



2014 Annual Report

About Us

PhilWeb Corporation is the leading gaming technology provider in the Asia Pacific Region. We have a nationwide network of over 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, 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

We take pride in writing this summary of 2014 to you, our shareholders. Once again, your Company has delivered remarkable financial performance in the face of great challenges.

Net Income for the year more than quadrupled to P904 million from P203 million a year ago. This feat was attained even as the number of PAGCOR e-Games outlets grew by only six new approvals to a total of 305 at year end. Instead of focusing on new sites, our Casino group improved and expanded existing sites, growing the number of gaming terminals to a total of 8,193 versus 7,638 the year before, a 7.3% growth rate. Site renovations pushed up our revenue figures even more dramatically, as more players enjoyed our offerings and spent more in the outlets, resulting in total Revenue of P1.64 billion, a 9.8% growth versus 2013's revenue of P1.49 billion.

On an EBITDA basis, the results are just as excellent. We ended the year with P1.18 billion in EBITDA, a 19.3% improvement on 2013. Our strong cash flows enabled us to pare down our debt levels by P500 million. With continued robust cash flows in 2015, we expect to pare down debt by another P500 million this year, and will be debt free by early 2016.

We also used cash to pay dividends, with quarterly payments of P0.10 per share each, for a total of P469 million in cash paid to you, our stockholders, in 2014. In January this year, we declared our first dividend for 2015, this one a 50% increase to P0.15 per share. With our stock price averaging around P12.50 per share, continuing this dividend trend would result in a 4.8% Dividend Indicated Gross Yield, clearly much better than most financial

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



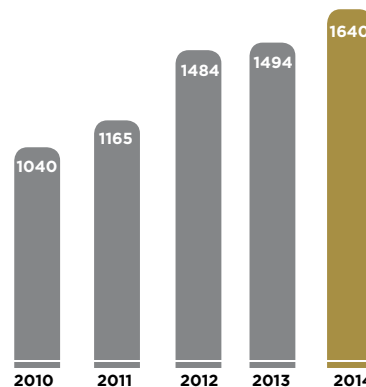
instruments available in the market today. We believe that your Company remains a valuable stock to own on the Philippine Stock Exchange, one with solid financial performance and the added potential for price appreciation.

As we wrote last year, 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.

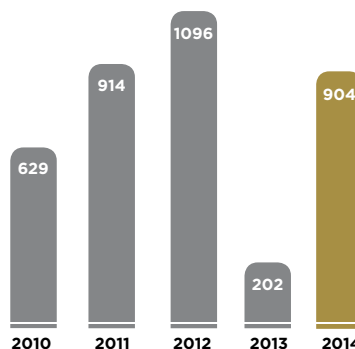
This year, these accounts will be enabled into electronic wallets, and members will have the added convenience of being able to keep with gaming funds for e-Games as e-money, all accounted for by us. This enhancement will better enable us to reward our loyal customers and focus all our marketing on player development.

In 2014, the e-Games network grew by 7.7% to a Total Casino Win of P5.43 billion, with a winning percentage of 3.94%, an improvement on the previous year's win rate of 3.79%. Of the Casino Win, a total of P2.15 billion was remitted to PAGCOR, solidifying our position as one of the biggest contributors of revenue to the government, all of which comes with no capital expenditures or operating expenses on their part. As it has for over a decade of e-Games, every peso we give to PAGCOR flows directly to their nation-building efforts.

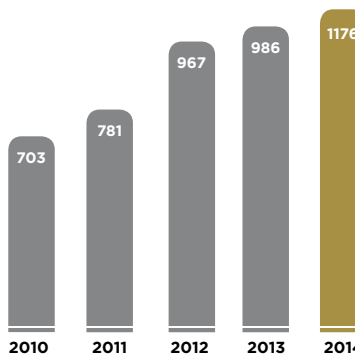
On the Asia Pacific side of the business, we continue to reassess our commitment to a number of markets. We continue to believe that there are exciting gaming opportunities in the region, but will be



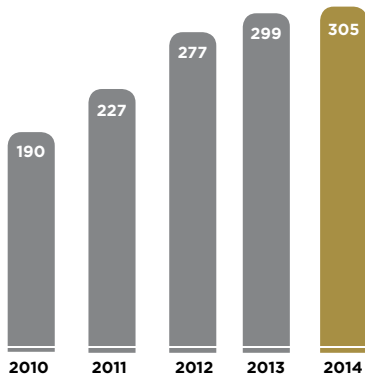
REVENUE
MILLIONS OF PESOS



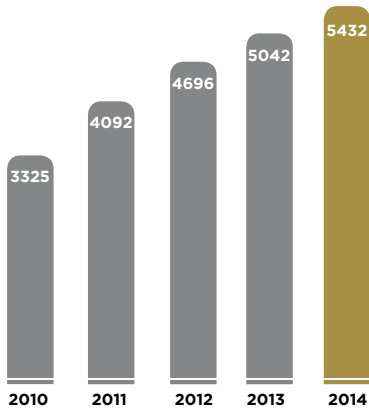
NET INCOME
MILLIONS OF PESOS



EBITDA
MILLIONS OF PESOS



E-GAMES CAFÉS



CASINO WIN
MILLIONS OF PESOS

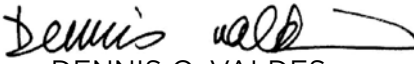
more conservative as we move forward in choosing projects that are right for us.

Similarly, we are proceeding cautiously with our e-Magine Gaming terminals business. While we continue to believe there are good opportunities for gaming terminals on a worldwide basis, we also recognize that manufacturing in our country has its own unique challenges, and therefore, we are looking for the cheapest cost manufacturing options available to us. In the interim, we are already rolling out the Genesis terminal, the first e-Magine terminal, for testing in our Big Game e-Games outlets.

Let me end by once again thanking our Board of Directors, which has remained supportive during this challenging year, and you, our shareholders, who have continued to trust us to deliver results. We look forward to continuing to serve you in the years to come.

February 11, 2015


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),
ATTY. RAYMUND S. AQUINO (AVP - LEGAL), MONA LIZA I. NAVARRO (VP - INFORMATION
TECHNOLOGY), ATTY. RODOLFO MA. A. PONFERRADA (SVP AND GROUP LEGAL COUNSEL),
JOE PISANO (PRESIDENT - E-MAGINE GAMING CORPORATION), AND BRIAN K. NG (SVP - GAMING)**



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 305 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.

Gaming Team



**FROM CENTER COUNTER-CLOCKWISE:
BRIAN K. NG (SVP - GAMING), RONALD M. CUEVAS (VP - QUALITY ASSURANCE),
KATHRYN F. ENCARNACION (AVP - CUSTOMER SUPPORT), PAULO J. PEREZ (AVP - BIGGAME, INC.),
TOMAS JUAN BESA III (AVP - MARKETING), MA. TERESITA R. GONZALES (AVP - CASINO ROLLOUT)
AND SAMUEL A. DELA CUESTA (AVP - CASINO OPERATIONS)**



TOP: DENNIS VALDES (CENTER) AND BRIAN NG (LEFT) AWARD THE P1 MILLION GRAND PRIZE TO THE WINNER OF THE ROYAL THREESOME PROMO, WHO WE HAVE KEPT UNIDENTIFIED FOR PRIVACY PURPOSES.

BOTTOM: NOHRAYDA MAGTARAYO (CENTER) E-GAMES RELATIONSHIP MANAGER, FLANKED BY WINNERS OF THE SVIP CLUB PLATINUM PROMO AT THE BALESIN ISLAND CLUB ARRIVAL AREA.

In 2014, e-Games stood strong amidst changes and challenges in the industry.

From 299 e-Games cafes, the Company added 6 sites, bringing up the nationwide count to 305. This increase brought up Terminal Count to 8,193, a 7.3% increase from last year's figures. Total Casino Win reached P5.432 billion. e-Games PAGCOR remittances exceeded the previous year's figure by 12%. Despite the presence of traditional casinos such as Solaire, Resorts World Manila, and the recently opened City of Dreams, e-Games' operations and growth remain unaffected.

Realtime Gaming (RTG), e-Games' backend software provider, together with the new server 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 P22 million, set in December. Apart from RTG, Microgaming continues to provide its suite of casino games into various cafes.

e-Games site renovations, which began in 2013, continued into 2014. Each site renovation brought about an enhanced player experience, with newly-installed bars, lounges and crap tables. In 2015, e-Games will continue renovating its sites. The Company will also explore new trends to keep its core business at par with current industry standards.

The game distribution for the past year is split into four major categories: slots games, baccarat games, video poker games, and others. Slots continued its dominance, with a 62% market share in 2014, which is a clear indication that it remains a favorite amongst e-Games players. Meanwhile, Baccarat was the second highest at 21%. Video poker encompassed 10% of the total game distribution, while other games took up the remaining 7%.

MARKETING HIGHLIGHTS

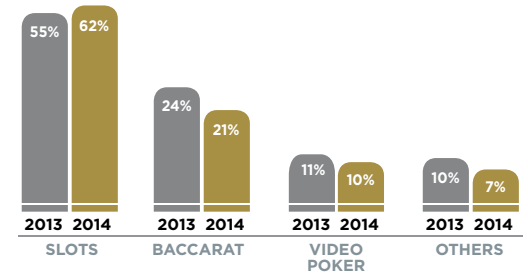
Launched in 2013, e-Games' Membership and Rewards Program enjoyed continued patronage in 2014. As of this writing, there are 70,000 registered accounts. As card-carrying members, e-Games players have access to a web-based interface that allows them to manage their accounts, participate in quarterly promotions, and redeem exclusive reward items. Raffle draws were also held in 2014, with more than P12 million in prizes given away.

In 2014, e-Games initiated the Club Platinum Program, a player retention program exclusive only for e-Games' super VIP (SVIP) players. SVIP clients are identified as high-rollers who have accumulated considerable playing time and significant wins. They are assigned with Relationship Managers who they can call at any time. Relationship Managers ensure that personalized attention is given toward delighting each and every client in this category and on infrequent instances, the timely resolution of any concerns SVIP members may have, from game play issues to general dissatisfaction.

The final component of the SVIP program is the Platinum card, which can be used to avail of discounts and upgrades from e-Games' high-end partner establishments. These partner establishments consist of selected retail stores, hotels, and restaurants.

SVIP clients enjoy more perks. A rewards program has been established wherein members may redeem their accumulated points for premium items such as high-end designer bags and trips to exclusive destinations like Balesin Island Club.

GAME DISTRIBUTION (2013 - 2014)



THE CAR OR A MILLION PROMO GENERATED 1.8 MILLION RAFFLE ENTRIES FROM 220 PARTICIPATING SITES.

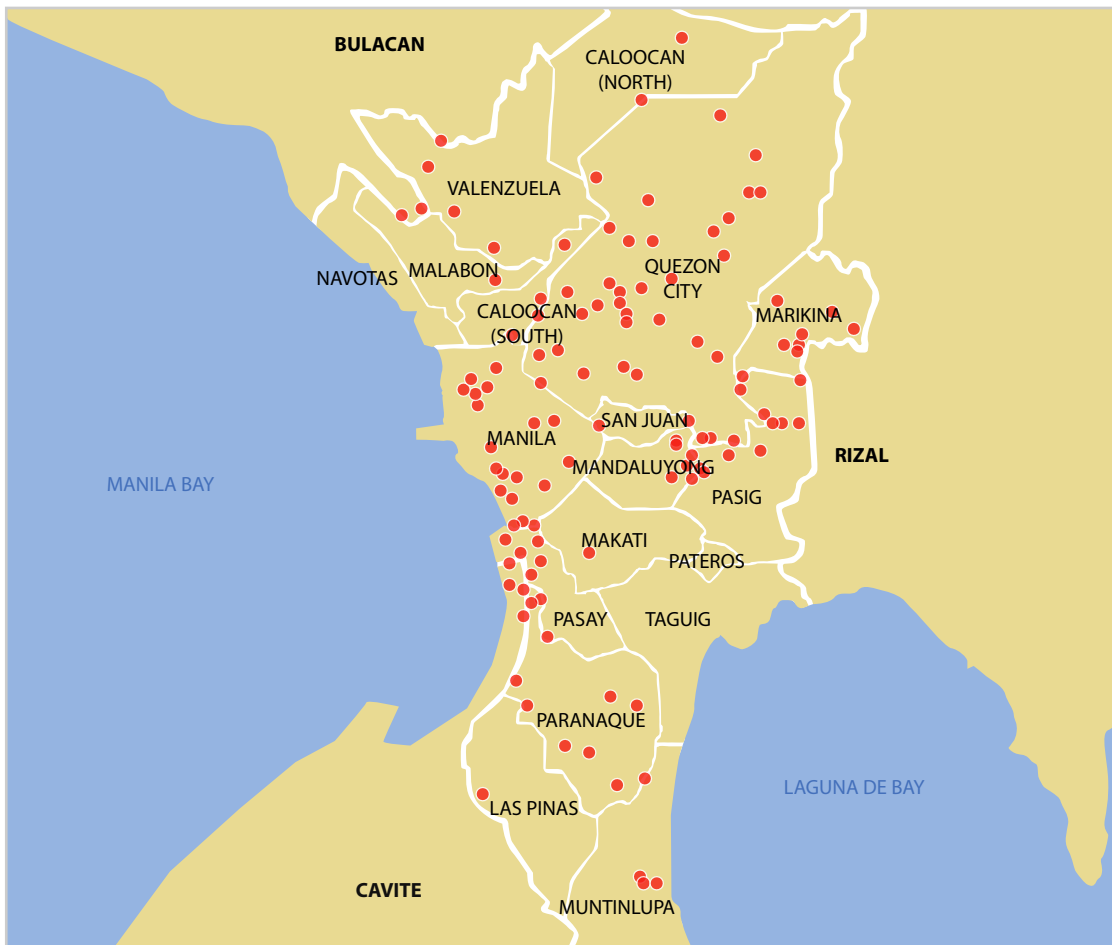
GOALS FOR 2015

e-Games key initiative in 2015 will be the activation of the Electronic Wallet (e-Wallet), which will allow players to leave credits in their accounts. This is a significant step forward from the current cash-only transaction model, reducing the various risks involved in the handling of cash. Players will enjoy the portability and security of keeping their credits within their electronic player account, knowing they have instant access to their balance at any e-Games terminal across the country. The e-Wallet will be launched in Q2 2015.

With the SVIP program launched in 2014, e-Games marketing will launch programs which will cater to different segments of the market. In terms of games, e-Games will introduce slots games which carry multi-level progressive jackpots. Instead of just one payout, there will be multiple jackpot winning opportunities.

e-Games will continue with its events and product activations, with focus on specific geographic segments.

117 e-Games Cafés in Metro Manila

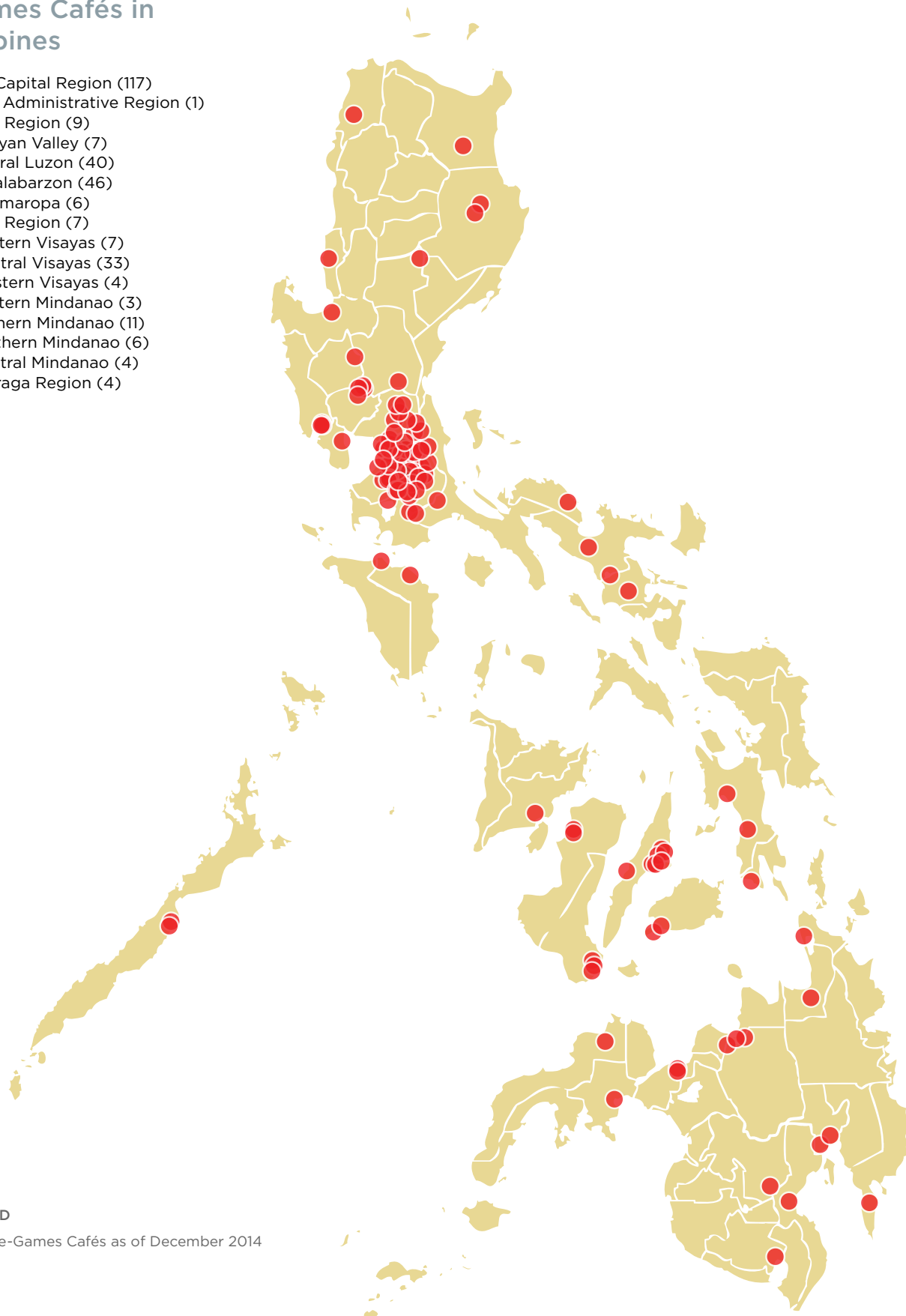


305 e-Games Cafés in the Philippines

- NCR - National Capital Region (117)
- CAR - Cordillera Administrative Region (1)
- Region I - Ilocos Region (9)
- Region II - Cagayan Valley (7)
- Region III - Central Luzon (40)
- Region IV A - Calabarzon (46)
- Region IV B - Mimaropa (6)
- Region V - Bicol Region (7)
- Region VI - Western Visayas (7)
- Region VII - Central Visayas (33)
- Region VIII - Eastern Visayas (4)
- 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 2014





BigGame, Inc.

BigGame, Inc. (BGI) is a wholly owned subsidiary of PhilWeb Corporation. It owns and operates 17 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.

BigGame delivered a top-line revenue of P213 million in 2014, up from P211 million in 2013. BGI was also able to acquire Sucat, an existing PEGS branch while its Blue Wave outlet was transferred to another location, bringing its total site count up from 16 to 17. Total gaming terminals is up by 4%, from 1063 terminals in 2013 to 1,110 terminals in 2014.

In 2014, BGI introduced several new concepts which were successfully met. These included the VIP Couple Seats which allowed couples to play alongside each other, VIP Pods that were patterned after business class airline seats, curved terminals, lounge chairs with dedicated tables and VIP booths with push recliner chairs. These were all well-received by BGI's clients.

Another new improvement that was introduced in BGI sites was the conversion of bar set-ups to lounge set-ups. Through extensive research, it was noted that customers enjoyed playing far longer on comfortable sofas rather than on bar stools. In 2015, BGI looks forward to deploying the Genesis line of gaming terminals from e-Magine Gaming, which will in turn provide a more engaging customer experience.

BGI MARKETING

In 2014, BGI's marketing efforts consisted of several key activities. The first was "Tis the Season to be Lucky," a three-month raffle activity which was launched in November. All BGI members were eligible to participate, with several of the winners of P100,000 coming from Cebu.

Another major event in 2014 that BGI participated in was the 14th Grand Wine Experience. Considered to be the biggest wine event in Southeast Asia, the event was held November 14, 2014 at the Grand Ballroom of the Marriott Hotel, Newport City. Organized annually by Philippine Wine Merchants the event focuses on fostering the promotion of wine drinking and was well-attended by wine enthusiasts, celebrities, international VIPs and members of Philippine society. BGI made its presence felt via a demonstration booth which was located at the ballroom's entrance. Here, guests could play and experience e-Games for free. Towards the end of the night, vouchers were given out as raffle prizes.



TOP: (L-R) LORAMAE PILAPIL (BGI CROSSROADS SITE SUPERVISOR) TOGETHER WITH SHERIL GUMBAN (BGI CEBU AREA MANAGER), MICHAEL MENDOZA (BGI ASSISTANT MANAGER FOR MARKETING) AND ROSENEB BASNILLO (BGI CEBU MARKETING ASSOCIATE) PRESENT THE CHECK TO THE WINNER OF PHP 100,000 WORTH OF SLOT LOAD

MIDDLE: MICHAEL MENDOZA (BGI ASSISTANT MANAGER FOR MARKETING) AND ORGANIZERS OF THE 14TH GRAND WINE EXPERIENCE AT THE MARRIOTT HOTEL

BOTTOM: THE NEW E-GAMES SLOTS GAMES (HEN HOUSE AND WHITE RHINO) WERE LAUNCHED LAST NOVEMBER 2014 FEATURING MULTI-JACKPOT SLOTS

BGI also celebrated the renovation of its Buendia branch with a launch. Held on December 21, 2014, the Buendia Renovation Launch featured numerous fun activities for its clients. These included “VIPs of the Day” promo, Random Seat Promo, Attendance Promo, and a Slots Tournament. Two new games were introduced during the Slots Tournament – White Rhino and Hen House. These two games represent the first of many Multi-level Progressive Jackpot games, which are differentiated by having both a major and minor cash prize.

BGI in 2015

In 2015, BGI will carry on with its site expansions and renovations to existing cafés and are planning four additional sites for the year.

BGI will continue to 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.

BGI’s marketing group will focus on its VIP program, which will target its high-roller customers. There will also be retention programs that will offer perks for VIPs when they reach a certain deposit amount or play at specific BGI sites. BGI will also conduct site promotions that aim to grow the player base and keep players engaged.

CUSTOMER SUPPORT

In 2014, changes were made to the Customer Support Department in an effort to streamline the service. The Field Support Group was merged into the IT Division to exploit possible synergies; and the remaining Contact Center operation was merged into the Gaming Division to provide a venue for customer feedback on the various projects that were being undertaken.

Despite these changes, the team continued to render multi-channel support 365 days a year, 24 hours a day for all PhilWeb products, to include e-Games members and operators and site staff, as well as customers of Premyo sa Resibo and MegaSportsWorld. There was an 8% increase in the number of transactions in 2014 -- over 300,000 calls and e-mails. Despite the volume, CS has maintained low single-digit call abandonment rates, enabling the team to answer at least 92% of all calls in 20 seconds coming from a 90% average in 2013, while majority of emails were responded to within the first 30-minutes. The nature of transactions were varied. Apart from incoming queries from customers and various stakeholders, the group also provided outbound call and e-mail support for other departments: Marketing - for promo announcements, reminders and contacts with promo winners; Information Technology - for advisories on the terminal migrations and other maintenance activities; and Finance - for cash collection and replenishment.

The team believes that the past year's success is the product of their sustained focus on (1) process improvements - to simplify handling of inquiries or fast track processing of requests and complaints, and (2) weekly team calibrations, mentoring and targeted coaching - to reinforce soft skills.

In 2015, the encompassing goal for all CS activities is to maximize significant opportunities for customer engagement with focus on strengthening direct to player relationships. The group plans to achieve this through expanded contact channels, a more regular and extended Customer Satisfaction survey, staff empowerment, new processes and support systems to better serve our customers, reduce service times and better tailoring of the customer experience.



e-Magine Gaming

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

e-Magine's Genesis 103 is a sleek and user-friendly console, utilizing a Windows-based operating platform to handle a multitude of unique and varied gaming applications.

The Genesis 103 is built for online casino gaming. Offering a greater experience with its 21-inch touch screen and all-in-one terminal capabilities, players begin their game play through the 103's casino lobby screen via their membership card. Players can insert money and collect tickets from the terminal without having to leave their seats.

ANTONIO K. GARCIA (SVP AND GM) AND
JOE PISANO (PRESIDENT - E-MAGINE GAMING CORPORATION)

2014 Highlights

e-Magine achieved two key highlights in 2014. The first was the Gaming Labs International, Inc. (GLI) certification which was awarded to the Company in December 2014. Since Q2 of 2014, e-Magine had been coordinating with GLI representatives to discuss and define the local and international requirements of the unit.

On August 7, 2014, e-Magine sent two units to GLI Macau Technical Center for initial testing then transferred the units to Adelaide, Australia for further testing. On December 18, 2014, Gaming Laboratories Australia issued PA-308-EMA-14-01 certifying the Genesis 103 for the hardware requirements of PAGCOR Technical Standards for Electronic Gaming Machine Version 1.0. This certification represents the local version of GLI-11.

In the future, PAGCOR will require local operators to comply with GLI certification or other similar equivalents. This puts e-Magine ahead of its competitors as the Company already has the certification requirements. Moving forward, the Company will keep adding to its GLI certification. GLI certification is an important component for e-Magine when it pushes into international markets requiring this industry standard.

Another highlight for e-Magine is the roll-out of 146 units of the Genesis 103 units in selected BGI branches. To date, BGI branches have utilized the traditional desktop computer setup for its gaming consoles. With the introduction of these sleek Genesis 103 units, players will now enjoy a more interactive gaming experience. Boasting a modern design with touchscreen terminals, the Genesis is a modular, customizable gaming machine that can be adjusted to one's preferred viewing angle.



GENESIS 103 CONSOLE

Corporate Services

FINANCE

The PhilWeb Finance Department demonstrates excellence in maintaining the integrity of our financial reports. It continuously develops and implements financial systems and internal control policies to safeguard the Company's assets and resources. Its role has also evolved from pencil pushers or number generators for the organization to a business partner of the other departments. Our Finance Department has become the catalyst for other areas to achieve their respective cost and revenue targets, thereby allowing the whole organization to achieve its objective for the Stakeholders.

One of the critical, if not the most critical, role of finance is to make sure that all cash from the nationwide network of e-Games are collected in a timely and accurate manner. Thru our Company-proprietary POS system and 24/7 operation of our Cash Centers, we are able to monitor cash exposure thereby making it possible for us to collect or replenish the cash needs of each site almost immediately. Coupled with the strict implementation of collection policies, we are able to manage our cash with very minimal risk to the Company. The Company also has partner banks that accept payments or fund transfers on behalf of the Company.

In 2014, we established another business location right in the heart of the business district of Pasig City. The new location includes Field, IT, Customer Service and Cash Center departments. This enabled us to provide faster and more efficient services to our clientele and partners.

LEGAL

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

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



ZALDY M. PRIETO (SVP AND CFO), ATTY. RAYMUND S. AQUINO (AVP - LEGAL),
ATTY. RODOLFO MA. A. PONFERRADA (SVP AND GROUP LEGAL COUNSEL),

INFORMATION TECHNOLOGY

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

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

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

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



MONA LIZA I. NAVARRO (VP-INFORMATION TECHNOLOGY)

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

The Security and Compliance Department is primarily concerned with ensuring that proper security measures are in place. These measures cover network, software, application, and the social engineering of PhilWeb's IT infrastructure.

Highlights in 2014

After strengthening network security in 2013, the objective for 2014 was focused on supporting Philweb's goals in providing a better gaming experience for its E-Games patrons. This year, the account-based play, for which IT has provided a new infrastructure, will be fully integrated with the existing e-Games Membership and Rewards platform, which will also include enhanced monitoring, management and support tools.

2015 Goals

While its goal of providing the right technology and technical services remains unchanged, PhilWeb's IT Department is also looking to enhance the Company's operations through the efficient delivery of IT services. The group will also focus on aligning its services to the industry's best practices and trends to improve both the external and internal customer experience.



CARLA VARGAS NUYDA (AVP - HR & ADMINISTRATION)

HUMAN RESOURCES AND ADMINISTRATION

The Company's Human Resources and Administration Department continues to focus on (1) ensuring that employees receive timely compensation and benefits services, (2) offering greater opportunities for growth, and (3) providing efficient company-wide purchasing and logistics services.

Four employees celebrated their 10th year with the Company while 20 others reached their 11th to 14th years of loyal service, thus proving that PhilWeb Corporation remains one of the employers of choice in the gaming industry.

Sixty employees, compared with only 20 in 2013, mostly from the IT development and infrastructure departments, were provided with outside training and skills development.

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

Sixty employees participated in the Company's second Eco-Awareness Program in November. This was conducted by Haribon Foundation, Inc. as part of their "Road 2020 Movement" to restore one million hectares of Philippine rainforests. The employees were divided into two groups and each group spent one day at Haribon Foundation's Bahay Punlaan along the Caliraya-Cavinti Road in Laguna. Forest rangers led participants through nursery activities (sifting soil, packing soil in plastic bags for seedlings, pruning and transferring seedlings), a little hiking and tree-planting activities.

The Administration Team, which handles purchasing and logistics, had a busy 2014 - moving offices and building new e-Games sites. The move of PhilWeb Corporation's 24/7 operations from the 19th floor of Alphaland Southgate Tower in Makati to the 41st floor of One San Miguel Avenue building in Ortigas was completed on schedule in June 2014. The Administration Team also oversaw the repairs of six e-Games sites as well as the renovation and construction of three others, all under BigGame.



TOP: ZALDY M. PRIETO, DENNIS O. VALDES AND BRIAN K. NG AT THE ONE SAN MIGUEL OFFICE BLESSING AND RIBBON CUTTING

MIDDLE AND BOTTOM: PHILWEB EMPLOYEES AT THE TREE PLANTING ACTIVITY HELD AT HARIBON FOUNDATION'S BAHAY PUNLAAN, CALIRAYA, LAGUNA

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. Management strongly believes that computer education is the way for the Company to provide continued service to its direct constituents and the country at large. Thus, through the PhilWeb Foundation, it has awarded deserving students with scholarships to the University of the Philippines since 2011. These scholars have been provided their full tuition and living allowance. The scholarship is offered to deserving and qualified students who take up IT-related courses such as BS Computer Science or BS Computer Engineering. One scholar graduated in 2014 and is now a successful full-time employee in PhilWeb's IT Development Department.

AWARDING OF PERSONAL COMPUTERS TO STUDENTS AND TEACHERS OF SCHOOLS IN PASIG

PhilWeb Foundation donated computers in 2014, mostly to public schools and church communities such as:

- a) CBCP (Central Secretariat), Mandaluyong City
- b) Napico Elementary School, Pasig City
- c) Rizal High School, Pasig City
- d) Sagad High School, Pasig City
- e) Victory Christian Fellowship, Pasig City
- f) St. Peter Apostle Parish, Pasig City

Using 20 computers donated by PhilWeb Foundation, the Makati City Jail partnered with the University of Makati to provide computer classes to inmates. The first batch completed their basic computer program on July 23, 2014. This program aims to help them reintegrate into society upon their release. The graduates will not only be given certificates of completion, but also a chance to start a new life.

Forty personal computers were likewise donated to the Alternative Learning System of the New Bilibid Prison, Muntinlupa City, as part of their skills development program.



TOP: AWARDING OF THE CERTIFICATES OF COMPLETION TO THE GRADUATES OF THE COMPUTER CLASSES HELD AT MAKATI CITY JAIL

MIDDLE: ATTY. RAYMUND S. AQUINO, AVP - LEGAL AND MR. DOMINGO REARTE, GENERAL SERVICES SENIOR MANAGER, AWARDING CERTIFICATES OF RECOGNITION TO THE OFFICERS OF NEW BILIBID PRISON IN MUNTINLUPA CITY

BOTTOM: INMATES OF THE NEW BILIBID PRISON DURING THEIR COMPUTER CLASS

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.

MARIO A. ORETA was elected Director of the Company in March 2005 and Vice Chairman in July 2014. He is also currently the President of Alphaland Corporation, Alphaland Development, Inc., Alphaland Balesin Island Resort Corporation, Alphaland Makati Place, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Property Management Corporation and Chief Operating Officer of Jet Eagle International Limited, Inc. He is the Chairman of Major Holdings, Inc., Major Properties, Inc., and Major Homes, Inc. He is also a Director of Atok-Big Wedge Co., Inc. He was the Founder and Managing Partner of Tanjuatco Oreta and Factoran Law Offices. He obtained his law degree from the Ateneo de Manila University.

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

TOMAS I. ALCANTARA was elected Independent Director of the Company in May 2002. He 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.

SENATOR EDGARDO J. ANGARA was elected Director of the Company in May 2014. He was the longest serving senator in the post-EDSA Senate, authoring

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

GREGORIO MA. ARANETA III was elected Independent Director of the Company in May 2014. He is the Chairman and Chief Executive Officer of Araneta Properties, Inc. since 2010. He is 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.

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

VICTOR C. MACALINCAG was elected as Independent Director in 2014. He is also currently an Independent Director of Crown Equities, Inc. and a Director of Semirara Mining Corporation, Republic Glass Holdings Corp., SEM Calaca 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.

EDGAR BRIAN K. NG was elected Director of the Company in May 2014. He is currently the Senior Vice President for 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.

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.

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

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.

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

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



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, 2014 and 2013, 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.


ROBERTON N. ONGPIN
Chairman


DENNIS O. VALDES
President


ZALDY M. PRIETO
SVP & Chief Financial Officer

Signed this 16th day of February 2015



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Branches - Subic - Cebu - Bacolod - Iloilo

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, 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, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PhilWeb Corporation and Subsidiaries as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2014 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. 4748117MC

Issued January 5, 2015 at Makati City

February 16, 2015

Makati City, Metro Manila

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	<i>Note</i>	2014	2013
ASSETS			
Current Assets			
Cash and cash equivalents	4, 22	P374,949,875	P341,990,428
Accounts receivable - net	5, 7, 15, 22	299,627,945	253,868,791
Inventories	6	106,252,113	56,010,531
Notes receivable - net	7, 22	360,248,864	312,910,738
Prepaid expenses and other current assets - net	8	92,707,211	98,368,624
Total Current Assets		1,233,786,008	1,063,149,112
Noncurrent Assets			
Investments in associates	9	15,090,229	14,764,861
Noncurrent notes receivable	7, 22	583,200,000	656,100,000
Property and equipment - net	10	218,178,406	246,408,600
Deferred tax assets - net	14	14,724,999	17,565,805
Other noncurrent assets - net	11, 22	49,536,262	44,170,803
Total Noncurrent Assets		880,729,896	979,010,069
		P2,114,515,904	P2,042,159,181
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	12, 22	P227,705,155	P211,034,221
Notes payable	13, 22	700,000,000	1,200,000,000
Income tax payable		126,117,876	1,260,327
Total Current Liabilities		1,053,823,031	1,412,294,548
Noncurrent Liabilities			
Retirement benefits liability	20	18,497,425	27,966,784
Operators' deposits	21, 22	52,055,000	50,755,000
Total Noncurrent Liabilities		70,552,425	78,721,784
Total Liabilities		1,124,375,456	1,491,016,332
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	16	1,388,916,731	1,388,913,231
Additional paid-in capital	16	1,081,882,866	1,081,837,366
Stock options reserve	16	4,604,050	4,042,818
Retained earnings	16	2,521,083,685	2,085,982,906
Cumulative translation adjustment		5,495,982	2,332,768
Remeasurement losses on defined benefit liability - net of tax	20	(1,148,147)	(1,385,865)
Treasury stock	16	(3,941,779,041)	(3,941,779,041)
		1,059,056,126	619,944,183
Non-controlling interest		(68,915,678)	(68,801,334)
Total Equity		990,140,448	551,142,849
		P2,114,515,904	P2,042,159,181

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
REVENUES				
Internet application services		P1,420,061,597	P1,247,766,350	P1,161,787,503
Commission		212,663,060	210,866,438	183,311,753
Scratch cards		7,231,918	35,066,976	138,490,667
		1,639,956,575	1,493,699,764	1,483,589,923
OPERATING EXPENSES				
Salaries and benefits	<i>15, 17, 20</i>	118,036,531	128,755,412	151,845,477
Depreciation and amortization	<i>10</i>	103,445,643	131,724,161	96,727,428
Outsourced services		89,180,634	94,198,851	85,321,188
Utilities and communications		88,011,890	70,739,545	58,186,003
Rental	<i>19</i>	66,727,033	70,858,880	60,201,799
Impairment losses	<i>5, 6, 7, 8</i>	44,400,909	198,472,147	19,145,556
Representation and entertainment		42,154,396	56,977,076	50,124,463
Supplies		19,407,022	26,386,566	28,719,474
Taxes and licenses		11,390,830	14,251,192	15,025,769
Professional fees		8,853,134	12,136,793	16,744,483
Advertising and promotion		4,434,649	15,777,742	15,893,244
Operator incentives and commissions		1,273,092	9,917,553	24,647,224
Miscellaneous		10,535,037	8,788,123	9,749,154
		607,850,800	838,984,041	632,331,262
OPERATING INCOME		1,032,105,775	654,715,723	851,258,661
OTHER INCOME (CHARGES)				
Interest income	<i>4, 7</i>	59,799,886	22,500,401	36,644,180
Equity in net earnings of associates	<i>9</i>	325,368	86,072,773	39,906,058
Foreign exchange gain (loss) - net		(3,121,758)	3,579,333	-
Interest expense	<i>13</i>	(49,569,583)	(22,072,431)	-
Gain (loss) on sale of equity investment	<i>9</i>	-	(551,958,543)	181,242,227
Miscellaneous - net		(826,782)	(2,856,444)	126,000
		6,607,131	(464,734,911)	257,918,465
INCOME BEFORE INCOME TAX		1,038,712,906	189,980,812	1,109,177,126
INCOME TAX EXPENSE				
(BENEFIT) - Net	<i>14</i>	134,837,218	(12,913,743)	12,889,548
NET INCOME		P903,875,688	P202,894,555	P1,096,287,578
Net Income (Loss) Attributable to				
Equity holders of the Parent				
Company		P903,990,032	P280,215,819	P1,092,992,616
Non-controlling interest		(114,344)	(77,321,264)	3,294,962
		P903,875,688	P202,894,555	P1,096,287,578
EARNINGS PER SHARE				
ATTRIBUTABLE TO EQUITY				
HOLDERS OF THE PARENT				
COMPANY				
Basic	<i>18</i>	0.7712	0.2106	0.7411
Diluted	<i>18</i>	0.7706	0.2106	0.7411
<i>EBITDA</i>	<i>25</i>	P1,176,003,787	P985,634,920	P967,257,645

Forward

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will never be reclassified to profit or loss				
Remeasurement gains (losses) on defined benefit liability	20	P339,596	P5,002,443	(P5,433,871)
Deferred tax effect on remeasurement gains (losses) on defined benefit liability		(101,878)	(1,500,733)	1,630,161
		237,718	3,501,710	(3,803,710)
Item that can be reclassified to profit or loss				
Foreign exchange translation adjustment		3,163,214	5,501,730	(3,168,962)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		3,400,932	9,003,440	(6,972,672)
TOTAL COMPREHENSIVE INCOME - Net of tax		P907,276,620	P211,897,995	P1,089,314,906
Total Comprehensive Income (Loss) Attributable to				
Equity holders of the Parent Company		P907,359,332	P288,008,878	P1,086,717,116
Non-controlling interest		(82,712)	(76,110,883)	2,597,790
		P907,276,620	P211,897,995	P1,089,314,906

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									
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Remeasurement Gain (Losses) on Defined Benefit Liability - Net of Tax (Note 20)	Treasury Stock (Note 16)	Total	Non-controlling Interest	Total Equity
As at January 1, 2012	P1,111,482,037	P536,495,656	P -	P1,509,777,252	P -	(P1,083,865)	(P126,492)	P3,156,544,588	P4,049,968	P3,160,594,556
Stock subscription	25,120,000	545,341,710	-	(252,311,194)	-	-	-	570,461,710	-	570,461,710
Stock dividends	252,311,194	-	-	-	-	-	-	(2,540,791,229)	-	(2,540,791,229)
Acquisition of treasury stock	-	-	-	-	-	-	(2,540,791,229)	1,480,441,701	-	1,480,441,701
Reissuance of treasury stock	-	-	-	-	-	-	1,480,441,701	-	-	1,480,441,701
Increase in non-controlling interest	-	-	-	(277,017,996)	-	-	-	(277,017,996)	1,175,000	1,175,000
Cash dividends	-	-	-	-	-	-	-	-	-	(277,017,996)
Cost of stock option	-	-	4,422,064	-	-	-	-	4,422,064	-	4,422,064
	277,431,194	545,341,710	4,422,064	(529,329,190)	-	-	(1,060,349,528)	(762,483,750)	1,175,000	(761,308,750)
Total comprehensive income (loss)										
Net income for the year	-	-	-	1,092,992,616	-	-	-	1,092,992,616	3,294,962	1,096,287,578
Other comprehensive loss for the year:										
Foreign exchange translation adjustment	-	-	-	-	(3,168,962)	-	-	(3,168,962)	-	(3,168,962)
Remeasurement losses on defined benefit liability - net of tax	-	-	-	-	-	(3,803,710)	-	(3,803,710)	-	(3,803,710)
Total comprehensive income (loss)	-	-	-	1,092,992,616	(3,168,962)	(3,803,710)	-	1,086,019,944	3,294,962	1,089,314,906
As at December 31, 2012	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)	3,480,080,782	8,519,930	3,488,600,712
Acquisition of treasury stock	-	-	-	-	-	-	(2,881,303,021)	(2,881,303,021)	-	(2,881,303,021)
Cash dividends	-	-	-	(267,673,591)	-	-	-	(267,673,591)	-	(267,673,591)
Reversal of stock option	-	-	(379,246)	-	-	-	-	(379,246)	-	(379,246)
	-	-	(379,246)	(267,673,591)	-	-	(2,881,303,021)	(3,149,355,858)	-	(3,149,355,858)
Total comprehensive income (loss)										
Net income (loss) for the year	-	-	-	280,215,819	-	-	-	280,215,819	(77,321,264)	202,894,555
Other comprehensive income for the year:										
Foreign exchange translation adjustment	-	-	-	-	5,501,730	-	-	5,501,730	-	5,501,730
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	3,501,710	-	3,501,710	-	3,501,710
Total comprehensive income (loss)	-	-	-	280,215,819	5,501,730	3,501,710	-	289,219,259	(77,321,264)	211,897,995
As at December 31, 2013	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)	P619,944,183	(P68,801,334)	P551,142,849

Forward

Years Ended December 31

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 1 and 16)	Paid-in Capital (Note 16)	Additional Capital (Note 16)	Stock Options Reserve (Note 16)	Retained Earnings (Note 16)	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on Defined Benefit Liability - Net of Tax (Note 20)	Treasury Stock (Note 16)	Total	Non-controlling Interest	Total Equity
As at December 31, 2013	P1,388,913,231	P1,081,837,366	45,500	P4,042,818	P2,085,982,906	P2,332,768	(P1,385,865)	(P3,941,779,041)	P619,944,183	(P68,801,334)	P551,142,849
Stock subscription	3,500	-	-	-	-	-	-	-	49,000	-	49,000
Cash dividends	-	-	-	-	(468,889,253)	-	-	-	(468,889,253)	-	(468,889,253)
Cost of stock option	-	-	-	561,232	-	-	-	-	561,232	-	561,232
	3,500	-	45,500	561,232	(468,889,253)	-	-	-	(468,279,021)	-	(468,279,021)
Total comprehensive income (loss)	-	-	-	-	903,990,032	-	-	-	903,990,032	(114,344)	903,875,688
Net income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year:	-	-	-	-	-	3,163,214	-	-	3,163,215	-	3,163,215
Foreign exchange translation adjustment	-	-	-	-	-	-	-	-	-	-	-
Remeasurement gains on defined benefit liability - net of tax	-	-	-	-	-	237,718	-	-	237,717	-	237,717
Total comprehensive income (loss)	-	-	-	-	903,990,032	3,163,214	237,718	-	907,390,964	(114,344)	907,276,620
As at December 31, 2014	P1,388,916,731	P1,081,882,866	45,500	P4,604,050	P2,521,083,685	P5,495,982	(P1,148,147)	(P3,941,779,041)	P1,059,056,126	(P68,915,678)	P990,140,448

See Notes to the Consolidated Financial Statements

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P1,038,712,906	P189,980,812	P1,109,177,126
Adjustments for:				
Depreciation and amortization	<i>10</i>	103,445,643	131,724,161	96,727,428
Interest expense	<i>13</i>	49,569,583	22,072,431	-
Impairment losses	<i>5, 6, 7, 8</i>	44,400,909	198,472,147	19,145,556
Retirement benefits cost	<i>17, 20</i>	5,870,237	7,238,055	4,989,565
Cost (reversal) of stock option	<i>16, 17</i>	561,232	(379,246)	4,422,064
Gain on disposals of property and equipment		(1,000)	(126,020)	(126,000)
Unrealized foreign exchange loss (gain)		(21,980)	(876,877)	467,689
Equity in net earnings of associates	<i>9</i>	(325,368)	(86,072,773)	(39,906,058)
Interest income	<i>4, 7</i>	(59,799,886)	(22,500,401)	(36,644,180)
Loss (gain) on sale of equity investment	<i>9</i>	-	551,958,543	(181,242,227)
Operating income before working capital changes		1,182,412,276	991,490,832	977,010,963
Increase in:				
Accounts receivable		(5,401,945)	(55,801,442)	(38,534,190)
Inventories		(57,656,145)	(46,062,405)	(6,604,204)
Prepaid expenses and other current assets		(31,324,933)	(44,926,549)	(55,803,989)
Increase (decrease) in				
Accounts payable and accrued expenses		18,267,358	(40,152,885)	80,179,712
Cash generated from operations		1,106,296,611	804,547,551	956,258,292
Interest received		19,442,677	22,500,401	36,644,180
Income tax paid		(7,240,741)	(7,706,157)	(10,429,805)
Contribution to the retirement fund	<i>20</i>	(15,000,000)	-	-
Interest paid		(51,166,007)	(17,745,000)	-
Net cash provided by operating activities		1,052,332,540	801,596,795	982,472,667
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	<i>10</i>	(75,215,449)	(97,687,810)	(160,322,260)
Proceeds from disposals of:				
Property and equipment		1,000	257,100	126,000
Equity investment		-	558,267,849	81,000,000
Decrease (increase) in:				
Notes receivable		25,561,874	(19,808,093)	(713,404,846)
Investments in associates		3,163,214	(5,449,781)	728,707,020
Other noncurrent assets		(5,365,459)	(1,711,810)	(6,878,648)
Net cash provided by (used in) investing activities		(51,854,820)	433,867,455	(70,772,734)

Forward

		Years Ended December 31		
	<i>Note</i>	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		P -	P1,200,000,000	P -
Payments of loans		(500,000,000)	-	-
Proceeds from subscriptions to and issuances of common stock		49,000	-	570,461,710
Increase in operators' deposits		1,300,000	2,455,000	6,000,000
Increase in non-controlling interest		-	-	1,175,000
Acquisition of treasury shares, net of reissuance	<i>16</i>	-	(2,881,303,021)	(1,060,349,528)
Cash dividends paid	<i>16</i>	(468,889,253)	(267,673,591)	(277,017,996)
Net cash used in financing activities		(967,540,253)	(1,946,521,612)	(759,730,814)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		21,980	876,877	(467,689)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		32,959,447	(710,180,485)	151,501,430
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	<i>4</i>	341,990,428	1,052,170,913	900,669,483
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	<i>4</i>	P374,949,875	P341,990,428	P1,052,170,913

See Notes to the Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

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

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

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

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

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

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

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhilWeb Convergence Corporation ^(a)	Internet access provider	September 6, 2000, PH	100	-
PhilWeb Cyberworld Corporation ^(a)	Operates internet cafes and kiosks	July 6, 2000, PH	100	-
PhilWeb Software Corporation ^(a)	Computer software programming and development services	April 3, 2000, PH	100	-
BigGame, Inc.	Operates internet casino stations	February 11, 2005, PH	100	-
Premyo sa Resibo, Inc. ^(f)	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 ^(a)	Develops, engages and maintains gaming systems and applications for all types of casino operations whether land-based, internet-based or virtual	December 22, 2006, PH	100	-
e-Magine Gaming Corporation ^(b)	Develops technology for the gaming industry	May 8, 2007, PH	90	-

Subsidiaries	Line of Business	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhilWeb Leisure & Tourism Corporation ^(a)	Establishes, operates, and maintains leisure and tourism-oriented activities	June 6, 2007, PH	100	-
PhilWeb Tourism and Entertainment Corporation ^(a)	Establishes, operates and maintains leisure-oriented activities, except in the travel agency business, and facilities such as but not limited to hotels, courts, stadiums and other facilities for the conduct of any and all kinds of sports and games	July 26, 2007, PH	100	-
PhilWeb International Gaming Corporation ^(c)	Engages in international gaming ventures including all forms of gaming which are legal in the countries in which it operates	November 18, 2009, PH	100	-
Easy e-Bingo, Inc. ^(h)	Engages in the business of setting up internet bingo stations and its operations	October 23, 2009, PH	100	-
PhilWeb Mobile Lottery Corp. ^(a)	Operate, as may be permitted by law, either alone or in partnership with others, mobile-based lottery games and other related mobile games offerings	February 3, 2010, PH	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
PhilWeb Lorosae, Lda ^(g)	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
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
Guam Sweepstakes Corp.	Incorporated in the Territory of Guam and entered into a Memorandum of Agreement with a prominent local family and launched its first sweepstakes café in October 2011	May 20, 2011, Guam	-	51
Gold Scratch and Win Co., Ltd. ^(g)	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 ^(d)	Establishes, operates and provides consultancy services with regard to amusement, recreational, gaming and gaming equipment facilities and enterprises of every kind and nature	July 29, 2008, PH	30	-

Special Purpose Entities	Purpose	Percentage of Ownership	
		Direct	Indirect
Pure Corporate Investments Ltd. ^(e)	Holds 50% ownership in Host Union	100	-

(a) Not in commercial operations as at December 31, 2014.
(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) Ceased commercial operations effective October 1, 2014.
(g) Dissolution of PhilWeb Lorosae, Lda and Gold Ccratch and Win Co., Ltd. was approved by the Board of Directors on December 19, 2014 and January 16, 2015, respectively.
(h) Formerly PhilWeb Homeplay, Inc. (PHI), change in registered business activity and business name were approved by the SEC on April 7, 2014.

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2014, 2013 and 2012, 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 (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations, issued by the Financial Reporting Standards Council.

The consolidated financial statements were approved and authorized for issuance by the Chairman, President and Chief Financial Officer on February 16, 2015, respectively, as authorized by the BOD of the Parent Company. This is presented and also approved by the Parent Company's Audit Committee on January 28, 2015.

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 and retirement benefits asset/liability which are measured at fair value of plan assets less the present value of the defined benefit obligation.

Functional and Presentation Currency

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

Basis of Consolidation

Subsidiaries

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

Special Purpose Entity (SPE)

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

Non-controlling Interests

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

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

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

Loss of Control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related 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, unrealized income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in preparing the consolidated financial statements, in accordance with the accounting policy on consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

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

Use of Judgments and Estimates

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

The 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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 critical judgments and estimation uncertainty 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 the reporting period and their respective profit or loss is translated at the monthly weighted average exchange rates during the year. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of PCL, PLL, GSC, and GSW the related cumulative translation adjustments shall be recognized in profit or loss.

Determination of Control and Significant Influence

An entity controls an investee when: (a) it has power over the investee, (b) it is exposed or has rights to variable returns from its involvement with that investee, and (c) it has the ability to affect those returns through its power over the investee. The Parent Company has 30% ownership 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.

Classifying Financial Instruments

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

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

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

Determining Fair Values

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

Determining whether an Arrangement Contains a Lease

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

Operating Leases

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

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

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

Rent expense recognized in profit or loss amounted to P66.7 million, P70.9 million, and P60.2 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 19).

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, 2014 and 2013, allowance for impairment losses on receivables amounted to P105.0 million and P148.5 million, respectively (see Notes 5 and 7).

Estimating Net Realizable Value (NRV) of Inventories

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

As at December 31, 2014 and 2013, allowance for inventory write-down amounted to P7.4 million and nil, respectively (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, 2014 and 2013, allowance for impairment losses on input VAT amounted to P164.5 million and P127.5 million, respectively (see Note 8).

Estimating Allowance for Impairment Losses on Nonfinancial Assets

The Group assesses impairment of nonfinancial assets other than input VAT, DTA and inventories 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, 2014 and 2013 (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, 2014 and 2013 amounted to P218.2 million and P246.4 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 P14.7 million and P17.6 million as at December 31, 2014 and 2013, respectively. On the other hand, the Group has temporary differences aggregating to P178.2 million and P197.6 million as at December 31, 2014 and 2013, 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, 2014 and 2013, retirement benefits liability amounted to P18.5 million and P28.0 million, respectively. Retirement benefits cost for the years ended December 31, 2014, 2013 and 2012 amounted to P5.9 million, P7.2 million, and P5.0 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 P0.6 million, (P0.4 million) and P4.4 million for the years ended December 31, 2014, 2013 and 2012, 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).

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 amendment to standards beginning January 1, 2014 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.

- *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.

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 does not plan to adopt these standards early.

To be Adopted on January 1, 2015

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 and 2013 Cycles* - various standards contain amendments to nine standards, with changes made to other standards and interpretations. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40.
- *PAS 24, Related Party Disclosures* - Definition of 'related party'

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

- *PFRS 2, Share Based Payments* - Definition of ‘vesting conditions’

PFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition.’ The amendment also clarifies both: how to distinguish between a market and a non-market performance condition; and the basis on which a performance condition can be differentiated from a non-vesting condition.

- *PFRS 8, Operating Segments* - Disclosures on the aggregation of operating segments

PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets is required only if this information is regularly provided to the entity’s chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- *PFRS 13, Fair Value Measurement* - Measurement of short-term receivables and payables

The amendments clarify that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.

To be Adopted on January 1, 2018

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

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

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

Update on the New Revenue Standard issued by the IASB

- On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted.

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 (excluding due to government agencies), notes payable, and operators' deposits.

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done 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, 2014 and 2013.

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.

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

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

Other Financial Liabilities

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 (excluding due to government agencies), notes payable, and operators' deposits.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

Input VAT is stated at its estimated NRV.

Property and Equipment

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

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs 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 a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for 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 of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm’s length transaction less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and

from its disposal at the end of its useful life. 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.

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 reporting date are dealt with as an event after the reporting date. Retained earnings may also include effects of changes in accounting policy as may be required by the standard's traditional provisions.

Treasury Shares

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

Transactions under Common Control

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

Segment Reporting

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

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

Share-based Transactions

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

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

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

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

Revenue and Expense Recognition

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

Internet Application Services

Internet application services income refers to revenues earned from providing technical, marketing and cash management services for internet gaming operations of PAGCOR, particularly for sports betting and internet casino operations. Revenue is based on agreed percentages of net winnings from the sports betting and internet casino operations. For sports betting, net winnings are 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 are 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 that 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.

Commission

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

Scratch Cards

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

Interest

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

Expenses

Expenses are recognized when incurred.

Operating Leases

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

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

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

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

Earnings Per Share

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

Related Parties

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

Provisions and Contingencies

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

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

Events After the Reporting Date

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

4. Cash and Cash Equivalents

This account at December 31 consists of:

	<i>Note</i>	2014	2013
Cash on hand		P5,393,655	P11,210,018
Cash in banks	22	148,511,929	176,737,797
Short-term investments	22	221,044,291	154,042,613
	22	P374,949,875	P341,990,428

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 P2.5 million, P6.2 million and P17.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

5. Accounts Receivable

This account at December 31 consists of:

	<i>Note</i>	2014	2013
Trade receivables		P84,759,162	P81,855,035
Advances to customers/suppliers		82,642,572	109,418,951
Receivables from non-affiliated entities		72,821,506	45,100,342
Interest receivable	7	46,763,548	6,406,339
Advances to related a party	15	34,150,738	48,314,523
Receivable from PAGCOR		33,478,483	33,478,483
Receivables from PeGS operators		32,707,925	27,867,772
Claims from telecommunication companies		13,091,913	12,066,824
Others		4,225,807	3,886,046
		404,641,654	368,394,315
Less allowance for impairment losses on:			
Trade receivables		79,359,076	79,359,076
Advances to customers/suppliers		23,432,139	32,943,954
Receivable from PAGCOR		1,580,003	1,580,003
Claims from telecommunication companies		642,491	642,491
		105,013,709	114,525,524
	22	P299,627,945	P253,868,791

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

	2014	2013
Balance at beginning of year	P114,525,524	P672,490
Impairment losses during the year	-	114,525,524
Reversal during the year	-	(672,490)
Write-off of receivables	(9,511,815)	-
Balance at end of year	P105,013,709	P114,525,524

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

Advances to customers/suppliers pertain to advance payments on services/goods to be incurred/delivered in connection with the Group's operations which can be refunded or collected under the terms of agreement. The account includes interest bearing loans extended to the operators. These loans are short-term in nature and bear interests of 8% to 10% per annum. Interest income pertaining to the loans amounted to P3.7 million, P3.6 million and P2.5 million in 2014, 2013 and 2012, respectively.

Receivables from non-affiliated entities pertain mainly to unpaid balance from the disposal of the Group's investments in ISM amounting to P45.1 million (see Note 9). These also include foreign exchange losses/gains on notes receivable in Note 7 that are being charged to ISM.

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

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

6. Inventories

This account at December 31 consists of:

	2014	2013
At cost:		
Gaming terminals	P106,252,113	P49,796,155
At NRV:		
Scratch cards	-	6,214,376
	P106,252,113	P56,010,531

The cost of scratch cards amounted to P7.4 million and P6.2 million as at December 31, 2014 and 2013, respectively.

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

Scratch cards consist of inventories of GSW which ceased its operations during the year.

Due to the cessation, the Group written down its inventories to NRV.

7. Notes Receivable

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

	2014	2013
At original currency		
Euro 3.9 million	P214,448,864	P240,010,738
USD 0.8 million	-	34,012,881
PHP 729 million	729,000,000	729,000,000
	943,448,864	1,003,023,619
Less allowance for impairment losses	-	34,012,881
	P943,448,864	P969,010,738

The Euro loan bears an annual interest of 90-day Euro LIBOR plus 550 basis points (bps). The balance will mature on December 29, 2015.

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 Parent Company collected P5.0 million, which is equivalent to US\$112.6 thousand in 2013.

The peso loan arose from the sale of investments in Acentic through the Group's investments in Host Union.

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 peso notes receivable are as follows:

	<i>Note</i>	2014	2013
Due within one year		P145,800,000	P72,900,000
Due between one and ten years		583,200,000	656,100,000
	22	P729,000,000	P729,000,000

The interest income earned on the notes receivable amounted to P53.6 million, P12.7 million, and P16.8 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is shown as part of “interest income” in the consolidated statements of comprehensive income.

On December 18, 2014, the Board approved the write-off of the P34.0 million notes receivable.

8. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	2014	2013
Input value-added tax (VAT) - net of allowance for impairment losses	P63,696,819	P68,228,409
Prepaid rent	16,184,446	12,942,014
Prepaid license	-	4,975,277
Prepaid insurance	6,016,694	6,871,063
Other prepaid expenses	6,495,906	4,608,002
Other current assets	313,346	743,859
	P92,707,211	P98,368,624

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

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

	2014	2013
Balance at beginning of year	P127,502,630	P76,896,398
Impairment losses during the year	36,986,346	50,606,232
Balance at end of year	P164,488,976	P127,502,630

9. Investments in Associates

This account at December 31 consists of:

	2014		Total
	Choice Insurance	Alphaforce	
Percentage Ownership	30%	40%	
Cost of Investment			
Balance at beginning/end of year	P6,951,510	P7,999,900	P14,951,410
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year	(503,365)	316,816	(186,549)
Equity in net earnings (losses) for the year	(665,740)	991,108	325,368
Balance at end of year	(1,169,105)	1,307,924	138,819
	P5,782,405	P9,307,824	P15,090,229

	2013			Total
	ISM	Choice Insurance	Alphaforce	
Percentage Ownership	-	30%	40%	
Cost of Investment				
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
Accumulated Equity in Net Earnings (Losses)				
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

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 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, 2014 and 2013.

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:

	2014	
	Choice Insurance	Alphaforce
Current assets (a)	P886,082	P33,852,805
Noncurrent assets (b)	24,519,278	3,356,124
Current liabilities (c)	6,130,676	13,939,368
Revenues	1,144	13,324,453
Net income (loss)	(2,219,134)	2,477,769
Total comprehensive loss	(2,219,134)	2,477,769
Net assets (a+b-c)	19,274,684	23,269,561
% Ownership	30%	40%
Share in the net assets	5,782,405	9,307,824
Carrying value of the investment	P5,782,405	P9,307,824

	2013	
	Choice Insurance	Alphaforce
Current assets (a)	P3,271,499	P31,071,515
Noncurrent assets (b)	21,285,543	2,814,096
Current liabilities (c)	3,063,226	13,093,822
Revenues	177,309	119,167,189
Net income (loss)	(1,677,882)	1,479,853
Total comprehensive loss	(1,677,882)	1,479,853
Net assets (a+b-c)	21,493,816	20,791,789
% Ownership	30%	40%
Share in the net assets	6,448,145	8,316,716
Carrying value of the investment	P6,448,145	P8,316,716

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
Cost							
January 1, 2013	P347,390	P170,090	P139,188	P77,261	P14,928	P30,368	P779,225
Additions	26,923	46,575	9,183	10,407	2,608	1,992	97,688
Disposals	(451)	-	-	(158)	-	-	(609)
December 31, 2013	373,862	216,665	148,371	87,510	17,536	32,360	876,304
Additions	21,449	12,030	38,323	1,382	1,201	830	75,215
Disposals	(47)	-	-	-	-	-	(47)
December 31, 2014	395,264	228,695	186,694	88,892	18,737	33,190	951,472
Accumulated Depreciation and Amortization							
January 1, 2013	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)
December 31, 2013	277,041	137,783	119,258	55,143	16,602	24,068	629,895
Depreciation and amortization for the year	32,981	33,300	22,994	9,441	1,216	3,514	103,446
Disposals	(47)	-	-	-	-	-	(47)
December 31, 2014	309,975	171,083	142,252	64,584	17,818	27,582	733,294
Carrying Amount							
December 31, 2013	P96,821	P78,882	P29,113	P32,367	P934	P8,292	P246,409
December 31, 2014	P85,289	P57,612	P44,442	P24,308	P919	P5,608	P218,178

11. Other Noncurrent Assets

This account at December 31 consists of:

	<i>Note</i>	2014	2013
Rental and other deposits	22	P49,598,489	P44,233,030
Advances for projects		5,315,972	5,315,972
		54,914,461	49,549,002
Less allowance for impairment losses on:			
Advances for projects		(5,315,972)	(5,315,972)
Other deposits		(62,227)	(62,227)
		(5,378,199)	(5,378,199)
		P49,536,262	P44,170,803

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

12. Accounts Payable and Accrued Expenses

This account at December 31 consists of:

	<i>Note</i>	2014	2013
Accounts payable - trade	22	P186,109,730	P167,351,234
Accrued expenses and other payables	22	41,595,425	43,682,987
		P227,705,155	P211,034,221

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

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

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

	<i>Note</i>	2014	2013
Contractors	22	P20,623,097	P17,614,716
Manpower services	22	9,297,364	9,786,699
Utilities and communications	22	4,753,314	7,893,062
Interest	22	2,731,007	4,327,431
Ads and promo	22	1,448,905	1,655,892
Audit fees	22	1,222,305	1,164,100
Travel expenses	22	509,699	485,428
Due to government agencies		481,398	289,369
Others	22	528,336	466,290
		P41,595,425	P43,682,987

13. Notes Payable

The Parent Company has peso-denominated unsecured short-term notes payable from local banks amounting to P0.7 billion and P1.2 billion as at December 31, 2014 and 2013 with maturities of less than a year and bear annual interest at average rates of 4.5% and 5.1% in 2014 and 2013, respectively.

The Group recognized interest expense of P49.6 million, P22.1 million and nil in the consolidated statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012, respectively.

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

a) BOI

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

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

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

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

PEZA

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

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

	2014	2013	2012
Current tax expense	P132,098,290	P1,260,327	P11,539,132
Deferred tax expense (benefit)	2,738,928	(14,174,070)	1,350,416
	P134,837,218	(P12,913,743)	P12,889,548

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

	2014	2013
Items recognized in profit or loss		
Allowance for impairment losses on input VAT	P8,701,770	P8,701,770
Retirement benefits liability	5,057,165	7,796,093
Allowance for impairment losses on trade receivables	474,001	474,001
NOLCO	-	263,063
Unrealized foreign exchange gain	-	(263,063)
	14,232,936	16,971,864
Items recognized directly in other comprehensive income		
Remeasurement losses on defined benefit liability	492,063	593,941
	P14,724,999	P17,565,805

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

	2014	2013	2012
Allowance for impairment losses on input VAT, receivables and notes receivable	P91,051,515	P112,831,040	P75,690,581
NOLCO	87,199,222	84,749,724	62,064,020
Retirement benefits liability	-	-	18,748,923
Unrealized foreign exchange loss	-	-	467,689
	P178,250,737	P197,580,764	P156,971,213

Details of NOLCO as at December 31 are as follow:

Incurring In	Amount	Expired/ Applied	As at December 31, 2014	Available Until
2011	P18,980,376	(P18,980,376)	P -	2014
2012	26,922,507	-	26,922,507	2015
2013	38,846,841	-	38,846,841	2016
2014	21,429,874	-	21,429,874	2017
	P106,179,598	(P18,980,376)	P87,199,222	

All these NOLCO pertains to non-operating subsidiaries.

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

	2014	2013	2012
Income before tax	P1,038,712,906	P189,980,812	P1,109,177,126
Income tax expense at statutory rate (30%)	P311,613,872	P56,994,244	P332,753,138
Adjustments resulting from:			
Income tax holiday on BOI - registered operations	(176,573,678)	(269,157,231)	(257,741,636)
Unrecognized deferred tax assets arising from temporary differences and NOLCO	3,815,792	43,985,748	4,629,216
Tax effects of:			
Equity in net earnings of associates	(97,610)	(25,821,832)	(11,971,817)
Interest/other income not subject to corporate tax	(14,982,938)	(6,750,120)	(65,365,922)
Non-deductible expenses/losses	11,061,780	187,835,448	10,586,569
Income tax expense (benefits)	P134,837,218	(P12,913,743)	P12,889,548

15. Related Party Transactions

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

- a) The Parent Company and Alphaland Corporation are entities under common control. The Parent Company bills Alphaland for its share in common expenses which includes common personnel cost and rental expense. Receivable from Alphaland amounted to P34.2 million and P48.3 million as at December 31, 2014 and 2013, respectively. The account is unsecured, non-interest bearing and payable on demand.
- b) Compensation and short-term employee benefits of key management personnel of the Group in 2014, 2013 and 2012 amounted to P45.2 million, P48.3 million, and P69.1 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, 2014, 2013 and 2012.

16. Equity

Common Stock

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

	2014	2013
Authorized common stock	2,600,000,000	2,600,000,000
Balance at beginning of year	1,513,993,659	1,513,993,659
Issuance during the year	3,500	-
Issued shares at end of year	1,513,997,159	1,513,993,659
Less treasury shares	(341,773,099)	(341,773,099)
Issued and outstanding shares at end of year	1,172,224,060	1,172,220,560

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

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

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

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

	2014	2013
Expected volatility	33.18%	16.40%
Risk-free interest rate	3.09%	2.56%
Expected life option	3 years	3 years

Expected volatility is estimated by considering average share price volatility.

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

	2014		2013	
	Number of Options	Weighted Average Exercise Price of Options	Number of Options	Weighted Average Exercise Price of Options
Options outstanding, beginning of year	6,000,000	P -	-	P -
Granted	1,500,000	-	8,300,000	-
Exercised	(3,500)	-	-	-
Forfeited/expired	(600,000)	-	(2,300,000)	-
Options outstanding, end of year	6,896,500	P -	6,000,000	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 P0.6 million, (P0.4 million) and P4.4 million in 2014, 2013 and 2012, respectively, (see Note 17).

Retained Earnings

Cash dividends declared by the Company from retained earnings during the years ended December 31, 2014, 2013 and 2012 follow:

Date Approved	Per Share	Total Amount	Stockholders of Record Date	Date Paid/Issued
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
March 4, 2014	0.10	143,261,281	March 18, 2014	March 28, 2014
May 26, 2014	0.10	143,261,631	June 9, 2014	June 23, 2014
July 11, 2014	0.10	143,261,631	September 1, 2014	September 15, 2014
July 11, 2014	0.10	143,261,631	November 21, 2014	December 5, 2014

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:

	2014	2013
Balance at beginning of year	341,773,099	89,627,680
Purchase during the year	-	252,145,419
Balance at end of year	341,773,099	341,773,099

- 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:

	Note	2014	2013	2012
Salaries and wages		P111,605,062	P121,896,603	P142,433,848
Retirement benefits cost	20	5,870,237	7,238,055	4,989,565
Cost (reversal) of stock option	16	561,232	(379,246)	4,422,064
		P118,036,531	P128,755,412	P151,845,477

18. Earnings Per Share

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

	2014	2013	2012
Net income attributable to equity holders of the parent (a)	P903,990,031	P280,215,819	P1,092,992,616
Weighted average number of shares outstanding (b)	1,172,222,602	1,330,852,173	1,474,759,576
Dilutive shares arising from stock options	875,000	-	-
Adjusted weighted average number of common shares for diluted earnings per share (c)	1,173,097,602	1,330,852,173	1,474,759,576
Earnings per share (a/b)	P0.7712	P0.2106	P0.7411
Diluted earnings per share (a/c)	P0.7706	P0.2106	P0.7411

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.

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, 2014, 2013 and 2012 amounted to about P66.7 million, P70.9 million, and P60.2 million, respectively.

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

	2014	2013	2012
Less than one year	P56,222,266	P49,470,583	P38,532,516
Between one and five years	165,295,616	40,730,759	65,639,965
	P221,517,882	P90,201,342	P104,172,481

20. Retirement Benefits

The Group has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. The plan is administered by a local bank appointed as trustee. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date was made on December 31, 2014. Valuations are obtained on an annual basis.

On December 18, 2014, the Group submitted the employees' retirement plan to the Bureau of Internal Revenue (BIR) for its adjudication as a reasonable retirement plan under Republic Act No. 4917, as amended. As at December 31, 2014, the Group's retirement plan is pending for approval with the BIR.

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

	2014	2013
Present value of obligations	P33,497,425	P27,966,784
Fair value of plan assets	(15,000,000)	-
	P18,497,425	P27,966,784

The retirement benefits cost recognized in profit or loss and included under “Salaries and benefits” for the years ended December 31 consists of:

	2014	2013	2012 (As restated)
Current service cost	P4,564,456	P5,665,880	P3,910,370
Interest cost	1,784,281	1,572,175	1,079,195
Interest income	(478,500)	-	-
	P5,870,237	P7,238,055	P4,989,565

The movement in the present value of defined benefit obligation for the years ended December 31 is as follows:

	2014	2013
Balance at beginning of year	P27,966,784	P25,731,172
Interest cost	1,784,281	1,572,175
Current service cost	4,564,456	5,665,880
Actuarial gain	(818,096)	(5,002,443)
Balance at end of year	P33,497,425	P27,966,784

The movements in the fair value of plan assets for the years ended December 31 are as follows:

	2014	2013
Balance at beginning of year	P -	P -
Interest income	478,500	-
Actuarial loss	(478,500)	-
Contributions	15,000,000	-
Balance at end of year	P15,000,000	P -

The major categories of fair value of plan assets are cash and cash equivalents.

The amounts of remeasurements recognized in the consolidated statements of comprehensive income and of changes in equity consist of:

	2014	2013
Balance at beginning of year	P1,979,806	P6,982,249
Remeasurements during the year:		
Experience adjustments	(3,692,494)	56,725
Changes in financial assumptions	4,799,101	(755,949)
Changes in demographic assumptions	(1,446,203)	(4,303,219)
	(339,596)	(5,002,443)
Balance at end of year	P1,640,210	P1,979,806

The principal actuarial assumptions used as at December 31 follow:

	2014	2013	2012
Discount rate	6.38%	6.38%	6.11%
Future salary increases	5.00%	5.00%	5.00%

The Group does not expect to make contributions to the plan in 2015.

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	(P2,442,615)	(7.3%)	P2,864,499	8.6%
Future salary increases	2,600,970	7.8%	(2,278,193)	(6.8%)

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, 2014 and 2013 is 16.6 years.

Funding Arrangements

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

Significant Risks to which the Retirement Plan Exposes the Group

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

21. Operators' Deposits

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

22. Financial Risk and Capital Management Objectives and Policies

Financial Instruments

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

	<i>Note</i>	2014	2013
Current assets:			
Cash and cash equivalents	4	P374,949,875	P341,990,428
Accounts receivable	5	299,627,945	253,868,791
Notes receivable	7	360,248,864	312,910,738
Total current financial assets		1,034,826,684	908,769,957
Noncurrent assets:			
Noncurrent notes receivable	7	583,200,000	656,100,000
Rental and other deposits under “Other noncurrent asset - net”	11	49,536,262	44,170,803
Total noncurrent financial assets		632,736,262	700,270,803
Total financial assets		P1,667,562,946	P1,609,040,760

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

Financial Risk Management

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

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the 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, 2014 and 2013. 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	
December 31, 2014					
Cash and cash equivalents	P369,556,220	P -	P -	P -	P369,556,220
Accounts receivable	180,819,920	83,759,283	14,844,567	20,204,175	299,627,945
Notes receivable	360,248,864	-	-	-	360,248,864
Noncurrent notes receivable	583,200,000	-	-	-	583,200,000
Rental and other deposits under "Other noncurrent assets - net"	49,536,262	-	-	-	49,536,262
	P1,543,361,266	P83,759,283	P14,844,567	P20,204,175	P1,662,169,291
December 31, 2013					
Cash and cash equivalents	P330,780,410	P -	P -	P -	P330,780,410
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
	P1,515,593,361	P51,199,317	P14,137,683	P16,900,381	P1,597,830,742

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			
December 31, 2014						
Cash in banks	P148,511,929	P148,511,929	P -	P -	P148,511,929	P -
Short-term investments	221,044,291	221,044,291	-	-	221,044,291	-
Accounts receivable	404,641,654	180,819,920	-	-	180,819,920	118,808,025
Notes receivable	360,248,864	360,248,864	-	-	360,248,864	-
Noncurrent notes receivable	583,200,000	583,200,000	-	-	583,200,000	-
Rental and other deposits under "Other noncurrent assets - net"	49,536,262	49,536,262	-	-	49,536,262	-
	P1,767,183,000	P1,543,361,266	P -	P -	P1,543,361,266	P118,808,025
						P105,013,709

	Neither Past Due nor Impaired				Total	Past Due but not Impaired Standard Grade	Past Due and Impaired
	Total	High Grade	Standard Grade	Low Grade			
December 31, 2013							
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	-	-
	P1,746,369,147	P1,515,593,361	P -	P -	P1,515,593,361	P82,237,381	P148,538,405

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, 2014 and 2013 are 1.17:1 and 0.75:1, respectively. The current liabilities of the Group are expected to be paid within one year.

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

	As at December 31, 2013			
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Accounts payable and accrued expense ^(a)	P210,744,852	P210,744,852	P210,744,852	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

^(a) Due to government agencies are excluded.

Market Risk

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

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

As at December 31, 2014 and 2013, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Nominal Amount	
	2014	2013
Fixed-rate Financial Instruments		
Financial assets		
Cash in bank	P148,511,929	P176,737,797
Short-term investments	221,044,291	154,042,613
Notes receivable	145,800,000	72,900,000
	515,356,220	403,680,410
Financial liabilities		
Notes payable	700,000,000	1,200,000,000
Variable-rate Financial Instruments		
Financial asset		
Notes receivable	214,448,864	240,010,738

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, 2014 and 2013 would have increase or decrease equity and profit or loss by P2.1 million and P2.4 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 cash amounting to US dollar 0.8 million as at December 31, 2013.

The US dollar exchange rate as at December 31, 2013 is US dollar 1 = P44.41.

Sensitivity Analysis

A 5% strengthening of the Philippine peso against US dollar as at December 31, 2013 would have decreased the equity and profit by P1.3 million.

A 5% weakening of the peso against US dollar as at December 31, 2013 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 2014 and 2013. The Group monitors capital using the monthly cash position report and financial statements.

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

As at December 31, 2014 and 2013, the Company is compliant with the minimum public float requirements of the Philippine Stocks Exchange.

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 P583.2 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 2014, 2013 and 2012.

The Group's Chairman of the BOD reviews internal management reports on a monthly basis. Analysis of financial information by geographical segment in 2014 is as follows:

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

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

	Domestic Operations	Foreign Operations	Eliminations	Consolidated
Net Revenues				
External revenue	P1,458,632,788	P35,066,976	P -	P1,493,699,764
Operating expenses				
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)
Income before Income Tax				
Income before Income Tax	286,293,113	(182,385,074)	-	103,908,039
Income tax benefits	(12,913,743)	-	-	(12,913,743)
Segment Profit (Loss)				
Segment Profit (Loss)	299,206,856	(182,385,074)	-	116,821,782
Equity in net earnings of associates	86,072,773	-	-	86,072,773
Consolidated Profit				
Consolidated Profit	P385,279,629	(P182,385,074)	P -	P202,894,555
Other Information				
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
Assets and Liabilities				
Current assets				
Current assets	P977,927,185	P263,644,503	(P178,422,576)	P1,063,149,112
Noncurrent assets				
Noncurrent assets	970,748,035	8,262,034	-	979,010,069
Total Assets				
Total Assets	P1,948,675,220	P271,906,537	(P178,422,576)	P2,042,159,181
Current liabilities				
Current liabilities	P1,344,336,324	P246,380,800	(P178,422,576)	P1,412,294,548
Noncurrent liabilities				
Noncurrent liabilities	78,721,784	-	-	78,721,784
Total Liabilities				
Total Liabilities	P1,423,058,108	P246,380,800	(P178,422,576)	P1,491,016,332

24. Contingencies

The Group is a party to certain lawsuits or claims filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and the Group's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements as at and for the years ended December 31, 2014 and 2013.

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. 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:

	2014	2013	2012
Net income attributable to equity holders of the parent	P903,990,032	P280,215,819	P1,092,992,616
Minority interest	(114,344)	(77,321,264)	3,294,962
Net income	903,875,688	202,894,555	1,096,287,578
Add (deduct):			
Gain (loss) on sale of equity investment	-	551,958,543	(181,242,227)
Impairment losses	44,400,909	198,472,147	19,145,556
Depreciation	103,445,643	131,724,161	96,727,428
Provision for income tax	134,837,218	(12,913,743)	12,889,548
Equity in net earnings	(325,368)	(86,072,773)	(39,906,058)
Interest expense	49,569,583	22,072,431	-
Interest income	(59,799,886)	(22,500,401)	(36,644,180)
EBITDA	P1,176,003,787	P985,634,920	P967,257,645
Issued and outstanding shares at end of year	1,172,224,060	1,172,220,560	1,424,365,979
EBITDA - EPS	P1.003	P0.8408	P0.6791

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
METROPOLITAN BANK AND TRUST COMPANY
PHILIPPINE BANK OF COMMUNICATIONS
PHILIPPINE NATIONAL BANK
SECURITY BANK & TRUST CORPORATION
STERLING BANK OF ASIA
UNION BANK OF THE PHILIPPINES
UNITED COCONUT PLANTERS BANK

STOCK TRANSFER SERVICE AGENT

AB STOCK TRANSFERS CORPORATION

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



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