

dollars. Expected US dollar inflows from the business offset any unhedged US dollar liabilities, helping insulate Globe's balance sheet from any volatilities in the foreign exchange markets.

Globe intends to maintain its strong financial position through prudent fiscal practices including close monitoring of its operating expenses and capital expenditures, debt position, investments, and currency exposures.

(d) Proven Management Team

Globe has a strong management team with the proven ability to execute on its business plan and achieve positive results. With its continued expansion, it has been able to attract and retain senior managers from the telecommunications, consumer products and finance industries with experience in managing large scale and complex operations.

(e) Strong Shareholder Support

The Company's principal shareholders are Ayala Corporation (AC) and Singapore Telecom (STI), both industry leaders in the country and in the region. Apart from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

F. Suppliers

Globe works with both local and foreign suppliers and contractors. Equipment and technology required to render telecommunications services are mainly sourced from foreign countries. Its principal suppliers, among others, are as follows:

The Company's suppliers of mobile equipment include Nokia Solutions and Networks (Finland); Ericsson Radio Systems AB (Sweden), Alcatel-Lucent (France), and Huawei Technologies Co., Ltd. (China). For transmission and IP equipment, Company has partnered with NEC (Japan), Alcatel-Lucent (France), ECI Telecom, Ltd. (Israel), Aviat Networks (USA), Cisco (USA). For the Company's network modernization program, Huawei was the selected as the primary partner given its technical expertise and strong track record of success in international markets. Huawei has likewise committed to establish a Joint Innovation Center (JIC) that would bring the latest technological developments and help further the Company's service innovation initiatives all focused in providing relevant and customizable services for our various customer segments.

For fixed line and broadband, Globe's principal equipment suppliers include Fujitsu Ltd. (Japan), Alcatel-Lucent Technologies (France), NEC (Japan), AT&T Global (US), British Telecom (UK), Huawei Technologies Co., Ltd. (China), ZTE Corporation (China). Singapore Telecom (Singapore), and Tellabs (USA/Singapore).

For the Company's IT modernization program, Globe has selected Amdocs, the leading provider of customer experience systems and services, to improve and upgrade Globe's Business Support Systems (BSS) and enterprise data warehouse. As part of the transformation program, Amdocs is tasked to manage and consolidate all of Globe's legacy systems onto a single Business Support System (BSS) platform. This will enable the Company to manage its customer relationships better across all its various product offerings, simplify business processes and shorten the time to deliver bundled and more innovative products to the market.

G. Customers

Globe has a large subscriber base across the country. The Company ended 2013 with 38.5 million mobile subscribers/SIMs, comprised of 2.0 million postpaid and 36.5 million prepaid subscribers. Meanwhile, Globe has around 595,000 fixed line voice subscribers and around 2.0 million broadband customers.

No single customer and contract accounted for more than 20% of the Company's total sales in 2013.

H. Transactions with Related Parties

Globe Telecom and Innove, in their regular conduct of business, enter into transactions with their major stockholders, AC and STI, venturers and certain related parties. These transactions, which are accounted for at market prices normally charged to unaffiliated customers for similar goods and services, include the following:

Entities with joint control over Globe Group – AC and STI

- Globe Telecom has interconnection agreements with STI. The related net traffic settlements receivable (included in “Receivables” account in the consolidated statements of financial position) and the interconnection revenues earned (included in “Service revenues” account in the consolidated statements of comprehensive income) are as follows:

(In Thousand Pesos)	2013	2012	2011
Traffic settlements receivable – net	P201,216	P126,277	P36,994
Interconnection revenues – net	957,232	966,037	1,136,294

- Globe Telecom and STI have a technical assistance agreement whereby STI will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom’s networks and communication services (see Note 25.6 of the FS), equipment procurement and personnel services. In addition, Globe Telecom has software development, supply, license and support arrangements, lease of cable facilities, maintenance and restoration costs and other transactions with STI.

The details of fees (included in repairs and maintenance under the “General, selling and administrative expenses” account in the consolidated statements of comprehensive income) incurred under these agreements are as follows:

(In Thousand Pesos)	2013	2012	2011
Technical assistance fee	P163,004	P140,083	P179,014
Maintenance and restoration costs and other transactions	61,841	64,835	53,996
Software development, supply, license and support	16,681	12,590	25,999

The outstanding balances due to STI (included in the “Accounts payable and accrued expenses” account in the consolidated statements of financial position) arising from these transactions are as follows:

(In Thousand Pesos)	2013	2012	2011
Technical assistance fee	P35,775	P45,326	P54,873
Maintenance and restoration costs and other transactions	20,695	32,372	23,103
Software development, supply, license and support	4,014	35,268	80,377

- Globe Telecom earns subscriber revenues from AC. The outstanding subscribers receivable from AC (included in “Receivables” account in the consolidated statements of financial position) and the amount earned as service revenue (included in the “Service revenues” account in the consolidated statements of comprehensive income) are as follows:

(In Thousand Pesos)	2013	2012	2011
Subscriber receivables	P14,761	P2,143	P1,718
Service revenues	14,107	14,720	12,640

- Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities to (included in “Accounts payable and accrued expenses” account in the consolidated statement of financial position) and the amount of expenses incurred (included in the “General, selling and administrative expenses” account in the consolidated statements of comprehensive income) are as follows:

(In Thousand Pesos)	2013	2012	2011
General, selling and administrative expenses	₱7,768	₱9,145	₱7,878
Accounts payable and accrued expenses	–	–	234

Joint Ventures in which the Globe Group is a Venturer

- Globe Telecom has preferred roaming service contract with BMPL. Under this contract, Globe Telecom will pay BMPL for services rendered by the latter which include, among others, coordination and facilitation of preferred roaming arrangement among JV partners, and procurement and maintenance of telecommunications equipment necessary for delivery of seamless roaming experience to customers. Globe Telecom also earns or incurs commission from BMPL for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱0.98 million and ₱2.21 million as of December 31, 2013 and 2012, respectively. Balances related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱3.76 million, ₱15.49 million and ₱12.24 million for the years ended December 31, 2013, 2012 and 2011, respectively.
- In October 2009, the Globe Group entered into an agreement with BPI Globe BankKO for the pursuit of services that will expand the usage of GCash technology. As a result, the Globe Group recognized revenue amounting to ₱0.54 million, ₱1.58 million and ₱2.86 million in 2013, 2012 and 2011, respectively. The related receivables amounted ₱1.11 million and ₱3.79 million as of December 31, 2013 and 2012, respectively.

Transactions with the Globe Group Retirement Plan (GGRP)

- In 2008, Globe Telecom, Innove and GXI pooled its plan assets for single administration by the GGRP, which was created for the management of the retirement fund. The decisions of the GGRP are made through collective decision of the Board of Trustees.

The plan is funded by contributions as recommended by the independent actuary on the basis of reasonable actuarial assumptions. These assumptions and the funded status of the pension plan are disclosed in Note 18.2 of the FS.

The unfunded status for the pension plan of Globe Group as of December 31, 2013 and 2012 amounted to ₱1,607.30 million and ₱843.91 million, respectively (see Note 18.2 of the FS).

The fair value of plan assets by each class held by the retirement fund, on a pooled basis, as follows (in thousands):

	2013	2012
	<i>(In Thousand Pesos)</i>	
Cash and cash equivalents	₱84,641	₱28,333
Investment in fixed income securities	1,048,421	1,032,279
Investment in equity securities	1,507,287	1,515,993
Loans and receivables	1,007,686	1,010,980
Liabilities	(994,441)	(995,067)
Balance at end of year	₱2,653,594	₱2,592,518

All equity and debt instruments held, except for investment in preferred shares of HALO Group, debt securities issued by private corporations and long-term negotiable certificates of deposit, have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

Loans and receivables consist of interest and dividend receivables, receivable on securities sold to brokers and loan granted by the plan to BHI.

Liabilities pertain to interest and trust fee payables, accrued professional fees and loan granted to the plan by Globe Telecom.

The plan assets have diverse investments and do not have any concentration risk.

As of December 31, 2013 and 2012, the pension plan assets of the retirement plan include shares of stock of Globe Telecom with total fair value of ₱24.77 million and ₱13.02 million, and shares of stock of other related parties with total fair value of ₱83.31 million and ₱71.96 million, respectively. Gains/losses arising from these investments amounted to ₱8.34 million and ₱10.97 million in 2013 and 2012, respectively.

- In 2008, the Globe Group granted a short-term loan to the GGRP amounting to ₱800.00 million with interest at 6.20%. Upon maturity in 2009, the loan was rolled over until September 2014 with interest at 7.75%. Further, in 2009, the Globe Group granted an additional loan to the retirement fund amounting to ₱168.00 million which bears interest at 7.75% and is due also in September 2014.

The retirement plan utilized the loan to fund its investments in BHI, a domestic corporation organized to invest in media ventures. BHI has controlling interest in Altimax Broadcasting Co., Inc. (Altimax) and Broadcast Enterprises and Affiliated Media Inc. (BEAM), respectively.

- On August 13 and December 21, 2009, the Globe Group granted five-year loans amounting to ₱250.00 million and ₱45.00 million, respectively, to BHI at 8.275% interest. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM.
- On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. As a result, the Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱155.00 million, ₱194.00 million and ₱250.00 million in 2013, 2012 and 2011, respectively.
- On October 1, 2009, the Globe Group entered into a MOA with Altimax for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. As a result, the Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱90.00 million in 2013, 2012 and 2011.

Transactions with other related parties

Globe Telecom has money market placements and bank balances, and subscriber receivables (included in "Cash and cash equivalents" and "Receivables" accounts in the consolidated statements of financial position, respectively) and earns service revenues (included in the "Service revenues" account in the consolidated statements of comprehensive income) from its other related parties namely, Ayala Land Inc., Ayala Property Management Corporation, Bank of the Philippine Islands, Manila Water Company, Inc., Integrated Microelectronics, Inc., Stream Global Services, Inc., HR Mall Inc., Honda Cars, Inc., Isuzu Automotive Dealership, Inc., Accendo Commercial Corp., Affinity Express Philippines, Inc., Alveo Land Corp., Asian I-Office Properties, Inc., Avida Land Corp., Avida Sales Corporation, Ayala Hotels, Inc., Ayala Plans, Inc., Ayala Systems Technology, Inc., Cebu Holdings, Inc., Makati Development Corp., myAyala.com, Inc., North Triangle Depot Commercial Corp., PSI Technologies, Inc., Roxas Land Corp, Serendra, Inc., Station Square East Commercial Corp., Ten Knots Development, KHI ALI Manila, Inc., Lagoon Development Corp., Subic Bay Town Center, Inc., Ayala Aviation Corporation, Laguna AAA Water Corp., Liveit Solution, Inc., Liveit Investments, Ltd., Integreon, Inc., Arvo Commercial Corp., Amaia Land Corp., Michigan Power, Philippine Intergrated Energy Solutions, Inc., Southcrest Hotel Ventures, Inc., Bonifacio Hotels and Crestview E-Office.

The balances with other related parties are recorded under the following accounts:

(In Thousand Pesos)	2013	2012	2011
Cash and cash equivalents	₱166,074	₱199,392	₱1,098,168
Service revenues	437,793	344,206	306,846
General, selling and administrative expenses	346,280	345,004	288,351
Subscriber receivables (included in "Receivables" account)	212,391	102,454	65,694
Property and Equipment	60,437	71,272	137,209
Accounts payable and accrued expenses	72,440	50,008	32,750

The balances under "General, selling and administrative expenses" and "Property and equipment" accounts consist of expenses incurred on rent, utilities, customer contract services, other miscellaneous services and purchase of vehicles, respectively.

These related parties are either controlled or significantly influenced by AC.

Transactions with Key Management Personnel of the Globe Group

The Globe Group's compensation of key management personnel by benefit type are as follows:

(In Thousand Pesos)	2013	2012	2011
Short-term employee benefits	₱63,172	₱123,700	₱75,343
Share-based payments	50,000	11,502	49,338
Post-employment benefits	7,466	12,822	1,736
	₱120,638	₱148,024	₱126,417

There are no agreements between the Globe Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Globe Group's retirement plans.

The Globe Group granted non-interest bearing short-term loans to its key management personnel amounting to ₱0.05 million in 2012, included in the "Prepayments and other current assets" in the consolidated statements of financial position.

Transaction with an associate

The Globe group purchased BTI's outstanding debts from its creditors and was recognized at transaction price which was considered its fair value. The total debt of BTI is comprised of sustainable Tranche A and unsustainable Tranche B. A portion of the debt (Tranche B) was converted into equity and was valued at nil while the total consideration at point of tender was assigned to the collectible portion of Tranche A.

As of December 31, 2013 and 2012, loans receivable from BTI amounted to ₱5.04 billion and ₱4.90 billion comprising of principal and interest due until 2023, with quarterly interest payments and semi-annual principal payments (see Notes 6 and 11 of the FS).

Globe Telecom and BTI executed an agreement to jointly use BTI frequencies for their respective telecommunications services (see Note 25.8 of the FS).

The summary of balances arising from related party transactions for the relevant financial year (in thousands) are presented in the next pages:

2013

	Amount/Volume				Outstanding Balance			Terms	Conditions
	Revenues	Cost and Expenses	Property and Equipment	Cash	Amounts Owed by Related Parties	Other Current Assets	Amounts Owed to Related Parties		
Entities with joint control over Globe Group									
AC	₱14,107	₱7,768	₱-	₱-	₱14,761	₱-	₱-	Interest-free, settlement in cash	Unsecured, no impairment
STI	957,232	241,526	-	-	201,216	-	60,484	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
BMPL	-	3,762	-	-	-	-	977	Interest-free, settlement in cash	Unsecured, no impairment
BPI Globe BankO	541	-	-	-	1,107	-	-	Interest-free, settlement in cash	Unsecured, no impairment
Associate									
BTI	475,822	5,000	-	-	5,037,653	-	9,500	Loan receivable - 20 years, 9.60% to 11.55%; lease capacity provisioning - interest-free	Unsecured, no impairment
Other related parties									
GGRP	-	-	-	-	968,000	-	-	5 years, 7.75%	Unsecured, no impairment
BHI	-	-	-	-	295,000	-	-	5 years, 8.28%	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	-	155,000	-	-	-	-	-	-	-
Altimax	-	90,000	-	-	-	-	-	-	-
Key management personnel	-	-	-	-	-	-	-	Interest-free, settlement in cash	Unsecured, no impairment
Others	437,793	346,280	60,437	166,074	212,391	-	72,440	Interest-free, settlement in cash	Unsecured, no impairment
Total	₱1,885,495	₱849,336	₱60,437	₱166,074	₱6,593,748	₱-	₱143,401		

2012

	Amount/Volume			Outstanding Balance			Terms	Conditions	
	Revenues	Cost and Expenses	Property and Equipment	Cash	Amounts Owed by Related Parties	Other Current Assets			Amounts Owed to Related Parties
Entities with joint control over Globe Group									
AC	₱14,720	₱9,145	₱-	₱-	₱2,143	₱-	₱-	Interest-free, settlement in cash	Unsecured, no impairment
STI	966,037	217,508	-	-	126,277	-	112,966	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
		-							
BMPL	-	15,491	-	-	-	-	2,208	Interest-free, settlement in cash	Unsecured, no impairment
BPI Globe BankO	1,584	-	-	-	3,792	-	-	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties									
GGRP	-	-	-	-	968,000	-	-	5 years, 7.75%	Unsecured, no impairment
BHI	-	-	-	-	295,000	-	-	5 years, 8.275%	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	-	194,000	-	-	-	-	-	-	-
Altimax	-	90,000	-	-	-	-	-	-	-
Key management personnel	-	-	-	-	53	-	-	Interest-free, settlement in cash	Unsecured, no impairment
Others	344,206	345,004	71,272	199,392	102,454	6,281	50,008	Interest-free, settlement in cash	Unsecured, no impairment
Total	₱1,326,547	₱871,148	₱71,272	₱199,392	₱1,497,719	₱6,281	₱165,182		