	P3,488,600,712

*Forward*

**Years Ended December 31**

	Atributable to Equity Holders of the Parent Company				Remeasurement Gains (Losses) on Defined Benefit Liability - Net of Tax			Treasury Stock	Non-controlling Interest	Total Equity
	Capital Stock	Paid-in Capital	Stock Options Reserve	Retained Earnings	Cumulative Translation Adjustment	Net of Tax	(Note 16)	(Note 16)	Interest	
	(Note 1 and 16)	(Note 16)	(Note 16)	(Note 16)	(Note 16)	(Note 20)				
<b>As at December 31, 2012</b>	P1,388,913,231	P1,081,837,366	P4,422,064	P2,073,440,049	P3,168,962	P4,887,575	(P1,060,476,020)	P8,519,930		P3,488,600,083
Restatement	-	-	-	629	-	-	-	-	-	629
As at December 31, 2012 (As restated)	1,388,913,231	1,081,837,366	4,422,064	2,073,440,678	(3,168,962)	(4,887,575)	(1,060,476,020)	8,519,930		3,488,600,712
Acquisition of treasury stock	-	-	-	-	-	-	(2,881,303,021)	-	-	(2,881,303,021)
Cash dividends	-	-	-	(267,673,591)	-	-	-	-	-	(267,673,591)
Reversal of stock option	-	-	(379,246)	-	-	-	-	-	-	(379,246)
	-	-	(379,246)	(267,673,591)	-	-	(2,881,303,021)	-	-	(3,149,355,858)
<b>Total comprehensive income (loss)</b>				280,215,819				(77,321,264)		202,894,555
Net income (loss) for the year				280,215,819						202,894,555
Other comprehensive income (loss) for the year:										
Foreign exchange translation adjustment					5,501,730					5,501,730
Remeasurement gains on defined benefit liability - net of tax						3,501,710				3,501,710
Total comprehensive income (loss)				280,215,819	5,501,730	3,501,710		(77,321,264)		211,897,995
<b>As at December 31, 2013</b>	P1,388,913,231	P1,081,837,366	P4,042,818	P2,085,982,906	P2,332,768	P1,385,865	P3,941,779,041	P68,801,334		P551,142,849

See Notes to the Consolidated Financial Statements

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

		<b>Years Ended December 31</b>		
	<i>Note</i>	<b>2013</b>	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P189,980,812</b>	P1,109,177,126	P922,144,745
Adjustments for:				
Depreciation and amortization	<i>10</i>	<b>131,724,161</b>	96,727,428	79,227,049
Impairment losses	<i>5, 7, 8</i>	<b>198,472,147</b>	19,145,556	4,455,336
Retirement benefits cost	<i>17, 20</i>	<b>7,238,055</b>	4,989,565	4,909,761
Gain on disposals of property and equipment		<b>(126,020)</b>	(126,000)	(352,817)
Loss (gain) on sale of equity investment	<i>9</i>	<b>551,958,543</b>	(181,242,227)	-
Equity in net earnings of associates	<i>9</i>	<b>(86,072,773)</b>	(39,906,058)	(182,222,663)
Interest income	<i>4, 7</i>	<b>(22,500,401)</b>	(36,644,180)	(44,130,837)
Interest expense	<i>13</i>	<b>22,072,431</b>	-	1,026,432
Unrealized foreign exchange loss (gain)		<b>(876,877)</b>	467,689	-
Cost (reversal) of stock option	<i>16, 17</i>	<b>(379,246)</b>	4,422,064	-
Operating income before working capital changes		<b>991,490,832</b>	977,010,963	785,057,006
Increase in:				
Accounts receivable		<b>(55,653,602)</b>	(44,092,214)	(75,779,305)
Inventories		<b>(46,062,405)</b>	(6,604,204)	(3,343,922)
Prepaid expenses and other current assets		<b>(44,926,549)</b>	(55,803,989)	(26,794,174)
Increase (decrease) in:				
Accounts payable and accrued expenses		<b>(40,152,885)</b>	80,189,712	50,276,981
Cash generated from operations		<b>804,695,391</b>	950,700,268	729,416,586
Interest received		<b>22,352,561</b>	42,202,204	44,130,837
Interest paid		<b>(17,745,000)</b>	-	(1,026,432)
Income tax paid		<b>(7,706,157)</b>	(10,429,805)	-
Net cash provided by operating activities		<b>801,596,795</b>	982,472,667	772,520,991
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	<i>10</i>	<b>(97,687,810)</b>	(160,322,260)	(104,745,052)
Proceeds from disposal of:				
Property and equipment		<b>257,100</b>	126,000	5,710,507
Equity investment	<i>9</i>	<b>558,267,849</b>	81,000,000	-
Decrease (increase) in:				
Notes receivable		<b>(18,931,216)</b>	(713,872,535)	266,905,000
Investments in associate		<b>(5,449,781)</b>	728,707,020	(6,999,900)
Other noncurrent assets		<b>(1,711,810)</b>	(6,878,648)	(7,475,362)
Net cash provided by (used in) investing activities		<b>434,744,332</b>	(71,240,423)	153,395,193

*Forward*

	<b>Years Ended December 31</b>			
<i>Note</i>	<b>2013</b>	2012	2011	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (decrease) in notes payable	<i>13</i>	<b>P1,200,000,000</b>	P -	(P138,856,600)
Proceeds from subscriptions to and issuances of common stock		-	570,461,710	620,004
Increase in operators' deposits		<b>2,455,000</b>	6,000,000	6,000,000
Increase in non-controlling interest		-	1,175,000	3,470,312
Acquisition of treasury shares, net of reissuance	<i>16</i>	<b>(2,881,303,021)</b>	(1,060,349,528)	-
Cash dividends paid	<i>16</i>	<b>(267,673,591)</b>	(277,017,996)	(252,311,194)
Net cash used in financing activities		<b>(1,946,521,612)</b>	(759,730,814)	(381,077,478)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>(710,180,485)</b>	151,501,430	544,838,706
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<i>4</i>	<b>1,052,170,913</b>	900,669,483	355,830,777
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<i>4</i>	<b>P341,990,428</b>	P1,052,170,913	P900,669,483

*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 a the “Group”):

<b>Subsidiaries</b>	<b>Line of Business</b>	<b>Date and Place of Incorporation</b>	<b>Percentage of Ownership</b>	
			<b>Direct</b>	<b>Indirect</b>
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 station operations	February 11, 2005, PH	100	-

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
Premyo sa Resibo, Inc.	Develops and markets computer systems, applications, programs and operate gaming platforms in relation to Premyo sa Resibo program of the BIR and Philippine Amusement and Gaming Corporation (PAGCOR)	December 8, 2006, PH	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	-
PhilWeb Homeplay, Inc. <sup>(a)</sup>	Operate, as may be permitted by law, on-line websites and internet casinos	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	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 cafés in October 2011	May 20, 2011, Guam	-	51
Gold Scratch and Win Co., Ltd.	Incorporated under the laws of The Kingdom of Cambodia and engaged in the business of operating instant Scratch n' Win. It commenced operations in March 2012	November 18, 2011, Cambodia	-	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 regards to amusement, recreational, gaming and gaming equipment facilities and enterprises of every kind and nature	July 29, 2008, PH	30	-

Special Purpose Entities	Purpose	Percentage of Ownership	
		Direct	Indirect
Pure Corporate Investments Ltd. <sup>(e)</sup>	Holds 50% ownership in Host Union	100	-
Immediate Focus Investments Limited <sup>(f)</sup>	Holds 2.285 billion shares of ISM Communications Corporation (ISM) which represents 1.19% ownership interest in ISM	-	-
Leadwood Investments Limited <sup>(f)</sup>		-	-
Now Gain Investments Limited <sup>(f)</sup>		-	-
Nottendale Investments Limited <sup>(f)</sup>		-	-
Uscon Limited <sup>(g)</sup>	Holds 5.429 billion shares of ISM which represents 2.83% ownership interest in ISM	-	-

(a) Not in commercial operations as at December 31, 2013.

(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 9).

(f) Acquired in 2007, 100% owned in 2012 and 2011 (see Note 9).

(g) Acquired in 2009, 100% owned in 2012 and 2011 (see Note 9).

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2013, 2012 and 2011, except when indicated.

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 (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations, issued by the Financial Reporting Standards Council.

The consolidated financial statements were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on March 18, 2014, respectively, as authorized by the BOD of the Parent Company. This is presented and also approved by the Parent Company's Audit Committee on February 20, 2014.

### 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 that control commences until the date that control ceases.

#### *Special Purpose Entities (SPEs)*

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

### *Non-controlling Interests*

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

### *Loss of Control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest (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, 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.

### Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis of accounting except for share-based payments which are measured at fair value.

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is 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 (US) dollar (USD).

### Use of Judgments and Estimates

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

The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results may differ from these estimates.

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

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

### Judgments

#### *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 scratch card products and the cost of providing these products and 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 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.

#### *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 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 P70.9 million, P60.2 million, and P40.6 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 19).

### *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 interests 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.

### 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 reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

As at December 31, 2013 and 2012, allowance for impairment losses on accounts receivables amounted to P114.5 million and P0.7 million, respectively (see Note 5).

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

The Group provides an allowance for inventories whenever the estimated net realizable value (NRV) of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The estimated net realizable value is reviewed regularly.

No write-down of inventories to NRV was recognized in profit or loss in 2013 and 2012, (see Note 6).

#### *Estimating Allowance for Impairment Losses on Input Value Added Tax*

The Group provides for an allowance for impairment losses on input value-added tax (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.

As at December 31, 2013 and 2012, allowance for impairment losses on input VAT amounted to P127.5 million and P76.9 million, respectively (see Note 8).

#### *Estimating Allowance for Impairment Losses on 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 other noncurrent assets amounted to P67.0 million, while no impairment losses were recognized on its property and equipment and investments in associate as at December 31, 2013 and 2012 (see Note 11).

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

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

The net book value of the Group's property and equipment as at December 31, 2013 and 2012 amounted to P246.4 million and P280.6 million, respectively (see Note 10).

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

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

The Group's deferred tax assets amounted to P17.6 million and P4.9 million as at December 31, 2013 and 2012, respectively. On the other hand, the Group has temporary differences aggregating to P129.9 million and P157.0 million, as at December 31, 2013 and 2012, 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 and include, among others, discount rates and future salary increases. Actual results may differ following a difference from the assumptions used and may affect the recognized expense and recorded obligation in future periods.

As at December 31, 2013 and 2012, retirement benefits liability amounted to P28.0 million and P25.7 million, respectively. Retirement benefits cost for the years ended December 31, 2013, 2012 and 2011 amounted to P7.2 million, P5.0 million, and P4.9 million, 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 the consolidated statements of comprehensive income amounted to (P0.4 million), P4.4 million and nil for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 16).

### *Provisions and Contingencies*

#### 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.

#### Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with its 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).

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### **3. Summary of Significant Accounting Policies**

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

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

The Group has adopted the following amendments to standards starting January 1, 2013 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.

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

As a result of the adoption of the amendments to PAS 1, the Group has modified the presentation of items of other comprehensive income in the consolidated statements of comprehensive income. Items that will be reclassified to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. Comparative information has been re-presented accordingly.

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

They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position.

- *PFRS 10 Consolidated Financial Statements*

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

An investor controls an investee when:

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

Control is re-assessed as facts and circumstances change.

PFRS 10 supersedes PAS 27 (2008) *Consolidated and Separate Financial Statements* and Philippine Interpretation SIC-12 *Consolidation - Special Purpose Entities*.

The adoption of PFRS 10 did not change the Group's recognition of its interest in the subsidiaries (see Note 1) which have been consolidated in prior years.

- *PFRS 12 Disclosure of Interests in Other Entities*

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

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

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

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

- *PFRS 13 Fair Value Measurement*

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

- *PAS 19 Employee Benefits (Amended 2011)*

The amended PAS 19 includes the following requirements:

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

The impact of the adoption of these amendments is presented in Note 25, while the new disclosures required by the amendments are presented as part of Note 20.

- *PAS 27 Separate Financial Statements (2011)*

PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

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

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

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and

- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

*Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Group:

- PAS 1, *Presentation of Financial Statements - Comparative Information* beyond Minimum Requirements. This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs.

For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present:

- other primary statements for that additional comparative period, such as a third statement of cash flows; or
  - the notes related to these other primary statements.
- PAS 1, *Presentation of the Opening Statement of Financial Position and Related Notes*. This is amended to clarify that:
    - the opening statement of financial position is required only if:
      - a change in accounting policy;
      - a retrospective restatement; or
      - a reclassification
 has a material effect upon the information in that statement of financial position;
    - except for the disclosures required under PAS 8, notes related to the opening statement of financial position are no longer required; and
    - the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements.

The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial position are different, because the underlying objectives are different.

Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting*.

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

A number of new and revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. Those which may be relevant to the Group are set out below.

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

*To be Adopted on January 1, 2014*

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to PAS 32). These amendments clarify that:
  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and
  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

*To be Adopted (No definite date - Originally January 1, 2015)*

- PFRS 9, *Financial Instruments* (2009), PFRS 9, *Financial Instruments* (2010) and PFRS 9, *Financial Instruments* (2013)

PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities.

PFRS 9 (2013) introduces the following amendments:

- A substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- Changes to address the so-called 'own credit' issue that were already included in PFRS 9, *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and
- Removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The IASB is currently discussing some limited amendments to the classification and measurement requirements in IFRS 9 and is also discussing the expected credit loss impairment model to be included in IFRS 9. Once those deliberations are complete the IASB expects to publish a final version of IFRS 9 that will include all of the phases: Classification and Measurement; Impairment and Hedge Accounting. That version of IFRS 9 will include a new mandatory effective date.

## Financial Instruments

### *Non-derivative Financial Instruments*

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

### *Date of Recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, i.e., the date that the Group commits itself to purchase or sell the asset.

### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at 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 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 FVPL financial liabilities or other financial liabilities. The management determines the classification of the Group's financial assets and financial liabilities upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. The Group has no HTM investments, AFS financial assets and financial assets and liabilities at FVPL as at December 31, 2013 and 2012.

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

### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or FVPL financial asset. 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 the consolidated statements of comprehensive income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

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

#### *Other Financial Liabilities*

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

Classified under this category are the Group's accounts payable and accrued expenses, notes payable, and operators' deposits.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported 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, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### *Determination of Fair Value*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flows approach, price comparison to similar instruments for which market observable prices exist and other valuation models.

#### Inventories

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

#### Other Current Assets

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 portion of excess input VAT that will be used to offset the Group's output VAT is recognized under the "Prepaid expenses and other current assets" in the consolidated statements of financial position.

Input VAT is stated at its estimated NRV.

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.

#### Property and Equipment

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

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

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

	Number of Years
Computer software	5 - 10
Computer equipment	3 - 5
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 group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

#### *Nonfinancial Assets*

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

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

#### Investments in Associates

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

#### Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. An investor controls an investee when: (1) it is exposed or has rights to variable returns from its involvement with that investee; (2) it has the ability to affect those returns through its power over that investee; and (3) there is a link between power and returns.

#### Discontinued Operations

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

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

#### Capital Stock 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 balance sheet date are dealt with as an event after the balance sheet 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.

### Non-controlling Interest

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

### 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 they are granted. Fair value is determined using an option-pricing model as discussed in Note 16 to the consolidated financial statements.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). No expense is recognized for grants that do not ultimately vest. The cumulative expenses recognized for share-based payment transactions, at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, 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. Description of the Group's revenues are as follows:

#### *Internet Application Service*

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

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

#### *Scratch Cards*

Revenue from scratch cards and gaming terminals are recognized when sold.

#### *Commission*

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

#### *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 is recognized when earned.

Expenses are recognized when incurred.

### Operating Leases

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

### Borrowing Costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

### Foreign Currency Transactions

#### *Foreign Currency Translations*

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

#### *Foreign Operations*

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

Foreign currency differences are recognized in other comprehensive income, and presented in the “cumulative translation adjustment” in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

### Income Taxes

Income tax 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.

#### Retirement Benefits

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

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

#### Related Parties

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

#### Provisions and Contingencies

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

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

#### Events After the Reporting Date

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

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#### 4. Cash and Cash Equivalents

This account at December 31 consists of:

	<i>Note</i>	<b>2013</b>	2012
Cash on hand		<b>P11,210,018</b>	P12,778,106
Cash in banks	22	<b>176,737,797</b>	784,965,371
Short-term investments	22	<b>154,042,613</b>	254,427,436
		<b>P341,990,428</b>	P1,052,170,913

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 P6.2 million P17.3 million and P9.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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#### 5. Accounts Receivable

This account at December 31 consists of:

	<i>Note</i>	<b>2013</b>	2012
Trade receivables		<b>P81,855,035</b>	P87,394,464
Advances to customers/suppliers		<b>109,418,951</b>	69,045,453
Advances to related parties	9, 15	<b>93,414,865</b>	32,677,608
Receivable from PAGCOR		<b>33,478,483</b>	43,393,406
Receivables from PeGS operations		<b>27,867,772</b>	22,076,407
Claims from telecommunication companies		<b>12,066,824</b>	4,144,606
Interest receivable	7	<b>6,406,339</b>	6,258,499
Advances to officers and employees		<b>3,886,046</b>	2,502,088
		<b>368,394,315</b>	267,492,531
Allowance for impairment losses on trade receivables and advances to customers/suppliers		<b>(114,525,524)</b>	(672,490)
	22	<b>P253,868,791</b>	P266,820,041

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

	2013	2012
Balance at beginning of year	P672,490	P672,490
Impairment losses during the year	114,525,524	-
Reversal during the year	(672,490)	-
Balance at end of year	<b>P114,525,524</b>	P672,490

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

Advances to customers/suppliers pertain to advance payments on services/goods to be incurred/delivered in connection with the Group's operations which can be refunded under the terms of agreement.

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

Receivable from PAGCOR represents the aforesaid government agency's unpaid share in marketing expenses incurred for the PeGS operation advanced by the Parent Company. These marketing expenses are pre-approved and shall be reimbursed by PAGCOR upon completion of its review of all the documentations required. In 2013, the Company collected P9.9 million.

Receivables from PeGS operations 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.

## 6. Inventories

This account at December 31 consists of:

	2013	2012
At cost:		
Scratch cards	P6,214,376	P8,251,317
Gaming terminals	49,796,155	1,696,809
	<b>P56,010,531</b>	P9,948,126

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

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

Management assessed that no write-down of inventories to NRV was necessary for the years ended December 31, 2013, 2012 and 2011.

## 7. Notes Receivable

This account at December 31, 2013 consists of notes receivable from third parties amounting to Euro 3.9 million and US\$0.8 million or equivalent to P240.0 million, and P34.0 million, respectively, and P72.9 million pertaining to the current portion of the receivables arising from sale of investment in Acentic as at December 31, 2013 (see Note 9). As at December 31, 2013, allowance for impairment of notes receivable amounts to P34.0 million. As at December 31, 2012, the balance consists of Euro 3.9 million and US\$0.9 million or equivalent to P215.2 million, and P39.0 million, respectively, and P243 million pertaining to the current portion of the receivables arising from sale of investment in Acentic.

- The Euro loan bears an annual interest of 90-day Euro LIBOR plus 550 basis points (bps). The balance will mature on December 29, 2014.
- The dollar loan represents various drawdowns from the US\$1.5 million credit line extended by the Parent Company to a third party which bears interest at 7% per annum, payable in one year from drawdown date, inclusive of a one year grace period on the principal. Each drawdown is evidenced by a secured promissory note executed by the borrower in favor of the Parent Company.

The Company collected P5.0 million, which is equivalent to US\$112.6 thousand, and P6.0 million, which is equivalent to US\$145.7 thousand, in 2013 and 2012, respectively.

The interest income earned on the notes receivable amounted to P16.3 million, P19.3 million, and P34.5 million for the years ended December 31, 2013, 2012 and 2011, respectively, and is shown as part of “interest income” in the consolidated statements of comprehensive income.

## 8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2013	2012
Input value-added tax (VAT) - net of allowance for impairment losses	<b>P68,228,409</b>	P64,897,788
Prepaid rent	<b>12,942,014</b>	12,622,080
Prepaid license	<b>4,975,277</b>	10,817,960
Prepaid insurance	<b>6,871,063</b>	4,882,912
Other prepaid expenses	<b>4,608,002</b>	10,707,969
Other current assets	<b>743,859</b>	119,598
	<b>P98,368,624</b>	P104,048,307

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

	2013	2012
Balance at beginning of year	<b>P76,896,398</b>	P57,750,842
Impairment losses during the year	<b>50,606,232</b>	19,145,556
Balance at end of year	<b>P127,502,630</b>	P76,896,398

## 9. Investments in Associates

This account at December 31 consists of:

	2013				Total
	ISM	Choice Insurance	Alphaforce		
<b>Percentage Ownership</b>	-	30%	40%		
<b>Cost of Investment</b>					
Balance at beginning of year	P542,952,113	P -	P3,999,900		P546,952,013
Investments	95,028,058	6,951,510	4,000,000		105,979,568
Disposal/transfer	(637,980,171)	-	-		(637,980,171)
Balance at end of year	-	6,951,510	7,999,900		14,951,410
<b>Accumulated Equity in Net Earnings (Losses)</b>					
Balance at beginning of year	526,390,423	-	(275,125)		526,115,298
Equity in net earnings (losses) for the year	85,984,197	(503,365)	591,941		86,072,773
Disposal/transfer	(612,374,620)	-	-		(612,374,620)
Balance at end of year	-	(503,365)	316,816		(186,549)
	P -	P6,448,145	P8,316,716		P14,764,861
	2012				Total
	ISM	Acentic	Alphaforce	Magcor	
Percentage Ownership	24.3%	-	40.0%	-	
<b>Cost of Investment</b>					
Balance at beginning of year	P542,952,113	P658,432,096	P3,999,900	P3,000,000	P1,208,384,109
Investments	-	-	-	-	-
Disposal/transfer	-	(658,432,096)	-	(3,000,000)	(661,432,096)
Balance at end of year	542,952,113	-	3,999,900	-	546,952,013
<b>Accumulated Equity in Net Earnings (Losses):</b>					
Balance at beginning of year	463,358,491	(6,614,103)	(209,471)	(124,018)	456,410,899
Equity in net earnings (losses) for the year	63,031,932	(23,060,220)	(65,654)	-	39,906,058
Disposal/transfer	-	29,674,323	-	124,018	29,798,341
Balance at end of year	526,390,423	-	(275,125)	-	526,115,298
	P1,069,342,536	P -	P3,724,775	P -	P1,073,067,311

### 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. (MHI) and agreed to sell its 466 million shares or 24.30% interest on ISM for a price of P1.50 per share. The loss on disposal of the investment amounting to P552.0 million is recognized as "other charges" in the consolidated statements of comprehensive income. Based on acquisition cost, the Parent Company made a cash gain of P60.4 million from this transaction.

#### Investment in Acentic

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

On January 11, 2010, the Parent Company completed the acquisition on 32.50% of Acentic GmbH, a Germany based company engaged in hotels and other multi-dwelling establishment through Host Union International Limited in the amount equivalent to P658.0 million. The transaction was funded on the same date.

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

On November 15, 2012, the Parent Company executed an investment agreement with Pure Corporate Investments Ltd. (PCIL), a company organized and existing under the laws of the British Virgin Islands, 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 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 3 years starting from December 27, 2013. The current and noncurrent portion of the said receivables amounting to P243.0 million and P486.0 million, respectively, is included in “Notes receivable” and “Noncurrent receivable,” respectively, in the consolidated statements of financial position. The gain on disposal of the said investment amounting to P181.2 million is recognized as income in the statement of comprehensive income of PCIL and is reflected as “other income” in the consolidated statements of comprehensive income.

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.

Details of the notes receivable from PCIL are as follows:

	<i>Note</i>	<b>2013</b>	2012
Due within one year		<b>P72,900,000</b>	P243,000,000
Due between one and five years		<b>656,100,000</b>	486,000,000
	22	<b>P729,000,000</b>	P729,000,000

#### 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, even though the former owns only 30% of the latter. As a result, MAGCOR became a subsidiary of the Parent Company effective January 1, 2012 and is included in the consolidated financial statements as at December 31, 2013 and 2012.

#### 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:

	<b>2013</b>	
	<b>Choice Insurance</b>	<b>Alphaforce</b>
Total assets	<b>P23,302,085</b>	<b>P34,946,421</b>
Total liabilities	<b>3,063,226</b>	<b>13,954,316</b>
Total revenue	<b>177,309</b>	<b>119,167,189</b>
Net income (loss) attributable to equity holders	<b>(1,677,882)</b>	<b>1,479,853</b>

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

## 10. Property and Equipment

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

	Computer Equipment and Software	Leasehold and Site Improvements	Network and Data Communication Equipment	Furniture and Fixtures	Office Equipment	Transportation Equipment	Total
<b>Gross Carrying Value</b>							
January 1, 2012	P308,207	P107,281	P112,328	P50,624	P14,255	P30,680	P623,375
Additions	39,183	62,809	26,860	26,637	673	4,160	160,322
Disposals	-	-	-	-	-	(4,472)	(4,472)
December 31, 2012	347,390	170,090	139,188	77,261	14,928	30,368	779,225
Additions	26,923	46,575	9,183	10,407	2,608	1,992	97,688
Disposals	(451)	-	-	(158)	-	-	(609)
<b>December 31, 2013</b>	<b>373,862</b>	<b>216,665</b>	<b>148,371</b>	<b>87,510</b>	<b>17,536</b>	<b>32,360</b>	<b>876,304</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2012	195,006	61,465	83,733	33,786	10,376	22,028	406,394
Depreciation and amortization for the year	38,426	29,136	17,034	8,221	2,797	1,113	96,727
Disposals	-	-	-	-	-	(4,472)	(4,472)
December 31, 2012	233,432	90,601	100,767	42,007	13,173	18,669	498,649
Depreciation and amortization for the year	43,963	47,182	18,491	13,260	3,429	5,399	131,724
Disposals	(354)	-	-	(124)	-	-	(478)
<b>December 31, 2013</b>	<b>277,041</b>	<b>137,783</b>	<b>119,258</b>	<b>55,143</b>	<b>16,602</b>	<b>24,068</b>	<b>629,895</b>
<b>Carrying Amount</b>							
December 31, 2012	P113,958	P79,489	P38,421	P35,254	P1,755	P11,699	P280,576
<b>December 31, 2013</b>	<b>P96,821</b>	<b>P78,882</b>	<b>P29,113</b>	<b>P32,367</b>	<b>P934</b>	<b>P8,292</b>	<b>P246,409</b>

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## 11. Other Noncurrent Assets

This account at December 31 consists of:

	<i>Note</i>	<b>2013</b>	2012
Rental and other deposits	22	<b>P44,233,030</b>	P42,521,220
Advances for projects		<b>5,315,972</b>	5,315,972
		<b>49,549,002</b>	47,837,192
Less allowance for impairment losses		<b>(5,378,199)</b>	(5,378,199)
		<b>44,170,803</b>	42,458,993
Other assets from discontinued operations		<b>61,590,318</b>	61,590,318
Less allowance for impairment losses		<b>(61,590,318)</b>	(61,590,318)
		-	-
		<b>P44,170,803</b>	P42,458,993

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.

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

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## 12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	<i>Note</i>	<b>2013</b>	2012
Accounts payable - trade	22	<b>P167,351,234</b>	P211,783,090
Accrued expenses and other payables	22	<b>40,316,891</b>	35,076,585
Income tax payable		<b>1,260,327</b>	7,706,157
Due to a related party	15, 22	<b>3,366,096</b>	-
		<b>P212,294,548</b>	P254,565,832

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

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

	<i>Note</i>	<b>2013</b>	2012
Contractors	22	<b>P17,614,716</b>	P6,337,627
Manpower services	22	<b>9,786,699</b>	14,709,875
Utilities and communications	22	<b>4,526,966</b>	3,865,819
Interest	22	<b>4,327,431</b>	-
Ads and promo	22	<b>1,655,892</b>	1,987,070
Audit fees	22	<b>1,164,100</b>	1,273,500
Travel expenses	22	<b>485,428</b>	146,424
Due to government agencies		<b>289,369</b>	4,746,583
Others	22	<b>466,290</b>	2,009,687
		<b>P40,316,891</b>	P35,076,585

### 13. Notes Payable

The Parent Company has peso-denominated unsecured short-term notes payable from local banks amounting to P1.2 billion and nil as at December 31, 2013 and 2012, respectively, with maturities of less than a year and bear annual interest at an average of 4.5% to 5.0% in 2013.

The Group recognized interest expense of P22.1 million, nil and P1.0 million in the consolidated statements of comprehensive income for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

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

On January 23, 2013, the BOI approved a one year extension of the Parent Company’s ITH covering the period from March 1, 2013 to February 28, 2014.

The Parent Company is setting up a new business location in Pasig City, a strategic location that will allow the company to serve its customer better and faster. This will also allow the Company's 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 will entitle the Parent Company to an ITH for four (4) years for all the income generated thru this new location, provided however that certain conditions in investment and employment requirements are met as provided under the Parent Company's registration terms and conditions.

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 PhilWeb Corporation, as an Ecozone Export Enterprise to develop and manufacture electronic machines at the Laguna Technopark - Special Economic Zone. Under the PEZA registration agreement, the e-Magine's projects shall be entitled to four (4) years ITH from start of commercial operations.

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

	2013	2012	2011
Current tax expense	<b>P1,260,327</b>	P11,539,132	P12,218,284
Deferred tax expense (benefit)	<b>(14,174,070)</b>	1,350,416	(4,148,209)
	<b>(P12,913,743)</b>	P12,889,548	P8,070,075

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

	2013	2012 (As restated - see Note 25)
<b>Items recognized in profit or loss</b>		
Allowance for impairment losses on input VAT	<b>P8,701,770</b>	P2,797,794
Retirement benefits liability	<b>7,796,093</b>	-
Allowance for impairment losses on trade receivables	<b>474,001</b>	-
NOLCO	<b>263,063</b>	-
Unrealized foreign exchange gain	<b>(263,063)</b>	-
	<b>16,971,864</b>	2,797,794
<b>Items recognized directly in other comprehensive income</b>		
Remeasurement losses on defined benefit liability	<b>593,941</b>	2,094,674
	<b>P17,565,805</b>	P4,892,468

- 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 that tax benefits will be available in the near future against which the Group can utilize the benefits therefrom.

	2013	2012	2011
Allowance for impairment losses on input VAT, receivables and notes receivable	<b>P218,840,648</b>	P75,690,581	P75,690,581
NOLCO	<b>84,794,724</b>	62,064,020	52,090,552
Retirement benefits liability	-	18,748,923	13,759,358
Unrealized foreign exchange loss	-	467,689	-
	<b>P303,590,372</b>	P156,971,213	P141,540,491

Details of NOLCO as at December 31 are as follow:

Incurring In	Amount	Expired/ Applied	As at December 31, 2013	Available Until
2010	P18,848,595	(P18,848,595)	P -	2013
2011	18,980,376	-	18,980,376	2014
2012	26,922,507	-	26,922,507	2015
2013	39,723,718	-	39,723,718	2016
	P104,475,196	(P18,848,595)	P85,626,601	

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

	2013	2012	2011
Income before tax	<b>P189,980,812</b>	P1,109,177,126	P922,144,745
Income tax expense at statutory rate	<b>P56,994,244</b>	P332,753,138	P276,643,424
Adjustments resulting from:			
Income tax holiday on BOI - registered operations	<b>(269,157,231)</b>	(257,741,636)	(225,167,296)
Unrecognized deferred tax assets arising from temporary differences and NOLCO	<b>43,985,748</b>	4,629,216	5,400,849
Tax effects of:			
Equity in net earnings of associates	<b>(25,821,832)</b>	(11,971,817)	(54,666,799)
Interest/other income not subject to corporate tax	<b>(6,750,120)</b>	(65,365,922)	(6,586,208)
Non-deductible expenses/loss	<b>187,835,448</b>	10,586,569	12,446,105
Income tax expense	<b>(P12,913,743)</b>	P12,889,548	P8,070,075

## 15. Related Party Transactions

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

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Due from Related Parties	Due to Related Parties		
<b>Entities under Common Control</b>							
<u>ISM Corporation</u>							
▪ Common personnel and rental expenses	2013	15a	P28,036,068	P -	P3,366,096	Due and demandable; non-interest bearing	Unsecured;
	2012		36,793,636	24,675,025	-	Due and demandable; non-interest bearing	Unsecured; no impairment
<u>Alphaland Corporation</u>							
▪ Common personnel and rental expenses	2013	15a	40,311,940	48,314,523	-	Due and demandable; non-interest bearing	Unsecured; no impairment
	2012		27,603,762	8,002,583	-	Due and demandable; non-interest bearing	Unsecured; no impairment
<u>Monfortino Holdings, Inc.</u>							
▪ Sale of equity investment in ISM	2013	15b	698,396,248	45,100,342	-	Due and demandable; non-interest bearing	Unsecured; no impairment
<b>TOTAL</b>	<b>2013</b>			<b>P93,414,865</b>	<b>P3,366,096</b>		
TOTAL	2012			P32,677,608	P -		

- The Parent Company bills ISM and Alphaland for their share in common expenses which include common personnel cost and rental expense.
- On November 19, 2013, the BOD approved the disposal of the Parent Company's investment in ISM under the Stock Purchase Agreement with MHI. The Parent Company agreed to sell its 466 million shares or 24.30% interest on ISM for a price of P1.50 per share (see Note 9).
- Compensation and short-term employee benefits of key management personnel of the Group in 2013, 2012 and 2011 amounted to P48.3 million, P69.1 million, and P66.3 million, respectively. The Group has no other key management compensation relating to post-employment benefits or other long-term benefits for the years ended December 31, 2013, 2012 and 2011.

## 16. Equity

### Common Stock

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

	2013	2012
Balance at beginning of year	1,513,993,659	1,261,682,465
Stock dividends during the year	-	252,311,194
Issued shares at end of year	1,513,993,659	1,513,993,659
Less treasury shares	(341,773,099)	(89,627,680)
Issued and outstanding shares at end of year	1,172,220,560	1,424,365,979

### 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.

### 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 PhilWeb Corporation approved the awarding to selected officers and employees of options to subscribe to a total of 8.9 million common shares at an exercise price of P14.0 per share.

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

The inputs to the model used to measure the fair value of the shares granted in 2013 and 2012 is as follows:

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

Expected volatility is estimated by considering average share price volatility.

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

	2013		2012	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	-	P -	-	P -
Granted	8,300,000	-	8,900,000	-
Forfeited/expired	(2,300,000)	-	(600,000)	-
Options outstanding, end of year	6,000,000	P -	8,300,000	P -
Options exercisable, end of year	-	P -	-	P -

Stock option cost (reversal) recognized in profit or loss is included under "salaries and benefits" account in the consolidated statements of comprehensive income and amounted to (P0.4 million) and P4.4 million in 2013 and 2012, respectively, (see Note 17).

### Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2013, 2012 and 2011 follow:

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

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

### Treasury Stock

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

	2013	2012
Balance at beginning of year	<b>89,627,680</b>	126,492
Purchase during the year	<b>252,145,419</b>	227,001,188
Sale during the year	-	(137,500,000)
Balance at end of year	<b>341,773,099</b>	89,627,680

- 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.

## 17. Salaries and Benefits

This account consists of:

	<i>Note</i>	<b>2013</b>	2012	2011
Salaries and wages		<b>P121,896,603</b>	P142,433,848	P114,739,787
Retirement benefits cost	20	<b>7,238,055</b>	4,989,565	4,909,761
Cost (reversal) of stock option	16	<b>(379,246)</b>	4,422,064	-
		<b>P128,755,412</b>	P151,845,477	P119,649,548

## 18. Earnings Per Share

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

	<b>2013</b>	2012 (As restated - see Note 26)	2011 (As restated - see Note 26)
Net income attributable to equity holders of the parent	<b>P280,215,819</b>	P1,092,992,616	P915,695,014
Weighted average number of shares outstanding	<b>1,330,852,173</b>	1,474,759,576	1,513,867,167
Basic/dilutive EPS	<b>P0.2106</b>	P0.7411	P0.6049

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

There were no potential dilutive shares as at December 31, 2013, 2012, and 2011.

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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.

Total rentals recognized in profit or loss for the years ended December 31, 2013, 2012 and 2011 amounted to about P70.9 million, P60.2 million, and P40.6 million, respectively.

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

	2013	2012	2011
Less than one year	<b>P49,470,583</b>	P38,532,516	P37,231,028
Between one and five years	<b>40,730,759</b>	65,639,965	65,970,156
	<b>P90,201,342</b>	P104,172,481	P103,201,184

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## 20. Retirement Benefits

The Group has unfunded, 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. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date was made on December 31, 2013. Valuations are obtained on an annual basis.

The Parent Company accrues retirement benefits for its employees in compliance with Republic Act 7641 "Philippine Retirement Law" which requires a company to pay a minimum retirement benefit to employees who retires after reaching the mandatory age of 65 years old or the optional retirement age of 60 years old, with at least five (5) years of service to the Parent Company. The benefits as required by the Act are equivalent to 22.5 days Pay for every year of credited service.

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

	2013	2012 (As restated)
Present value of the defined benefit obligation at the beginning of year	<b>P25,731,172</b>	P15,307,736
Current service cost and interest cost (see below)	<b>7,238,055</b>	4,989,565
Remeasurement (gains) losses on defined benefit liability	<b>(5,002,443)</b>	5,433,871
Present value of the defined benefit obligation at the end of year	<b>P27,966,784</b>	P25,731,172

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

	2013	2012 (As restated)	2011 (As restated)
Current service cost	<b>P5,665,880</b>	P3,910,370	P3,815,201
Interest cost	<b>1,572,175</b>	1,079,195	1,094,560
	<b>P7,238,055</b>	P4,989,565	P4,909,761

The amounts of remeasurements recognized in other comprehensive income consist of:

	2013	2012
Balance at beginning of year	<b>P6,982,249</b>	P1,548,378
Remeasurements during the year:		
Experience adjustments	<b>56,725</b>	5,495,370
Changes in financial assumptions	<b>(755,949)</b>	2,525,706
Changes in demographic assumptions	<b>(4,303,219)</b>	(2,587,205)
	<b>(5,002,443)</b>	5,433,871
Balance at end of year	<b>P1,979,806</b>	P6,982,249

The Company does not expect to make contributions to the plan in 2014. Based on the latest actuarial valuation made as at December 31, 2013, the principal actuarial assumptions used to determine retirement benefits are as follows (expressed as percentages under weighted averages):

	2013	2012	2011
Discount rate	<b>6.38%</b>	6.11%	7.05%
Future salary increases	<b>5.00%</b>	5.00%	5.00%

#### 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	(P2,527,270)	(9.00%)	P2,978,517	10.70%
Future salary increases	2,759,746	9.90%	(2,399,245)	(8.60%)

##### *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, 2013 and 2012 is 16.6 years.

### *Asset-liability Matching Strategies to Manage Risks*

The Group does not have a formal and funded retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

### *Funding Arrangements*

Since the Group does not have a formal and funded retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

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

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## 22. Financial Risk and Capital Management

### 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>2013</b>	2012
Current assets:			
Cash and cash equivalents	4	<b>P341,990,428</b>	P1,052,170,913
Accounts receivable	5	<b>253,868,791</b>	266,820,041
Notes receivable	7	<b>312,910,738</b>	497,215,526
Total current financial assets		<b>908,769,957</b>	1,816,206,480
Noncurrent assets:			
Noncurrent notes receivable	9	<b>656,100,000</b>	486,000,000
Rental and other deposits under "Other noncurrent asset - net"	11	<b>44,170,803</b>	42,458,993
Total noncurrent financial assets		<b>700,270,803</b>	528,458,993
Total financial assets		<b>P1,609,040,760</b>	P2,344,665,473

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
- Interest Rate Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company'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, 2013 and 2012. 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, 2013</b>					
Cash and cash equivalents	P341,990,428	P -	P -	P -	P341,990,428
Accounts receivable	171,631,410	51,199,317	14,137,683	16,900,381	253,868,791
Notes receivable	312,910,738	-	-	-	312,910,738
Noncurrent notes receivable	656,100,000	-	-	-	656,100,000
Rental and other deposits under "Other noncurrent assets - net"	44,170,803	-	-	-	44,170,803
	<b>P1,526,803,379</b>	<b>P51,199,317</b>	<b>P14,137,683</b>	<b>P16,900,381</b>	<b>P1,609,040,760</b>

	Neither Past Due nor Impaired	Past Due and not Impaired			Total
		1 to 30 Days	31 to 60 Days	More than 60 Days	
<b>December 31, 2012</b>					
Cash and cash equivalents	P1,052,170,913	P -	P -	P -	P1,052,170,913
Accounts receivable	94,420,940	27,104,814	2,722,160	142,572,127	266,820,041
Notes receivable	497,215,526	-	-	-	497,215,526
Noncurrent notes receivable	486,000,000	-	-	-	486,000,000
Rental and other deposits under "Other noncurrent assets - net"	42,458,993	-	-	-	42,458,993
	<b>P2,172,266,172</b>	<b>P27,104,814</b>	<b>P2,722,160</b>	<b>P142,572,127</b>	<b>P2,344,665,473</b>

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

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

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

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

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

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

	Total	Neither Past Due nor Impaired			Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
		High Grade	Standard Grade	Low Grade			
<b>December 31, 2013</b>							
Cash in banks	P176,737,797	P176,737,797	P -	P -	P176,737,797	P -	P -
Short-term investments	154,042,613	154,042,613	-	-	154,042,613	-	-
Accounts receivable	368,394,315	171,631,410	-	-	171,631,410	82,237,381	114,525,524
Notes receivable	346,923,619	312,910,738	-	-	312,910,738	-	34,012,881
Noncurrent notes receivable	656,100,000	656,100,000	-	-	656,100,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	44,170,803	44,170,803	-	-	44,170,803	-	-
	<b>P1,746,369,147</b>	<b>P1,515,593,361</b>	<b>P -</b>	<b>P -</b>	<b>P1,515,593,361</b>	<b>P82,237,381</b>	<b>P148,538,405</b>

	Total	Neither Past Due nor Impaired			Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
		High Grade	Standard Grade	Low Grade			
<b>December 31, 2012</b>							
Cash in banks	P784,965,371	P784,965,371	P -	P -	P784,965,371	P -	P -
Short-term investments	254,427,436	254,427,436	-	-	254,427,436	-	-
Accounts receivable	267,492,531	94,420,940	-	-	94,420,940	172,399,101	672,490
Notes receivable	497,215,526	497,215,526	-	-	497,215,526	-	-
Noncurrent notes receivable	486,000,000	486,000,000	-	-	486,000,000	-	-
Rental and other deposits under "Other noncurrent assets - net"	42,458,993	42,458,993	-	-	42,458,993	-	-
	<b>P2,332,559,857</b>	<b>P2,159,488,266</b>	<b>P -</b>	<b>P -</b>	<b>P2,159,488,266</b>	<b>P172,399,101</b>	<b>P672,490</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, 2013 and 2012 are 0.71:1 and 7.6:1, respectively. The current liabilities of the Group are expected to be paid within one year.

	As at December 31, 2013			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P211,744,852	P211,744,852	P211,744,852	P -
Notes payable	1,200,000,000	1,246,114,583	1,246,114,583	-
Operator's deposits	50,755,000	50,755,000	-	50,755,000

	As at December 31, 2012			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense <sup>(a)</sup>	P242,744,852	P242,744,852	P242,744,852	P -
Operator's deposits	48,300,000	48,300,000	-	48,300,000

(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 fixed rates expose the Group to fair value interest rate risk. On the other hand, receivables issued at variable rates expose the Group to cash flow interest rate risk.

As at December 31, 2013 and 2012, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Nominal Amount	
	2013	2012
<b>Fixed-rate Financial Instruments</b>		
Financial assets		
Cash in bank	P176,737,797	P784,965,371
Short-term investments	154,042,613	254,427,436
Notes receivable	72,960,000	282,012,881
	403,740,410	1,321,405,688
Financial liabilities		
Notes payable	1,200,000,000	-
<b>Variable-rate Financial Instruments</b>		
Financial asset		
Notes receivable	240,010,738	215,202,645

#### *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, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. 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, 2013 and 2012 would have increase or decrease equity and profit or loss by P2.40 million and P2.15 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.* Foreign currency exchange risk is the risk that changes in foreign exchange rates will affect the Group's income. The Group's exposure to foreign currency exchange risk is minimal and limited to its US dollar denominated receivable amounting to \$0.8 million and \$0.9 million as at December 31, 2013 and 2012.

The US dollar exchange rate as at December 31, 2013 and 2012 are US dollar 1 = P44.41 and 1 = P41.19, respectively.

#### *Sensitivity Analysis*

A 10% strengthening of the Philippine peso against US dollar as at December 31, 2013 and 2012 would have decreased the equity and profit by P2.5 million and P2.6 million, respectively.

A 10% weakening of the peso against US dollar as at December 31, 2013 and 2012 would have had the equal but opposite effect, on the basis that all other variables remain constant.

#### 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 the light of changes in economic conditions. To manage or adjust the capital structure, the Group capital structure, the Group may obtain additional advances from stockholders, adjust the return of the capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2013 and 2012. The Group monitors capital using the monthly cash position report and financial statements.

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

The Group is not subject to externally-imposed capital requirement.

### Fair Values

The fair values of the Group's financial instruments approximate their carrying amounts as of reporting date because of their relatively short-term nature. In the case of noncurrent notes receivable, the fair value of P656.1 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.

## 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 2013, 2012 and 2011.

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

Analysis of financial information by geographical segment in 2013 is as follows:

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
<b>Net Revenues</b>				
External revenue	P1,458,632,788	P35,066,976	P -	P1,493,699,764
Operating expenses	(621,575,992)	(217,408,049)	-	(838,984,041)
Interest income	22,544,402	197,331	(241,332)	22,500,401
Interest expense	(22,072,431)	(241,332)	241,332	(22,072,431)
Others	(551,235,654)	-	-	(551,235,654)
	(1,172,339,675)	(217,452,050)	-	(1,389,791,725)
<b>Income before Income Tax</b>	286,293,113	(182,385,074)	-	103,908,039
Income tax benefits	(12,913,743)	-	-	(12,913,743)
<b>Segment Profit (Loss)</b>	299,206,856	(182,385,074)	-	116,821,782
Equity in net earnings of associates	86,072,773	-	-	86,072,773
<b>Consolidated Profit</b>	P385,279,629	(P182,385,074)	P -	P202,894,555
<b>Other Information</b>				
Additions to property and equipment	P68,991,717	P28,696,093	P -	P97,687,810
Depreciation and amortization	99,803,591	31,920,570	-	131,724,161
<b>Assets and Liabilities</b>				
Current assets	P977,927,185	P263,644,503	(P178,422,576)	P1,063,149,112
Noncurrent assets	970,748,035	8,262,034	-	979,010,069
<b>Total Assets</b>	P1,948,675,220	P271,906,537	(P178,422,576)	P2,042,159,181
Current liabilities	P1,344,336,324	P246,380,800	(P178,422,576)	P1,412,294,548
Noncurrent liabilities	78,721,784	-	-	78,721,784
<b>Total Liabilities</b>	P1,423,058,108	P246,380,800	(P178,422,576)	P1,491,016,332

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

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
Net Revenues				
External revenue	P1,345,099,256	P138,490,667	P -	P1,483,589,923
Operating expenses	(514,841,706)	(117,490,185)	-	(632,331,891)
Interest income	41,108,179	193,796	(4,657,795)	36,644,180
Interest expense	-	(4,657,795)	4,657,795	-
Others	181,368,227	-	-	181,368,227
	(292,365,300)	(121,954,184)	-	(414,319,484)
Income before Income Tax	1,052,733,956	16,536,483	-	1,069,270,439
Income tax expense	8,571,004	4,318,544	-	12,889,548
Segment Profit	1,044,162,952	12,217,939	-	1,056,380,891
Equity in net earnings of associates	39,906,058	-	-	39,906,058
Consolidated Profit	P1,084,069,010	P12,217,939	P -	P1,096,286,949
Other Information				
Additions to property and equipment	P148,835,749	P11,486,511	P -	P160,322,260
Depreciation and amortization	93,982,811	2,744,617	-	96,727,428
Assets and Liabilities				
Current assets	P1,644,490,881	P149,956,359	P135,755,673	P1,930,202,913
Noncurrent assets	1,873,413,618	11,486,511	-	1,884,900,129
Total Assets	P3,517,904,499	P161,442,870	P135,755,673	P3,815,103,042
Current liabilities	P228,745,769	P161,575,736	(P135,755,673)	P254,565,832
Noncurrent liabilities	67,049,552	-	-	67,049,552
Total Liabilities	P295,795,321	P161,575,736	(P135,755,673)	P321,615,384

## 24. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements as at and for the years ended December 31, 2013 and 2012.

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 Company.

## 25. Change in Accounting Policy

The Group restated the December 31, 2012 account balance as a result of the retrospective application of PAS 19 (Amended 2011) and accordingly, recognized the actuarial gains and losses in other comprehensive income.

The change in accounting policy resulted to the recognition of all actuarial gains and losses (AGL) arising from changes in the assumption used in calculating the Group's liability as at reporting dates in other comprehensive income. Previously, the Group used the "corridor approach" whereby the Group recognizes AGL in profit or loss when the net cumulative unrecognized AGL at the end of previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation or the fair value of the plan asset at such date. The AGL were recognized in profit or loss over the remaining working lives of the employees participating in the plan.

### Summary of Quantitative Impacts

The following tables summarize the effects of the changes on the Group's financial position and comprehensive income.

The impact of the change as at January 1, 2012 is as follows:

	As Previously Reported	Effect of Restatement	As Restated
<b>Consolidated Statement of Financial Position</b>			
Retirement benefits liability	P13,759,358	P1,548,378	P15,307,736
Remeasurement losses on defined benefit liability - net of tax	-	(1,083,865)	(1,083,865)
<b>Consolidated Statement of Comprehensive Income</b>			
Remeasurement losses on defined benefit liability - net of tax	-	(1,083,865)	(1,083,865)

The impact of the change as at and for the year ended December 31, 2012 is as follows:

	As Previously Reported	Effect of Restatement	As Restated
<b>Consolidated Statement of Financial Position</b>			
Retirement benefits liability	P18,749,552	P6,981,620	P25,731,172
Retained earnings	2,073,440,049	629	2,073,440,678
Remeasurement losses on defined benefit liability	-	(4,887,575)	(4,887,575)
Deferred tax asset	-	2,004,674	2,004,674
<b>Consolidated Statement of Comprehensive Income</b>			
Salaries and benefits	151,846,106	(629)	151,845,477
Remeasurement losses on defined benefit liability - net of tax	-	(3,803,710)	(3,803,710)

The impact of the change as at and for the year ended December 31, 2013 is as follows:

	<b>Amount</b>
<b>Consolidated Statement of Financial Position</b>	
<i>Increase in:</i>	
Deferred tax asset	<b>P548,915</b>
Retirement benefits liability	<b>1,829,715</b>
Remeasurement losses on defined benefit liability - net of tax	<b>1,385,865</b>
Retained earnings	<b>105,065</b>

	<b>Amount</b>
<b>Consolidated Statement of Financial Position</b>	
<i>Increase (decrease) in:</i>	
Salaries and benefits	<b>P149,462</b>
Deferred tax expense	<b>(44,839)</b>
<b>Increase in net income</b>	<b>104,623</b>
<i>Increase in:</i>	
Remeasurement gains on defined benefit liability - net of tax	<b>3,501,710</b>
<b>Increase in total comprehensive income</b>	<b>P3,606,333</b>

There is no effect on both basic and diluted earnings per share as at December 31, 2013 and 2012.

The Group did not present a third consolidated statement of financial position because the impact to the consolidated financial position as at January 1, 2012 is immaterial and the restatement has not affected any account other than those indicated above.

## **26. 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:

	<b>2013</b>	2012	2011
Net income attributable to equity holders of the parent	<b>P280,215,819</b>	P1,092,992,616	P915,695,014
Minority interest	<b>(77,321,264)</b>	3,294,962	(1,620,344)
Net income	<b>202,894,555</b>	1,096,287,578	914,074,670
Add (deduct):			
Gain (loss) on sale of equity investment	<b>551,958,543</b>	(181,242,227)	-
Impairment loss	<b>198,472,147</b>	19,145,556	4,455,336
Depreciation	<b>131,724,161</b>	96,727,428	79,227,049
Provision for income tax	<b>(12,913,743)</b>	12,889,548	8,070,075
Equity in net earnings	<b>(86,072,773)</b>	(39,906,058)	(182,222,663)
Interest expense	<b>22,072,431</b>	-	1,026,432
Interest income	<b>(22,500,401)</b>	(36,644,180)	(44,130,837)
<b>EBITDA</b>	<b>P985,634,920</b>	P967,257,645	P780,500,062
Issued and outstanding shares at end of year	<b>1,172,220,560</b>	1,424,365,979	1,261,555,973
<b>EBITDA - EPS</b>	<b>0.8408</b>	0.6791	0.6187

EBITDA and EBITDA - EPS are non-PFRS measures.

**LEGAL COUNSELS**

PONFERRADA ORBE & ALTUBAR LAW OFFICES

**INDEPENDENT PUBLIC ACCOUNTANTS**

KPMG MANABAT SANAGUSTIN & CO.

**BANKS**

ASIA UNITED BANK

BANCO DE ORO UNIBANK

BANK OF COMMERCE

BANK OF THE PHILIPPINE ISLANDS

BANK OF MANDIRI

CAMBODIAN PUBLIC BANK

MAYBANK

METROPOLITAN BANK AND TRUST COMPANY

PHILIPPINE BANK OF COMMUNICATIONS

PHILIPPINE NATIONAL BANK

SECURITY BANK & TRUST CORPORATION

STERLING BANK OF ASIA

UNION BANK OF THE PHILIPPINES

UNITED COCONUT PLANTERS BANK

**STOCK TRANSFER SERVICE AGENT**

AB STOCK TRANSFERS CORPORATION

PHILWEB CORPORATION IS LISTED ON THE PHILIPPINE STOCK EXCHANGE.  
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