

SEC Number: 1177

File Number: \_\_\_\_\_

**GLOBE TELECOM, INC.**

**27th Floor, The Globe Tower  
32nd Street corner 7th Avenue,  
Bonifacio Global City, Taguig 1634  
(632) 797-2000**

**SEC Form 17-A**

**FOR THE FISCAL YEAR ENDED**

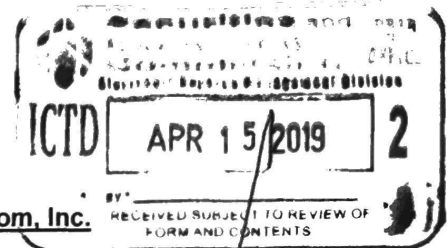
**31 DECEMBER 2018**

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE REVISED SECURITIES ACT AND  
SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: 31 December 2018
2. SEC Identification Number: 1177
3. BIR Tax Identification No. 000-768-480-000
4. Exact name of registrant as specified in its charter: Globe Telecom, Inc.
5. Province, Country or other jurisdiction of incorporation or organization: Philippines
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office: 27th Floor, The Globe Tower 32nd Street corner 7th Avenue,  
Bonifacio Global City, Taguig City Postal Code: 1634
8. Registrant's telephone number: (632) 797-2000
9. Former name, former address, and former fiscal year: N/A
10. Securities registered pursuant to Sections 4 and 8 of the RSA



| <u>Title of Each Class</u> | <u>Par Value</u> | <u>No. of Shares</u> | <u>Amount</u>          |
|----------------------------|------------------|----------------------|------------------------|
| Common                     | ₱ 50             | 133,053,248          | ₱ 6,652,662,400        |
| Voting Preferred           | 5                | 158,515,021          | 792,575,105            |
| Non-Voting Preferred       | 50               | 20,000,000           | 1,000,000,000          |
|                            |                  | <u>311,568,269</u>   | <u>₱ 8,445,237,505</u> |

11. Are any or all of these securities listed on the Philippine Stock Exchange? Yes [ ☒ ] No [   ]
12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes [ ☒ ] No [   ]
  - (b) has been subject to such filing requirements for the past 90 days: Yes [ ☒ ] No [   ]
13. Aggregate market value of the voting stock held by non-affiliates of the registrant as of 31 December 2018: **₱54.8 billion**

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## PART I – BUSINESS AND GENERAL INFORMATION

*Any reference in this report to “we”, “us”, “our”, “Company” means the Globe Group including its wholly-owned subsidiaries and references to “Globe” mean Globe Telecom, Inc., the parent company, not including its wholly-owned subsidiaries. Also, unless otherwise stated or the context indicates otherwise, references to Board of Directors, committees, management, directors, officers and stockholders are references to the Board of Directors, committees, management, directors, officers and stockholders of Globe and references to the Bylaws, Articles of Incorporation or other documents are references to the Bylaws, Articles of Incorporation or other documents of Globe.*

### Item 1. Business

Globe Telecom, Inc. is a major provider of telecommunications services in the Philippines, supported by over 7,700 employees and over 1.2 million AutoloadMax (AMAX) retailers, distributors, suppliers, and business partners nationwide. The Company operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe currently has 74.1 million mobile subscribers (*including fully mobile subscribers*), 1.6 million home broadband customers, and close to 1.4 million landline subscribers.

Globe is one of the largest and most profitable companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the Philippine Stock Exchange under the ticker symbol GLO and had a market capitalization of US\$4.8 billion as of the end of December 2018.

The Company’s principal shareholders are Ayala Corporation and Singapore Telecom, both industry leaders in their respective countries. Aside 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.

Globe is committed to being a responsible corporate citizen. Globe Bridging Communities (or Globe BridgeCom) is the company’s umbrella corporate social responsibility program, which leads and supports various initiatives that promote the quality education, active citizenship to protect the environment, social entrepreneurship and responsive governance through the innovative and Communications Technology, resulting in enabled, empowered and enriched lives for its employees and partner communities. Since its inception in 2003, Globe BridgeCom has made a positive impact on the lives of thousands of public elementary and high school students, teachers, community leaders, and micro-entrepreneurs throughout the country. For its efforts, Globe BridgeCom has been recognized and conferred several awards and citations by various Philippine and international organizations.

The Globe Group is composed of the following companies:

- Globe Telecom, Inc. (Globe) provides digital wireless communications services in the Philippines under the Globe Postpaid, Globe Prepaid, and Touch Mobile (TM) brands, using a fully digital network. It also offers domestic and international long distance communication services or carrier services;
- Innove Communications Inc. (Innove), a wholly-owned subsidiary, provides fixed line telecommunications and broadband services, high-speed internet and private data networks for enterprise clients, services for internal applications, internet protocol-based solutions and multimedia content delivery.

On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151 entitled “Act Renewing For Another Twenty Five (25) Years the Franchise Granted to Isla Communications Company, Inc. Presently Known as Innove Communications, Inc., Amending for the Purpose Republic Act No. 7372 entitled “An Act Granting the Isla Communications Co. a Franchise to Install, Operate and Maintain Telecommunications Services Within the Territory of the Republic of the Philippines and International Points and for Other Purposes”. RA No. 11151 shall take effect 15 days after its publication in the Official Gazette or a newspaper of general circulation. RA No. 11151 was published in the Official Gazette on December 27, 2018, and in a newspaper of general circulation on January 14, 2019.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017;

- GTI Business Holdings, Inc. (GTI) is a wholly-owned subsidiary with authority to provide VOIP services. Its wholly-owned subsidiaries are: GTI Corporation (GTIC US), Globe Telecom HK Limited (GTHK), Globetel Singapore Pte. Ltd. (GTSG) and Globetel European Limited (GTEU). GTEU's wholly owned subsidiaries are UK Globetel Limited (UKGT), Globe Mobile' Italy S.r.l. (GMI) and Globetel Internacional European España, S.L. (GIEE).

On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT completed the liquidation process in 2018. The completion of the regulatory requirements on the liquidation of GMI and GIEE is still in process as of December 31, 2018;

- Kickstart Ventures, Inc. (Kickstart) is the Philippines' most active Corporate Venture Capital firm investing in Seed to Series D digital startups. A wholly-owned subsidiary, Kickstart puts company resources – capital, market, and expertise – behind startups so they can achieve scale and profitability sooner. Kickstart's subsidiary, Flipside Publishing Services, Inc. (FPSI) has ceased operations in July 2016. As of reporting date, completion of regulatory requirements on the liquidation of FPSI is still in process;
- Asticom Technology, Inc., a wholly-owned subsidiary, is engaged in trading, marketing, installing, and servicing of computer equipment, peripherals, manpower, software, and other data processing devices. Asticom was consolidated beginning June 2014.
- Globe Capital Venture Holdings, Inc. (GCVHI) is a wholly-owned subsidiary incorporated on June 29, 2015. On October 13, 2015, GCVHI incorporated Adspark Holdings, Inc., a wholly owned subsidiary. GCVHI also owns 45% of Globe Fintech and 50% of Globe Telehealth.

On December 28, 2015, AHI incorporated its wholly-owned subsidiary, Adspark Inc. (AI), to operate as an advertising company. On January 29, 2016, Adspark Inc. acquired 70% of the shares of Socialytics Inc. (Socialytics).

On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company. GFI also holds 45% ownership interest in GXI;

- Bayan Telecommunications, Inc. (Bayan), is a provider of data and communications services such as dedicated domestic and international leased lines, frame relay services, Internet access, and other managed data services like Digital Subscriber Lines (DSL). Globe Telecom owns approximately 99% of BTI

On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group"). On April 8, 2016, RCPI sold its 100% interest in Alarmnet Inc. to a third party.

In July 2016, BTI - UK ceased its operations. The formal notice on the final dissolution of BTI-UK effective March 14, 2017 was received from Companies House in UK. On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total

voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NDTN Land, Inc.;

- TaoDharma (Tao), 67% owned by Globe Telecom, was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, devices, gadgets, and accessories.

On November 4, 2016, the BOD of Globe Telecom approved the increase in stake in Tao from 25% to 67% resulting to Globe Telecom's gaining a controlling interest in Tao.

- GTowers Inc. (GTowers) is a fully owned subsidiary of Globe Telecom incorporated on August 17, 2018. As of December 31, 2018, GTowers is still under pre-operating stage.

The Company is a grantee of various authorizations and licenses from the National Telecommunications Commission (NTC) as follows: (1) license to offer and operate facsimile, other traditional voice and data services and domestic line service using Very Small Aperture Terminal (VSAT) technology; (2) license for inter-exchange services; and (3) Certificate of Public Convenience and Necessity (CPCN) for: (a) international digital gateway facility (IGF) in Metro Manila, (b) nationwide digital cellular mobile telephone system under the GSM standard (CMTS-GSM), (c) nationwide local exchange carrier (LEC) services after being granted a provisional authority in June 2005, and (d) international cable landing stations located in Nasugbu, Batangas, Ballesteros, Cagayan and Brgy. Talomo, Davao City.

#### **A. Business Development and Corporate History**

In 1928, Congress passed Act No. 3495 granting the Robert Dollar Company, a corporation organized and existing under the laws of the State of California, a franchise to operate wireless long distance message services in the Philippines. Subsequently, Congress passed Act No. 4150 in 1934 to transfer the franchise and privileges of the Robert Dollar Company to Globe Wireless Limited which was incorporated in the Philippines on 15 January 1935.

Globe Wireless Limited was later renamed as Globe-Mackay Cable and Radio Corporation ("Globe-Mackay"). Through Republic Act ("RA") 4630 enacted in 1965 by Congress, its franchise was further expanded to allow it to operate international communications systems. Globe-Mackay was granted a new franchise in 1980 by Batasan Pambansa under Batas Pambansa 95.

In 1974, Globe-Mackay sold 60% of its stock to Ayala Corporation, local investors and its employees. It offered its shares to the public on 11 August 1975.

In 1992, Globe-Mackay merged with Clavecilla Radio Corporation, a domestic telecommunications pioneer, to form GMCR, Inc. ("GMCR"). The merger gave GMCR the capability to provide all forms of telecommunications to address the international and domestic requirements of its customers. GMCR was subsequently renamed Globe Telecom, Inc. ("Globe").

In 1993, Globe welcomed a new foreign partner, Singapore Telecom, Inc. (STI), a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), after Ayala and STI signed a Memorandum of Understanding.

In 2001, Globe acquired Isla Communications Company, Inc. ("Islacom") which became its wholly-owned subsidiary effective 27 June 2001. In 2003, the National Telecommunications Commission ("NTC") granted Globe's application to transfer its fixed line business assets and subscribers to Islacom, pursuant to its strategy to integrate all of its fixed line services under Islacom. Subsequently, Islacom was renamed as Innove Communications, Inc. ("Innove").

In 2004, Globe invested in G-Xchange, Inc. ("GXI"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the GCash brand using Globe's network as transport channel. GXI started commercial operations on 16 October 2004.

In November 2004, Globe and seven other leading Asia Pacific mobile operators ('JV partners') signed an agreement ('JV agreement') to form Bridge Alliance. The joint venture company operates through a

Singapore-incorporated company, Bridge Mobile Pte. Limited (BMPL) which serves as a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform to deliver different regional mobile services to their subscribers. The Bridge Alliance currently has a combined customer base of over 250 million subscribers among its partners in India, Thailand, Hong Kong, South Korea, Macau, Philippines, Malaysia, Singapore, Australia, Taiwan and Indonesia.

In 2005, Innove was awarded by the NTC with a nationwide franchise for its fixed line business, allowing it to operate a Local Exchange Carrier service nationwide and expand its network coverage. In December 2005, the NTC approved Globe's application for third generation (3G) radio frequency spectra to support the upgrade of its cellular mobile telephone system ("CMTS") network to be able to provide 3G services. The Company was assigned with 10-Megahertz (MHz) of the 3G radio frequency spectrum.

On May 19, 2008, following the approval of the NTC, the subscriber contracts of *Touch Mobile* or *TM* prepaid service were transferred from Innove to Globe which now operates all wireless prepaid services using its integrated cellular networks.

In August 2008, and to further grow its mobile data segment, Globe acquired 100% ownership of Entertainment Gateway Group ("EGG"), a leading mobile content provider in the Philippines. EGG offers a wide array of value-added services covering music, news and information, games, chat and web-to-mobile messaging.

On 25 November 2008, Globe formed GTI Business Holdings, Inc. (GTIBH) primarily to act as an investment company.

On October 30, 2008, Globe, the Bank of the Philippine Islands (BPI) and Ayala Corporation (AC) signed a memorandum of agreement to form a joint venture that would allow rural and low-income customers' access to financial products and services. Last October 2009, the Bangko Sentral ng Pilipinas (BSP) approved the sale and transfer by BPI of its shares of stock in Pilipinas Savings Bank, Inc. (PSBI), formalizing the creation of the venture. Globe's and BPI's ownership stakes in PSBI is at 40% each, while AC's shareholding is at 20%. The partners plan to transform PSBI (now called BPI Globe BankO, Inc.) into the country's first mobile microfinance bank. The bank's initial focus will be on wholesale lending to other microfinance institutions but will eventually expand to include retail lending, deposit-taking, and micro-insurance. BPI Globe BankO opened its first branch in Metro Manila in the first quarter of 2011 and now has 6 branches nationwide, over 2,000 partner outlets, 261,000 customers and over ₱2.4 billion in its wholesale loan portfolio.

On March 2012, Globe launched Kickstart Ventures, Inc. (Kickstart) to help, support and develop the dynamic and growing community of technopreneurs in the Philippines. Kickstart is a business incubator that is focused on providing aspiring technopreneurs with the efficient environment and the necessary mechanisms to start their own business. Since its launch, Kickstart has 10 companies in its portfolio covering the digital media and technology, and web/mobile platform space.

In October 2013, following the court's approval of the Amended Rehabilitation Plan (jointly filed by Globe and Bayantel in May 2013), Globe acquired a 38% interest in Bayantel by converting Bayantel's unsustainable debt into common shares. This follows Globe's successful tender offer for close to 97% of Bayantel's outstanding indebtedness as of December 2012. As part of the amended rehab plan and pending regulatory approvals, Globe would further convert a portion of its sustainable debt into common shares of Bayantel, bringing up its stake to around 56%. On October 2014, Globe Telecom received a copy of the temporary restraining order (TRO) issued by the Court of Appeals (CA) stopping the National Telecommunications Commission's (NTC) proceedings in connection with the bid of Globe Telecom Inc. to take over Bayan Telecommunications Inc. (Bayantel). Despite the lapse of the Temporary Restraining Order (TRO) last December 9, 2014, the Court of Appeals has advised the NTC to refrain from conducting any proceedings in connection with the bid of Globe assume majority control of Bayantel.

On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom, a systems integrator and information technology services provider to domestic and international markets.

On July 20, 2015, Globe Telecom, Inc. ("Globe") has agreed to purchase from Bayan Telecommunications Holdings, Corporation ("BTHC") and Lopez Holdings, Corporation ("LHC") all the equity in the capital stock of Bayan Telecommunications, Inc. ("Bayan") that is held by BTHC and LHC. The transaction involved up to 70,763,707 Bayan shares and increased Globe's equity interests in Bayan from 56.87% to 98.57% of outstanding capital stock.

On November 12, 2015, Globe received the resolution from the rehabilitation court granting its motion for the termination of the rehabilitation proceedings involving Bayan. The resolution sets a key milestone for Bayan, wherein it successfully exits rehabilitation and provides key steps for Globe to continue to unlock opportunities for synergies with Bayan.

Globe Telecom, Inc. (Globe), Ayala Corporation (AC) and Bank of the Philippine Islands (BPI) signed an agreement on August 27, 2015 to turn over full ownership of BPI Globe BankO (BankO) to BPI, one of the majority owners of the joint venture. Despite the change in shareholder structure, BankO will continue to provide broader and more competitive access to funds and critical financial services to the underbanked. Globe and AC sold their respective 40% and 20% stakes in BankO to BPI, which already owned 40% of BankO.

Xurpas Inc. signed an agreement with Globe Telecom on September 1, 2015, investing Php900 Million for a 51% equity stake in Yondu Inc. The investment solidifies the Globe and Xurpas partnership in the internet and digital space and will transform Yondu into a regional arm for digital content distribution and other technology driven services. The strategic alliance of Globe and Xurpas in Yondu bolsters Globe's track record of partnering with leading digital players to strengthen its position as the purveyor of the Filipino digital lifestyle.

On September 1, 2015, Yondu Inc. and GCVHI entered into a Deed of Assignment to assign the former's interest in Global Telehealth, Inc. ("GTHI") to GCVHI for a total consideration of ₱15 million.

On September 15, 2015, Globe Telecom sold its controlling interest in Yondu for a total consideration of ₱670 million. On the same date, Yondu issued additional 5,000 common shares from its unissued authorized capital stock to a third party which further dilutes Globe Telecom's ownership interest to 49% as of September 2015.

On May 30, 2016, the Board of Directors of Globe, through its Executive Committee, approved the acquisition and signing of a sale and share purchase agreement and other related definitive agreements for the following entities:

- 50% of the issued and outstanding capital stock of Vega Telecom, Inc. ("VTI") from San Miguel Corporation ("SMC") (PSE: SMC);
- 50% of the issued and outstanding capital stock of Bow Arken Holdings Company Inc. ("BAHC"); and,
- 50% of the issued and outstanding capital stock of Brightshare Holdings Corporation ("BHC").

VTI owns an equity stake in Liberty Telecom Holdings, Inc., a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc., Eastern Telecom Philippines, Inc., Express Telecom, Inc., and Tori Spectrum Telecom, Inc., among others.

The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

The acquisition provided Globe access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfilment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of Liberty Telecom Holdings, Inc. (LIB) held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership of LIB is at 99.1%.

On August 17, 2018, Globe Telecom incorporated GTowers, Inc., a fully owned subsidiary aimed at the building and deployment of cellular towers in the country. As of December 31, 2018, GTowers is still under pre-operating stage.

There was no bankruptcy, receivership or similar proceedings initiated during the past four years.

## **B. Business Segments**

### **1. Mobile Business**

Globe provides digital mobile communication and internet-on-the-go services nationwide using a fully digital network based on the Global System for Mobile Communication (GSM), 3G, HSPA+, and LTE technologies. It provides voice, SMS, data, and value-added services to its mobile subscribers through three major brands: *Globe Postpaid*, *Globe Prepaid* and *TM (including fully mobile, internet-on-the-go service)*.

#### **Postpaid**

*Globe Postpaid* is the leading brand in the postpaid market with various plan offerings. Over the years, these plans evolved in order to cater to the changing needs, lifestyles and demands of its subscribers.

In 2018, in order to keep up with this growing market, Globe once again highlights its portfolio of postpaid plans featuring The PLAN PLUS (SIM-ONLY PLANS), that offers up to 2x larger than life data. With The PLAN PLUS, all customers have to do is bring their own smartphone and get as much as 42GB of data (with 10 GB GoWatch for videos) for more time online. With access to premium entertainment like Netflix and Spotify Premium, their favorite movies, shows, and music are within easy reach. Plus, they can customize and build their plan based on their needs from a variety of plans ranging from Php 599 per month (Php599 + Free 200 bonus value) to Php 2,999 (Php599 + Free 200 bonus value), all with a lock-up period of only 6 month.

#### **Prepaid**

*Globe Prepaid* and *TM* are the prepaid brands of Globe. *Globe Prepaid* is focused on the mainstream market while *TM* caters to the value-conscious segment of the market. Each brand is positioned at different market segments to address the needs of the subscribers by offering affordable innovative products and services.

*Globe Prepaid's GoSAKTO* is a self-service menu that provides its subscribers easy access to avail of the latest promos and services of Globe by simply dialing \*143# or through the *GoSAKTO* mobile app (available on Android and iOS). This menu also allows the subscribers to build their own promos (call, text and surf promos) that are best suited for their needs and lifestyle. *Globe Prepaid* customers can personalize their call, text and surfing needs for 1 day, 2 days, 3 days, 7 days, 15 days or even for 30 days. They can also select the type and number of call minutes and texts they need and adjust data allocation (in MBs) of mobile surfing the way they want it.

*Globe Prepaid* and *TM* subscribers can reload airtime value or credits using various reloading channels including prepaid call and text cards, bank channels such as ATMs, credit cards, and through internet banking. Subscribers can also top-up via *AMAX* retailers nationwide, all at affordable denominations and increments. A consumer-to-consumer top-up facility, *Share-A-Load*, is also available to enable subscribers to share prepaid load credits via SMS.

#### **Loyalty & Rewards Program**

The *Globe Rewards Program* is the Company's way of granting special treats to its active customers for their continued loyal use of Globe's products and services. Awesome rewards await its loyal customers in exchange for the points earned -- more rewards points mean more wonderful perks. Subscribers can:

- 1) *Earn Points* from Prepaid reloads or monthly Postpaid usage and view their available points in real-time through the *Globe Rewards* app.

2) *Redeem Rewards* in the form of mobile promos, bill rebates, gadgets and gift certificates, and more or use the earned points as cash at partner stores. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher value rewards. Redeemed points in the form of telecom services is netted out against revenues whereas points redeemed in the form of non-telco services such as gift certificates and other products are reflected as marketing expense. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points.

3) *Enjoy Perks* through special discounts, exclusive treats, and more wonderful surprises

**(a) Mobile Voice**

Globe's voice services include local, national and international long distance call services. It has one of the most extensive local calling options designed for multiple calling profiles. In addition to its standard, pay-per-use rates, subscribers can choose from bulk and unlimited voice offerings for all-day or off-peak use, and in several denominations to suit different budgets.

Globe keeps Filipinos connected wherever they may be in the world, through its tie-up with 768 roaming partners in 237 calling destinations worldwide. Globe also offers roaming coverage on-board selected shipping lines and airlines, via satellite. Globe also provides an extensive range of international call and text services to allow OFWs (Overseas Filipino Workers) to stay connected with their friends and families in the Philippines. This includes prepaid reloadable call cards and electronic PINs available in popular OFW destinations worldwide.

**(b) Mobile SMS**

Globe's *Mobile SMS* service includes local and international SMS offerings. Globe also offers various bucket and unlimited SMS packages to cater to the different needs and lifestyles of its postpaid and prepaid subscribers.

**(c) Mobile Data**

Globe's *Mobile Data* services allow subscribers to access the internet using their internet-capable handsets, devices or laptops with USB modems. Data access can be made using various technologies including LTE, HSPA+, 3G with HSDPA, EDGE and GPRS. The Company spearheaded the shift from unlimited time-based data plans to volume-based consumable plans, geared towards improving the mobile data experience of its subscribers and ensuring the most appropriate pricing of data. Globe and TM subscribers can choose from a variety of GoSurf consumable data plans, ranging from ₱15 for 40 MB to ₱2,499 for 20 GB per month.

Globe's *Nomadic (internet-on-the-go service)* is for consumers who require a fully mobile internet, which allows subscribers to access the internet using LTE, HSPA+, 3G with HSDPA, EDGE, GPRS or Wi-Fi using a plug-and-play USB modem/mobile Wifi. This service is available in both postpaid and prepaid packages.

Globe's *Value-Added Services* offers a full range of downloadable content covering multiple topics including news, information, and entertainment through its web portal. Subscribers can purchase or download music, movie pictures and wallpapers, games, mobile advertising, applications or watch clips of popular TV shows and documentaries as well as participate in interactive TV, do mobile chat, and play games, among others. Additionally, Globe subscribers can send and receive Multimedia Messaging Service (MMS) pictures and video, or do local and international 3G video calling.

**2. Fixed Line and Broadband Business**

Globe offers a full range of fixed line communications services, wired and wireless broadband access, and end-to-end connectivity solutions customized for consumers, SMEs (Small & Medium Enterprises), large corporations and businesses.

**(a) Fixed Line Voice**

Globe's fixed line voice services include local, national and international long distance calling services in postpaid and prepaid packages through its *Globelines* brand. Subscribers get to enjoy toll-free rates for national long distance calls with other *Globelines* subscribers nationwide. Additionally, postpaid Fixed Line Voice consumers enjoy free unlimited dial-up internet from their *Globelines* subscriptions. Low-MSF (monthly service fee) fixed line voice services bundled with internet plans are available nationwide and can be customized with value-added services including multi-calling, call waiting and forwarding, special numbers and voice mail. For corporate and enterprise customers, Globe offers voice solutions that include regular and premium conferencing, enhanced voice mail, IP-PBX solutions and domestic or international toll free services. With the Company's cutting-edge Next Generation Network (NGN), Globe Business Voice solutions offer enterprises a bevy of fully-managed traditional and IP-based voice packages that can be customized to their needs.

## **(b) Corporate Data**

Corporate data services include end-to-end data solutions customized according to the needs of businesses. Globe's product offerings include international and domestic leased line services, wholesale and corporate internet access, data center services and other connectivity solutions tailored to the needs of specific industries.

Globe's international data services provide corporate and enterprise customers with the most diverse international connectivity solutions. Globe's extensive data network allow customers to manage their own virtual private networks, subscribe to wholesale internet access via managed international private leased lines, run various applications, and access other networks with integrated voice services over high-speed, redundant and reliable connections. In addition to bandwidth access from multiple international submarine cable operators, Globe also has two international cable landing stations situated in different locales to ensure redundancy and network resiliency.

The Company's domestic data services include data center solutions such as business continuity and data recovery services, 24x7 monitoring and management, dedicated server hosting, maintenance for application-hosting, managed space and carrier-class facilities for co-location requirements and dedicated hardware from leading partner vendors for off-site deployment.

Other corporate data services include premium-grade access solutions combining voice, broadband and video offerings designed to address specific connectivity requirements. These include Broadband Internet Zones (BIZ) for broadband-to-room internet access for hotels, and Internet Exchange (GiX) services for bandwidth-on-demand access packages based on average usage.

Globe Business knows that success is made up of different elements: effective products, streamlined processes, and reliable manpower, and that is why Globe's business solutions are a fusion of all three.

Among the products and solutions are as follows:

- **Mobility** - Further employee productivity with reimagined user engagements within and beyond the workplace. With Globe's enterprise mobility solutions, it's easier to build and maintain the business momentum: (1) Postpaid - Globe Business offers flexible plans to suit companies of every scale (2) Enterprise Mobile Management - Gain more control over enterprise mobile devices while simultaneously maximizing workforce productivity with Globe's all-in-one device management solution. Keep your mobile operations intact with a central device management platform. With Globe's Enterprise Mobile Management, the corporate mobile data is protected anytime, anywhere. (3) TxtConnect - Broadcast messages to your stakeholders at the push of a button. With TxtConnect's streamlined messaging delivery and 24/7 accessibility features, the company can reach their target audience easily and efficiently; (4) IsatPhone Pro - Take communications a notch higher with a reliable handheld satellite phone that lets you call, text, and do more-even from remote places around the globe. With IsatPhone Pro, you can keep your business operations going anytime, anywhere.
- **Voice** - Create lines of communications with Globe's extensive Philippine coverage of managed traditional and IP Voice solutions, which enables your business to interact clearly and reduce

operational costs (Globelines; ISDN-PRI; Toll-Free Services; Enhanced Managed Voice Solution (EMVS); Managed IP-PBX; SIP Trunk; Hosted PBX System & Services; Collaboration Solutions).

- Connectivity - Globe Business Data and IP services are built on stable and established technologies to connect offices locally and globally (Domestic Data; International Data; Internet Services; Managed Services).
- Cloud - Respond quickly in today's dynamic business environment with a range of wireless platforms that could store, analyze, and calculate data. Match the elasticity of the business climate and increase your business agility with the Company's Cloud Solutions: Infrastructure-as-a-Service (IaaS); Backup-as-a-Service (BaaS); Disaster-Recovery-as-a-Service (DRaaS); G Suite; G Suite Business; Microsoft Office 365; GoCanvas; DocumentCloud.
- Data Center - Globe Data Center provides a superior experience that goes beyond technology. Our Account Managers invest time to discuss your business and technology plans. For technical support, you may reach our specialists 24/7. We strive to provide the best technology and service as we share in your passion for business.
- M2M - Drive your business with Fleet Management. Keep track of moving assets like delivery and service vehicles through Global Positioning System (GPS) from your laptop or mobile phone.
- Cybersecurity - Handle security threats and IT infrastructure cost-effectively. Manage your tasks and functions cost-effectively with Globe Business' Cybersecurity. Gain access to the best-in-class tool sets, hardware, software, and even niche technology experts while only paying for what you need, when you need it.
- HR Solutions - Get a wide range of reports without the inconvenience. Delegate your payroll processing, timekeeping, and HR management with the right enterprise solution.

### **(c) Home Broadband**

Globe offers wired and fixed wireless broadband services, across various technologies and connectivity speeds for its residential and business customers. *Globe Home Broadband* consists of wired or DSL broadband packages which can be bundled with voice, content, and devices, or broadband data-only services which are available with download speeds ranging from 1 Mbps up to 15 Mbps. Globe also expanded its Long Term Evolution (LTE) footprint through LTE @Home offerings, bringing latest internet technology to households and allowing subscribers to surf the internet at ultrafast speeds to watch high-definition videos, downloading and uploading large files, seamless music streaming, and voice-over-internet-protocol (VOIP) calling with clear quality. This LTE service is backed by the largest 4G network in the country deployed by Globe.

With the new broadband plans, customers get exclusive access to a portfolio of entertainment content which allows them to watch movies and basketball games, as well as stream music at the comfort of their homes. As an online entertainment service provider, HOOQ boasts of an extensive content library with thousands of movies, television episodes and shows available for users to watch, including titles from partners Sony Pictures and Warner Bros. Entertainment. With Spotify, the world's most popular music streaming service, customers get the best music experience with access to over 20 million songs. On the other hand, the NBA League Pass allows customers to watch basketball games along with highlights, stats and other features. Likewise, with Walt Disney partnership, Globe customers will now have access to an array of Disney content offerings (whose brands include Disney, Pixar, Marvel, Star Wars and global leader in short-form video, Maker Studios) including long- and short-form programming, interactive content and games, theatrical releases and retail promotions. Moreover, Netflix partnership allows customers to watch today's top original Netflix series and renowned movie hits. Netflix adds TV programs and films all the time.

In 2018, Globe heard the clamor of its customers and has brought back an upgraded version of its unlimited internet plans through Go Unli. Go Unli is the ultimate unlimited data offering that allows customers to stream video, play music and games without having to worry about lock-up period, data capping, and speed throttling. GoUnli wired plans start at Php 1,699 a month, which come with unlimited surfing and streaming up to 5 Mbps. Faster speeds are also available with the following plans: Plan 1899 for speeds up to 10, 15, or 20 Mbps, Plan 2499 for speeds up to 50 Mbps, and

Plan 2899 for speeds up to 100 Mbps. To avail of the no-lock up offer, interested parties need only pay for a one-time modem fee of P2,500 or P4,500 depending on the chosen plan. Those who choose to discontinue their subscription within the first 15 days will get a 100% refund of their modem fee upon the return of the modem and telephone set provided during installation. For those looking for an option without modem fees, 24-month contract plans are also available. All plans come with free landline with unlimited calls to Globe and TM for 24 months, nine months access to Netflix and Disney Channel Apps, and two months access to HOOQ. Globe is bringing in more content partners, with VIU and FOX+ now joining its extensive roster of content providers giving Globe customers access to a wide library of premium shows. VIU delivers the latest Korean entertainment, and FOX+ provides an unrivalled combination of TV, blockbuster movies, sports and documentaries. Starting April 15, 2018, Globe At Home Postpaid Plans will come with 6-month access to FOX+. Meanwhile, Globe At Home Prepaid WiFi devices will come with free 3-month access to VIU starting April 30, 2018.

Globe At Home has committed itself to transforming home entertainment from strict schedules to making primetime your time through its high-speed internet and partnerships with world class content partners. Through Globe At Home's partnership with FOX Networks Group, customers can experience a wider variety of content (latest Hollywood movies, TV shows, live sports and more) with Globe Streamwatch Roku Powered's collaboration with FOX+<sup>1</sup>. Customers now have access to FOX+ for 3 months using Globe Streamwatch Roku Powered device. Globe Streamwatch Roku Powered device can be availed by adding P50 for 24 months to a Globe At Home plan or a one-time payment of P999.

Globe At Home closes the gap between OFWs and their families as the Prepaid Home WiFi becomes finally available on SarisariPH<sup>2</sup>. Sending a Globe Prepaid Home WiFi along with other gift items through SarisariPH is easy: customers simply choose the items from over 170 brands for dining, shopping, health, leisure, and other services on the website. Then, they must fill out an order form, pay by credit card or pay cash via PayRemit outlets in key OFW cities abroad. The recipient will receive the eGift via SMS or email within a few minutes. Globe will contact eGift recipient within 24 hours upon receipt of eGift to confirm his/her preferred date and time of delivery.

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<sup>1</sup>FOX+ is a video-streaming service in Asia promising an unrivalled combination of the latest TV series, first-run Hollywood blockbusters, hit Asian series and movies, live sports, thrilling documentaries and a big library of content all in one place in stunning high-definition.

<sup>2</sup>SarisariPH, an online gifting service made possible by Globe International Business, allows Filipinos from all over the world to send electronic gift certificates or eGifts to their family and friends in the Philippines.

## **C. Sales and Distribution**

Globe has various sales and distribution channels to address the diverse needs of its subscribers.

### **1. Independent Dealers**

Globe utilizes a number of independent dealers throughout the Philippines to sell and distribute its prepaid wireless services. This includes major distributors of wireless phone handsets who usually have their own retail networks, direct sales force, and sub-dealers. Dealers are compensated based on the type, volume and value of reload made in a given period. This takes the form of fixed discounts for prepaid airtime cards and SIM packs, and discounted selling price for phonekits. Additionally, Globe also relies on its distribution network of over 1.2 million *AutoloadMax* retailers nationwide who offer prepaid reloading services to *Globe* and *TM* subscribers.

### **2. Globe Stores**

As of December 31, 2018, the Company has a total of 224 Globe Stores all over the country where customers are able to inquire and subscribe to wireless, broadband and fixed line services, reload prepaid credits, make *GCASH* transactions, purchase handsets and accessories, request for handset repairs, try out communications devices, and pay bills. The Globe Stores are also registered with the Bangko Sentral ng Pilipinas (BSP) as remittance outlets.

In line with the Company's thrust to become a more customer-focused and service-driven organization, Globe departed from the traditional store concept which is transactional in nature and launched the redesigned Globe Store which carries a seamless, semi-circular, two-section design layout that allows anyone to easily browse around the product display as well as request for after sales support. It boasts of a wide array of mobile phones that the customers can feel, touch and test. There are also laptops with high speed internet broadband connections for everyone to try. The Globe store has an Express Section for fast transactions such as modification of account information and subscription plans; a Full-Service Section for more complex transactions and opening of new accounts; and a Cashier Section for bill payments. The store also has a self-help area where customers can, among others, print a copy of their bill, and use interactive touch screens for easy access to information about the different mobile phones and Globe products and services. Globe stores also include NegoStore areas, which serve as additional sales channels for current and prospective Globe customers. Moreover, select stores also have 'Tech Coaches' or device experts that can help customers with their concerns on their smartphones. The Company opened the first concept store in Greenbelt 4 in 2010 and accelerated its roll-out throughout 2011, averaging 4-5 new stores a month.

In 2012, Globe introduced other store formats in response to the need for more customer service channels to accommodate more subscribers availing of Globe postpaid, prepaid and internet services. The new store formats - the premium dealership store, pop-up store, microstore, kiosk, and store-on-the-go – were carefully designed based on demographics, lifestyle and shopping behaviors of its customers, each providing a different retail mix and experience to subscribers.

In 2013, Globe opened 50 concept stores and will open more concept stores in the country as part of its commitment to a wonderful customer service experience.

In 2014, Globe simultaneously unveiled its Generation 3 flagship stores in SM North EDSA, Quezon City, Manila and in Limketkai Mall, Cagayan de Oro. Designed by Tim Kobe, the founder and CEO of Eight, Inc. and designer of Apple Stores, the Globe Gen3 stores features reconfigurable and interactive elements, all designed to empower the growing digital lifestyle of customers. The stores feature four lifestyle zones – music, entertainment, productivity, and life – each with their own interactive kiosks.

Continuing with its journey of transforming customer experience, Globe opened two more Gen3 stores in 2015. On July 2015, Globe opened its third Gen3 store in Ayala Center, Cebu and on August 2015, opened its fourth Gen3 and first two-storey store in Greenbelt, Makati.

In 2016, Globe opened its Flagship ICONIC store in Bonifacio Global City Central Square Taguig. Designed by Tim Kobe of Eight Inc., the same designer of the Globe GEN3 stores, the Globe ICONIC store is the first all-in-one retail and entertainment space and was launched in two phases. Phase 1 was completed in the June 2016 and featured the entertainment space that will house shows, concerts,

and a variety of on-ground events and activities. Phase 2, completed in December 2016 features the complete Globe ICONIC Store with a glass bridge that links two Globe stores from opposite sides of the BGC Central Square.

### 3. Customer Facing Units

To better serve the various needs of its customers, Globe is organized along two key customer facing units (CFUs) tasked to focus on the integrated mobile, Fixed Line and international voice and roaming needs of specific market segments. The Company has a Consumer CFU with dedicated marketing and sales groups to address the needs of retail customers, and a Business CFU (Globe Business) focused on the needs of big and small businesses. Globe Business provides end-to-end mobile and Fixed Line solutions and is equipped with its own technical and customer relationship teams to serve the requirements of its client base. Globe Business also caters to the international voice and roaming needs of overseas Filipinos, whether transient or permanent. Moreover, it is tasked to grow the Company's international revenues by leveraging on Globe's product portfolio and developing and capitalizing on regional and global opportunities.

### 4. Others

Globe also distributes its prepaid products SIM packs, prepaid call cards and credits through consumer distribution channels such as convenience stores, gas stations, drugstores and bookstores. Lower denomination IDD prepaid loads are also available in public utility vehicles, street vendors, and selected restaurants and retailers nationwide via the IDD *Tingi* load, an international voice scratch card in affordable denominations.

### D. Operating Revenues

| Gross Operating Revenues by Business Segment<br>(in Php Mn) | Year Ended December 31 |             |                |             |                |             |
|-------------------------------------------------------------|------------------------|-------------|----------------|-------------|----------------|-------------|
|                                                             | Pre-PFRS               |             |                |             | Post-PFRS      |             |
|                                                             | 2018                   | % of total  | 2017           | % of total  | 2018           | % of total  |
| <b>Service Revenues</b>                                     |                        |             |                |             |                |             |
| <b>Mobile*</b> .....                                        | <b>106,925</b>         | <b>71%</b>  | <b>98,483</b>  | <b>73%</b>  | <b>99,530</b>  | <b>66%</b>  |
| Voice <sup>1</sup> .....                                    | 30,348                 | 20%         | 32,275         | 24%         | 28,520         | 19%         |
| SMS <sup>2</sup> .....                                      | 21,281                 | 14%         | 23,149         | 17%         | 20,190         | 13%         |
| Data <sup>3</sup> .....                                     | 55,296                 | 37%         | 43,059         | 32%         | 50,820         | 34%         |
| <b>Fixed Line and Home Broadband**</b> .....                | <b>33,307</b>          | <b>22%</b>  | <b>29,423</b>  | <b>22%</b>  | <b>33,545</b>  | <b>22%</b>  |
| Home Broadband <sup>4</sup> .....                           | 18,543                 | 12%         | 15,645         | 12%         | 18,606         | 12%         |
| Corporate Data <sup>5</sup> .....                           | 11,782                 | 8%          | 10,288         | 8%          | 11,762         | 8%          |
| Fixed Line Voice <sup>6</sup> .....                         | 2,982                  | 2%          | 3,490          | 2%          | 2,977          | 2%          |
| <b>Service Revenues</b> .....                               | <b>140,232</b>         | <b>93%</b>  | <b>127,906</b> | <b>95%</b>  | <b>132,875</b> | <b>88%</b>  |
| <b>Non Service Revenues</b> .....                           | <b>10,088</b>          | <b>7%</b>   | <b>7,375</b>   | <b>5%</b>   | <b>18,297</b>  | <b>12%</b>  |
| <b>Operating Revenues</b> .....                             | <b>150,320</b>         | <b>100%</b> | <b>135,281</b> | <b>100%</b> | <b>151,172</b> | <b>100%</b> |

Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.

\*Mobile business includes mobile and fully mobile broadband

\*\*Home Broadband includes fixed wireless and wired broadband

<sup>1</sup> Mobile voice service revenues include the following:

- Prorated monthly service fees on consumable minutes of postpaid plans;
- Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
- Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
- Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
- Mobile service revenues of GTI.

Revenues from (a) to (d) are reduced by any payouts to content providers.

<sup>2</sup> Mobile SMS revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

<sup>3</sup> Mobile data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses. Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison.

<sup>4</sup> Home broadband service revenues consist of the following:

- a) Monthly service fees of wired, fixed wireless, and bundled voice and data subscriptions;
- b) Browsing revenues from all postpaid and prepaid wired and fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
- c) Value-added services such as games; and
- d) Installation charges and other one-time fees associated with the service.
- e) Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

<sup>5</sup> Corporate data (previously called Fixed line data) service revenues consist of the following:

- a) Monthly service fees from international and domestic leased lines;
- b) Other wholesale transport services;
- c) Revenues from value-added services; and
- d) One-time connection charges associated with the establishment of service.

<sup>6</sup> Fixed Line voice service revenues consist of the following:

- a) Monthly service fees;
- b) Revenues from local, international and national long distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
- c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
- d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
- e) Installation charges and other one-time fees associated with the establishment of the service; and
- f) Revenues from DUO and SUPERDUO (fixed line portion) services consisting of monthly service fees for postpaid and subscription fees for prepaid subscribers.

Globe's mobile business contributed ₱106.9 billion in 2018 accounting for 71% of total operating revenues, 9% higher than last year's level of ₱98.5 billion. Mobile voice service revenues amounted to ₱30.3 billion in 2018, contributing 20% of operating revenues. Mobile SMS service revenues contributed ₱21.3 billion in 2018 or 14% of operating revenues. Mobile data posted strong revenue growth compared to last year's level and contributed ₱55.3 billion in 2018, 37% of operating revenues.

Accounting for 22% of total operating revenues, Globe's fixed line and broadband business grew 13%, registering ₱33.3 billion in 2018, compared to ₱29.4 billion in 2017. Home broadband contributed revenues of ₱18.5 billion, or 12% of operating revenues. Corporate data contributed 8%, at ₱11.8 billion and fixed line voice contributed 2% at ₱3.0 billion.

## **E. Competition**

### **1. Industry, Competitors and Methods of Competition**

#### **(a) Mobile Market**

The Philippine mobile market has a total industry SIM base of more than 134 million with an industry penetration rate of 124% as of December 31, 2018. With the growing penchant of Filipinos for smartphones, the mobile data business in the Philippines presents more opportunities for revenue growth. Mobile data usage of both prepaid and postpaid subscribers continues to be a promising market with fast-paced growth.

The Philippine government liberalized the communications industry in 1993, after a framework was developed to promote competition in the industry and accelerate the development of the telecommunications market. Ten (10) operators were granted licenses to provide CMTS services – Globe, Innove (previously Isla Communications, Inc. or "Islacom"), Bayan Telecommunications, Inc. ("Bayantel"), Connectivity Unlimited Resources Enterprises ("CURE"), Digitel Telecommunications

Philippines, Inc. (“Digitel”), Express Telecom (“Extelcom”), MultiMedia Telephony, Inc., Next Mobile (“NEXTEL”), Pilipino Telephone Corporation (“Piltel”) and Smart Communications, Inc. (“Smart”). Nine of the ten operators continued on to operate commercially except for Bayantel, which have yet to roll out their CMTS services commercially.

When Sun Cellular, Digitel’s mobile brand, entered the market in 2003, it introduced to the market value-based unlimited call and text propositions, allowing it to build subscriber scale over time. With the market’s preference for these value-based unlimited and bulk call and text services, Globe and Smart responded by creating a new set of value propositions for their subscribers. Today, with the high level of mobile penetration, driven in part by the prevalence of multi-SIMming (i.e., individuals having two SIMs), and the continued shift of consumer preferences to unlimited and bulk offers, the competition in the mobile market remains intense, albeit in a more rational environment.

The mobile market is currently at 134.6 million SIMs, a 13% increase from the previous year mostly due to the pronouncement of the National Telecommunications Commission (NTC), the Department of Information and Communications Technology (DICT), and the Department of Trade and Industry (DTI) that under Joint Memorandum Circular No. 05-12-2017, all prepaid load will now carry a one-year expiration period regardless of amount. Due to this, Globe ended 2018 with a higher SIM base of 74.1 million, with an estimated SIM share of approximately 55%, up from 51% in 2017.

|                   | <b>Mobile Subscribers (Mn)</b> | <b>Penetration Rates (%)</b> | <b>Growth Rate</b> |
|-------------------|--------------------------------|------------------------------|--------------------|
| 1998              | 1.62                           | 2.5                          | 43%                |
| 1999              | 2.68                           | 3.8                          | 65%                |
| 2000              | 5.26                           | 8.6                          | 96%                |
| 2001              | 10.53                          | 14.2                         | 100%               |
| 2002              | 15.17                          | 19.0                         | 44%                |
| 2003              | 22.31                          | 27.3                         | 47%                |
| 2004              | 32.87                          | 39.4                         | 47%                |
| 2005              | 34.61                          | 40.6                         | 5%                 |
| 2006              | 42.04                          | 48.3                         | 21%                |
| 2007              | 54.86                          | 61.2                         | 30%                |
| 2008              | 68.03                          | 74.6                         | 24%                |
| 2009              | 75.43*                         | 82.3                         | 11%                |
| 2010              | 86.15*                         | 93.0                         | 14%                |
| 2011              | 93.74*                         | 98.7                         | 9%                 |
| 2012              | 102.99*                        | 106.4                        | 10%                |
| 2013              | 108.52*                        | 110.0                        | 5%                 |
| 2014              | 113.89*                        | 116.0                        | 5%                 |
| 2015              | 124.79                         | 115.2                        | 3%                 |
| 2016 <sup>1</sup> | 125.56                         | 120.4                        | 1%                 |
| 2017 <sup>2</sup> | 118.98                         | 111.9                        | -5%                |
| 2018 <sup>3</sup> | 134.59                         | 124.3                        | 13%                |

\* Estimated end of year figures.

Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates

<sup>1</sup> Starting 2016, nomadic subscribers are included in mobile subscribers (previously reported under broadband subscribers)

<sup>2</sup> In 2017, the industry has excluded in their reporting the prepaid subscribers who do not reload within 90 days of the second expiry period, versus the previous cut-off of 120 days

<sup>3</sup> In 2018, under Joint Memorandum Circular No. 05-12-2017, all prepaid load now carries a one-year expiration period

Since 2000, the mobile communications industry has experienced a number of consolidations and ushered in new entrants, namely:

- In 2000, Philippine Long Distance and Telephone Company (“PLDT”) acquired and consolidated Smart and Piltel, complementing the former’s fixed line businesses with the latter’s wireless businesses. Subsequently in 2008, PLDT, through Smart, purchased CURE, one of the four recipients of 3G licenses awarded by the NTC, and has since

launched another wireless brand in the market in Red Mobile, further heightening competition in the market at that time.

In October 2011, PLDT also acquired 99.4% of the outstanding common stock of Digitel, which owns the Sun Cellular brand, thereby allowing it to control over two-thirds of the industry subscribers. As a condition of PLDT's acquisition of Digitel, PLDT returned to the NTC the 3G license in CURE, which is expected to be re-auctioned in the near-term.

- In 2008, San Miguel Corporation ("SMC"), partnering with Qatar Telecom, bought interests in Liberty Telecom Holdings, Inc. ("Liberty") and announced plans to enter the mobile and broadband businesses.

In 2010, SMC acquired 100% stake in Bell Telecommunication Philippines, Inc. ("BellTel"), after acquiring shares in three companies that own the shares of BellTel. Also in 2010, SMC purchased a 40% stake in Eastern Telecommunications Philippines, Inc. ("ETPI") to expand its telecommunications services. SMC subsequently gained a majority stake of ETPI in 2011. It now owns 77.7% of the telecommunications company.

In 2012, NTC has granted BellTel, San Miguel Corporation's mobile telephony arm, an extension to its operating license to provide cellular mobile telephone system (CMTS) service in the country for another three years.

- In 2001, Globe acquired Islacom (now Innove). Globe, likewise, acquired approximately 96.5% of the total debt of Bayantel, in December 2012. On October 2013, Globe converted a portion of the debt it holds in Bayantel into a 38% interest in the latter, based on the Amended Rehabilitation Plan approved by the Rehabilitation Court in August of the same year. Upon obtaining relevant and regulatory approvals, Globe would further convert debt into a total 56.6% share of the common stock of Bayantel.
- In May 2013, ABS-CBN Convergence, Inc. ("ABS-C", formerly Multimedia Telephony, Inc.) announced the launch of its mobile brand, ABS-CBN Mobile. The launch of the new mobile brand was being supported through a network sharing agreement with Globe, wherein the latter provides network capacity and coverage to ABS-C on a nationwide basis. ABS-C formally launched the brand in November 26, 2013. On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.
- In November 2015, Cherry Mobile, a leading mobile phone company in the Philippines, entered into a co-branding partnership with Globe to launch the Cherry Prepaid SIM that also comes bundled with a Cherry Mobile phone. The Cherry Prepaid SIM will operate through a network sharing agreement with Globe, similar to ABS-CBN-Mobile.
- In November 2018, the Department of Information and Communications Technology (DICT) and the National Telecommunications Commission (NTC) declared Mislattel a new major telco player, a consortium composed of Mindanao Islamic Telephone Inc., Udena Corporation, Chelsea Logistics Holdings, and China Telecom. As of reporting date, the new major player has not begun operations.

Today, only the PLDT Group and the Globe Group have built significant bases of mobile subscribers.

## **(b) Fixed Line Market**

### **Fixed Line Voice**

The number of lines in service in the fixed line voice market is estimated at 4.01 million lines as of December 31, 2018 with PLDT's subscriber market share at 68% and Globe subscriber market share at 32%.

The fixed line voice market is currently in decline as the country continues to shift towards alternative communication solutions like VoIP and chat messaging applications. Globe's fixed line voice subscriber base declined 3% to 1.35 million versus 1.40 million last year.

## **Corporate Data**

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service (ITES) industry which includes call centers and Business Process Outsourcing (BPO) companies has also helped drive the growth of the corporate data business.

Dedicated business units have been created and organized within the Company to focus on the mobile and fixed line needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients or smaller scale industries. This structure has also been driven by Globe's corporate clients' preferences for integrated mobile and fixed line communications solutions.

### **(c) Home Broadband Market**

Home broadband continues to be a major growth area for the local telecom industry. Industry home broadband subscribers is now at 3.64 million, growing 12% versus 2017. Globe's subscriber market share stands at 44% as of December 31, 2018, up from 40% a year ago. The aggressive network roll-out of the various operators, the wider availability of affordable prepaid broadband packages, as well as lower PC and tablet prices were the main drivers of subscriber growth. Operators used both wired and wireless technologies to serve the growing demand for internet connectivity.

While household penetration rates remains low, competition continues to intensify as telecom operators aim to capture the market by accelerating the rollout of broadband network to provide subscribers with faster internet connection and introducing more affordable and bundled offerings.

## **2. Principal Competitive Strengths of the Company**

### **(a) Market Leadership Position**

Globe is a major provider of telecommunications services in the Philippines. It is a strong player in the market and operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe's distinct competitive strengths include its technologically advanced mobile, fixed line and broadband network, a substantial subscriber base, high quality customer service, a well-established brand identity and a solid track record in the industry.

### **(b) Strong Brand Identity**

The Company has some of the best-recognized brands in the Philippines. This strong brand recognition is a critical advantage in securing and growing market share, and significantly enhances Globe's ability to cross-sell and push other product and service offerings in the market.

### **(c) Financial Strength and Prudent Leverage Policies**

Globe's financial position remains strong with ample liquidity, and gearing comfortably within bank covenants. At the end of 2018, Globe had total interest bearing debt of ₱148.3 billion representing 67% of total book capitalization. As of December 31, 2018, consolidated gross debt to equity ratio is at 2.03x, well within the 3:1 debt to equity limit. Additionally, debt to EBITDA is also well within the 3.5:1 covenant level, currently at 2.33x. Approximately 84% of its debt is in pesos while the balance of 16% is denominated in US 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 Huawei Technologies Co., Ltd. (China) and Nokia Corporation (Finland); and for transmission and IP equipment, Company has partnered with Huawei Technologies Co., Ltd. (China), Nokia Corporation (Finland), NEC (Japan), ECI Telecom, Ltd. (Israel), Aviat Networks (USA).

For Fixed Line and Fixed Broadband Service, Globe's principal equipment suppliers include Huawei Technologies Co., Ltd. (China), FiberHome Telecom Tech (China), Nokia Corporation (Finland), Juniper Networks (USA), ZTE Corporation, and Tellabs (USA/Singapore).

For WiFi service, Company partnered with Aruba Networks (USA) and Ruckus Networks (USA).

For Network Management and Operational Support Systems, Globe's primary solution provider includes IBM (USA), Mycom OSI (United Kingdom), Incognito (Canada), Netcracker (USA), Radcom (Israel) among others.

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 2018 with 74.1 million mobile subscribers, comprised of 2.6 million postpaid and 71.5 million prepaid subscribers. Meanwhile, Globe has over 1.6 million home broadband customers and around 1.4 million fixed line voice subscribers.

No single customer and contract accounted for more than 20% of the Company's total sales in 2018.

## H. Licenses, Patents, and Trademarks

### 1. Licenses

Globe currently holds the following major licenses:

| Service                                                                             | Type of License     | Date Issued or Last Extended | Expiration Date   |
|-------------------------------------------------------------------------------------|---------------------|------------------------------|-------------------|
| <b>Globe</b>                                                                        |                     |                              |                   |
| Wireless                                                                            | CPCN <sup>(1)</sup> | July 22, 2002                | December 24, 2030 |
| Local Exchange Carrier                                                              | CPCN <sup>(1)</sup> | July 22, 2002                | December 24, 2030 |
| International Long Distance                                                         | CPCN <sup>(1)</sup> | July 22, 2002                | December 24, 2030 |
| Interexchange Carrier                                                               | CPCN <sup>(1)</sup> | February 14, 2003            | December 24, 2030 |
| VSAT                                                                                | CPCN <sup>(1)</sup> | February 6, 1996             | February 6, 2021  |
| International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)    | CPCN <sup>(1)</sup> | October 19, 2007             | December 24, 2030 |
| International Cable Landing Station & Submarine Cable System (Ballesteros, Cagayan) | CPCN <sup>(1)</sup> | June 29, 2010                | December 24, 2030 |

| Innove                      | Type of License     | Date Issued or Last Extended | Expiration Date  |
|-----------------------------|---------------------|------------------------------|------------------|
| Wireless                    | CPCN <sup>(1)</sup> | December 14, 2018            | January 29, 2044 |
| Local Fixed line            | CPCN <sup>(1)</sup> | December 14, 2018            | January 29, 2044 |
| International Long Distance | CPCN <sup>(1)</sup> | December 14, 2018            | January 29, 2044 |
| Interexchange Carrier       | CPCN <sup>(1)</sup> | December 14, 2018            | January 29, 2044 |

| Bayantel                                                                                                                                                                               | Type of License     | Date Issued or Last Extended | Expiration Date                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------------|----------------------------------|
| Local Exchange Carrier                                                                                                                                                                 |                     |                              |                                  |
| (a) Quezon City, Malabon & Valenzuela, all in M.M., Albay, Camarines Norte, Camarines Sur, Catanduanes, Sorsogon & Masbate, all in Bicol Region                                        | CPCN <sup>(1)</sup> | (a) July 9, 1999             | (a) July 8, 2024                 |
| (b) Manila, Caloocan, Navotas                                                                                                                                                          | CPCN <sup>(1)</sup> | (b) May 3, 2007              | (b) August 9, 2021               |
| (c) Tacloban City, Tanauan and Palo, Leyte & Sogod, Southern Leyte                                                                                                                     | CPCN <sup>(1)</sup> | (c) March 16, 2004           | (c) March 15, 2029               |
| (d) Leyte (Abuyog, Baybay, Burauen, Carigara, Dulag, Hilongos, Isabel, Palompon & Hilaga) Eastern Samar (Guiuan & Borongan) Western Samar (Catbalogan & Basey) Southern Leyte (Maasin) | CPCN <sup>(1)</sup> | (d) March 18, 2008           | (d) August 9, 2021               |
| (e) Antique, Iloilo, Bohol, Bukidnon, Misamis Occidental, Misamis, Zamboanga del Sur, Davao del Norte, Davao del Sur, Davao Oriental, Saranggani, South Cotabato and Surigao del Sur   | PA                  | (e) March 9, 1998            | (e) July 25, 2006 <sup>(2)</sup> |
| (f) Aklan, Capiz (including Roxas City), Guimaras, Negros Occidental (including cities of Bacolod and Bago),                                                                           | PA                  | (f) November 18, 2004        | (f) May 1, 2006 <sup>(2)</sup>   |

|                                                                                                                                                                                                                                                                                   |                     |                       |                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------|----------------------------------|
| Negros Oriental<br>(including Dumaguete City), Cebu (including cities of Cebu, Lapu-Lapu and Mandaue), Zamboanga del Norte, Surigao del Norte (including Surigao City), Tagbilaran City, Cagayan de Oro City and Tagum City<br>(g) Butuan City, Agusan del Norte & Agusan del Sur | PA                  | (g) December 14, 1998 | (g) June 14, 2005 <sup>(2)</sup> |
| VSAT                                                                                                                                                                                                                                                                              | CPCN <sup>(1)</sup> | January 11, 2001      | January 10, 2026                 |
| International Gateway Facility                                                                                                                                                                                                                                                    | CPCN <sup>(1)</sup> | April 19, 1996        | April 18, 2021                   |
| Trunked Mobile Radio System                                                                                                                                                                                                                                                       | CPCN <sup>(1)</sup> | April 2, 1998         | April 1, 2023                    |
| Domestic Data and Voice Communications                                                                                                                                                                                                                                            | CPCN <sup>(1)</sup> | April 10, 2008        | August 9, 2021                   |

<sup>1</sup>Certificate of Public Convenience and Necessity. The term of a CPCN is co-terminus with the franchise term.

<sup>2</sup> Motion for Extension of PA still pending with the NTC. No roll-out to justify the PA extension

In July 2002, the NTC issued CPCNs to Globe and Innove which allow the Company to operate respective services for a term co-terminus with the congressional franchise under RA 7229 (Globe) and RA 11151 (amending RA 7372; Innove). Globe was granted permanent licenses after having demonstrated legal, financial and technical capabilities in operating and maintaining wireless telecommunications systems, local exchange carrier services and international gateway facilities. Additionally, Globe and Innove have exceeded the 80% minimum roll-out compliance requirement for coverage of all provincial capitals, including all chartered cities within a period of seven years.

## 2. Trademarks

Globe has the following registered trademarks in the Philippines: Globe, Globe Life Device, #LevelUpPH, #Next Level Ka Tournament, 0917,Adblast,AdSpark, Airfair, Airfair Enterprise, Barkada Congress, Bingeon,, BingeWatch, BingeWatching, Create Wonderful, Creating a Wonderful World, Data Rollover, DigiAds,Digimall, Duo International, EasyShare, EasyExtend, Game Sa Lahat, GG30, GG50, Globe AppMarket, Globe At Home, Globe At Home Streamfest, Globe Broadband, Globe Creating a Wonderful World, Globe Home Broadband,Globe International, Globe Live, Globe MyBusiness, Globe Prepaid #LevelUpPH, Globe Prism, Globe Rewards, Globe Rollover, Globe Streamwatch, Globe Studios, Globe Switch, Gmovies, GoBinge, Gocery, Good Games, GoWatch, Load Up, Konekt, My Shopkeeper, MyBizKit, MyBusiness Tracker, Park Ninja, Points Battle, Rollover, Rush, Seats, Sunkissed Boracay, SurfAlert, Supersurf, Tattoo,Tattoo Home Broadband, Tattoo@Home, Ticket Hub, TM Barkada Congress, Txt Connect and W00T. Globe also applied for the following trademarks: Elements Music Camp, Globe At Home Air, Globe at Home Air Fiber.

Globe and Saga Events, Inc. own the registered trademark “Stylefestph”.

Further, Globe also applied and registered the following brand names: Globe Telecom (Australia, Taiwan, Japan, Singapore, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada, China, Saudi Arabia), Globe and Globe Life Device (Hong Kong, Taiwan, Singapore, Japan, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Macau, Qatar, UAE, USA, Saudi Arabia), Globe GCash (Singapore, Hong Kong, United Kingdom, Taiwan, Japan, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Qatar, UAE, Korea, UAE, Saudi Arabia, New Zealand, Ireland, Lebanon, Denmark, Sweden, Switzerland, Israel), Globe Kababayan (Singapore, Hong Kong, Taiwan, United Kingdom, Australia, Japan, Macau, USA, Saudi Arabia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Malaysia, UAE, Italy, Korea, Taiwan), Globe Autoload Max (Norway, Singapore, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece,

Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Japan, Hong Kong), Globe M-Commerce Hub (Taiwan, Singapore, Korea, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Australia, Macau, Qatar, Malaysia), Muzta, and Smiley With Salakot Device (Japan, UK, Australia, Kuwait, USA, Saudi Arabia, Bahrain, UAE), Smiley with Salakot (Japan, United Kingdom, Australia, USA, Saudi Arabia, Bahrain, UAE), and Muzta (Bahrain, UAE, Canada, Qatar, Saudi Arabia, UAE), GCash Remit and Logo (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Lebanon, Japan, Switzerland, Macau, Hong Kong, Taiwan, New Zealand, China, Japan, Israel), GCash Express and Logo (Hong Kong, Singapore, Taiwan, Malaysia), Globe Load (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Macau).

Globe subsidiaries and affiliates have applied/registered their respective marks with the Intellectual Property Office, namely:

- a) Innove Communications, Inc. has registered the mark GoWifi. Innove also applied EasySurf and GoWifi Auto.
- b) GXchange has the following registered trademarks GCash, GCash Remit, G-Xchange and PowerPay+. It has pending trademark applications for Cash In, GCash QR, GCash Mo na Yan! and GScore.
- c) Globe Fintech Innovations, Inc. has the following registered trademarks: GPay and A Fresh Look at Money.
- d) Fuse Lending, Inc. has the following registered marks Fuse, Fuse and Logo, First Loan for Everyone, Power Payday Advance, Go Loan, Spark Loan, Instaloan, and Fuse Business Loan
- e) Asticom Technology, Inc. applied "Asticom"
- f) Global Telehealth, Inc. applied "Konsulta MD"

### 3. Patents

Gxchange, Inc. and UTIBA Pty Ltd. have registered the following patents in the Philippines:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Gxchange, Inc. and UTIBA Pty Ltd. have likewise registered the following patents in the United States:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones; and
2. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account

Gxchange, Inc. and UTIBA Pty Ltd. have likewise filed the following patent applications in Indonesia, Singapore and Europe.

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Globe has applied the patent for "Systems and/or Methods for Authorizing and Facilitating Third-Party Withdrawals or Payment" with the Intellectual Property Office.

## **I. Government approvals/regulations**

The Globe Group is regulated by the NTC under the provisions of the Public Service Act (CA 146), Executive Order (EO) 59, EO 109, and RA 7925. Under these laws, Globe is required to do the following:

- a) To secure a CPCN/PA from the NTC for those services it offers which are deemed regulated services, as well as for those rates which are still deemed regulated, under RA 7925.
- b) To observe the regulations of the NTC on interconnection of public telecommunications networks.
- c) To observe (and has complied with) the provisions of EO 109 and RA 7925 which impose an obligation to rollout 700,000 fixed lines as a condition to the grant of its provisional authorities for the cellular and international gateway services.
- d) Globe remains under the supervision of the NTC for other matters stated in CA 146 and RA 7925 and pays annual supervision fees and permit fees to the NTC.

On October 19, 2007, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station and submarine cable system in Nasugbu, Batangas.

On May 19, 2008, Globe Telecom, Inc. announced that the National Telecommunications Commission (NTC) has approved the assignment by its wholly-owned subsidiary Innove Communications (Innove) of its Touch Mobile (TM) consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers of TM, in addition to existing Globe subscribers in its integrated cellular network.

On September 11, 2008, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station in Ballesteros, Cagayan Province.

## **J. Research and Development**

Globe incurred market research costs amounting to ₱150 million in 2018, 10% lower versus 2017 spend.

## **K. Compliance with Environmental Laws**

The Globe Group complies with the Environmental Impact Statement ('EIS') system of the Department of Environment and Natural Resources ('DENR') and pays nominal filing fees required for the submission of applications for Environmental Clearance Certificates ('ECC') or Certificates of Non-Coverage ('CNC') for its cell sites and certain other facilities, as well as miscellaneous expenses incurred in the preparation of applications and the related environmental impact studies. The Globe Group does not consider these amounts material.

Globe has not been subject to any significant legal or regulatory action regarding non-compliance to relevant environmental regulations.

## **L. Employees**

The Globe Group has 7,729 active regular employees as of December 31, 2018, of which 4% or 330 are covered by a Collective Bargaining Agreement (CBA) through the Globe Telecom Employee's Union (GTEU).

Breakdown of employees by main category of activity from 2016 to 2018 are as follows:

| Employee Type    | 2018  | 2017  | 2016  |
|------------------|-------|-------|-------|
| Rank & File, CBU | 2,791 | 2,527 | 2,617 |
| Supervisory      | 2,760 | 2,605 | 2,546 |

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| Managerial   | 1,698        | 1,598        | 1,540        |
| Executives   | 480          | 476          | 477          |
| <b>Total</b> | <b>7,729</b> | <b>7,206</b> | <b>7,180</b> |

In conformance with the Department of Labor and Employment's (DOLE) Collective Bargaining Agreement (CBA), the Globe Telecom Employees Union-Federation of Free Workers (GTEU-FFW) remains active to pledge the right of every Ka-Globe to form a collective bargaining unit. All employees are allowed to participate in CBA and through GTEU-FFW, everyone is informed and made aware of the mandates.

Globe has a long-standing, healthy, and constructive relationship with the GTEU characterized by healthy and constructive discussions and industrial peace. Both have shared goals such as enhancing productivity levels and ensuring consistent quality of service to customers across various segments.

Globe and GTEU-FFW renewed their collective bargaining agreement for another 5 years, beginning 2016. This is a testament to the strong partnership built between them and the alignment in their advocacies.

## **M. Risk Factors**

The achievement of Globe's key business objectives can be affected by a wide array of risk factors. Some of these risk factors are universal while some are unique to the telecommunications industry. The risks vary widely in occurrence and severity, some of which are beyond the company's control. There may also be risks that are either presently unknown or not currently assessed as significant, which may later prove to be material. We aim to mitigate these exposures through appropriate RM strategies, strong internal controls and capabilities, close monitoring of risks and mitigation plans. The section below sets out the principal risk types, listed in no particular order of significance:

### **1. Political and Socio-Economic Risks**

The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines. Any political or geopolitical instability in the Philippines could negatively affect the country's general economic conditions which, in turn, could adversely affect the company's business, financial condition or results of operations, including the ability to enhance the growth of its customer base, improve its revenue base and implement its business strategies.

The current administration is implementing major changes to the telecommunications industry that can positively or negatively affect the company's business. These include:

- Pressure to improve network performance
- Sharing of network/facilities across operators
- Providing portability of mobile numbers
- Possible pressure on pricing
- Potential entry of foreign telecom players
- Potential improved LGU support
- Promise of increased infrastructure spend
- Potential changes that aim to disrupt the current industry model

A regular environmental scanning exercise is performed to ensure the identification of any uncertainties arising from political and socioeconomic factors. Management is closely monitoring the shift in policies to anticipate the potential impact to the business plans as well as maintaining open communication lines with the various government sectors.

### **2. Financial Markets Risk**

#### **(a) Foreign Exchange Risk**

Exposure to foreign exchange risks remains a risk to Globe. Foreign exchange risk results primarily from movements of the Philippine peso against the US dollar (USD) with respect to the company's USD-denominated financial assets, liabilities, revenues and expenditures.

There are no assurances that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Globe's financial condition and results of operations.

**(b) Interest Rate Risk**

In order to fund major expenditures, Globe has entered into various short and long-term debt obligations, which exposes the company to the risk of changes in interest rates.

The company's exposure to interest rate risk and currency risk are being managed by:

- Using a mix of fixed and variable rate debt that are meant to achieve a balance between cost and volatility.
- Entering into interest rate swaps, in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.
- Using a combination of natural hedges and derivative hedging to manage foreign exchange exposure.

Globe also regularly evaluates its projected and actual cash flows and continuously assess conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise.

**3. Industry and Operational Risks**

**(a) Competition Risk**

**(i) Traditional Competition**

Competition remains intense in the Philippine telecommunications industry amidst a mature mobile market and high growth data business, as current competitor seeks to regain market share with aggressive offerings. In late 2018, a 3<sup>rd</sup> player was allowed by the government to enter the Philippine telecommunications industry, selected through a bidding process spearheaded by the Department of Information and Communications Technology (DICT).

These factors are seen to further heighten the competitive dynamics amidst a mature mobile market.

**(ii) Alternative Competition**

The competitiveness of the industry is further underscored by cheap alternatives to communication such as instant messaging, social network services and voice over internet protocol. These alternatives are also driven by the proliferation of affordable smartphones and internet-capable mobile devices.

The continued growth and development of the telecommunications industry will depend on many factors. Any significant economic, technological, or regulatory development could result in either a slowdown or growth in demand for mobile services and may impact the company's business, revenues, and net income.

These factors heighten the need to continuously expand and modernize the company's network and IT services, thus requiring an equally heightened level of capital spending.

Globe continues to assert its market position through the offering of personalized plans and attractive product/device bundles, and launching innovative products and services that are relevant and responsive to the needs of the customers and focusing on superior customer experience. The company also partners with leading providers of content, mobile messaging, social media and other popular applications in order to provide products and services that anticipate and cater to shifting customer preferences.

**(b) Regulatory Risk**

Globe Telecom is regulated by the National Telecommunications Commission (NTC), an attached agency of the Department of Information and Communications Technology (DICT), for its telecommunications business, and by the Securities and Exchange Commission (SEC) for other aspects of its business as well as the Philippine Stock Exchange (PSE) as one of its capital market regulators, to name a few. On the other hand, the Philippine Competition Commission (PCC) has oversight over mergers, acquisitions, and other similar transactions as it is tasked to effectively level the playing field among businesses and penalize anti-competitive agreements and abuse of market dominance.

The introduction of new, modifications, or the inconsistent application of laws or regulations from time to time, may materially affect the operations of Globe, and ultimately the company's earnings which could impair its ability to service debt. There is no assurance that the regulatory environment will support any increase in the company's business and financial activity.

Globe manages its regulatory risks through regular monitoring of regulatory rulings, especially those that could negatively impact its businesses, and proactive engagement with the regulators.

### **(c) Customer Preference and Technology Shift Risk**

Globe's ability to recognize and quickly respond to changes in customer preferences by upgrading existing infrastructure and systems may impact its competitiveness in the marketplace.

Mobile data applications and the rising popularity of smartphones, mobile applications, and social media platforms as enabled by mobile and connected devices are key contributors to the explosion of data traffic. This phenomenon is putting a strain on the company's network capacity as well as the supporting back end systems, negatively impacting customer experience.

Globe's business, product and technical teams continue to keep abreast of the latest innovations and trends in telecommunications technologies, devices and gadgets. The information and insights gathered are considered in the roadmap of future products and services and the company's network and IT infrastructure evolution. Proper timing of investments in technology and infrastructure always consider its strategic implications, velocity of technology cycles and customer adoption.

The Globe data network is continuously being enhanced by deploying new mobile and data technologies, increasing network capacity and coverage while modernizing the fixed line data infrastructure.

### **(d) Change Program Risk**

Globe is in the process of transforming its businesses and such changes permeate into its network and IT systems and supporting processes. Crucial changes in the company's network infrastructure are being pursued mainly to improve network quality, anticipate the surge in voice and data traffic, decrease total cost of ownership, and make the network robust enough to meet future needs. IT transformation programs are set to re-engineer the company's IT systems and key processes to enhance its ability to deliver superior customer experience and understand what customers value, while being able to roll out products to the market in a more efficient and effective manner.

Should Globe Telecom's ambitious and complex transformation programs fail to achieve the desired outcomes, Globe could ultimately lose market share thus impacting its financial results.

Globe has institutionalized the appropriate program governance organizations with Management Team oversight and accountability to ensure program risks are properly considered and managed aimed at achieving key program objectives and improving customer experience. Globe ensures that a competent program office and project organization are in place for major change programs. Supporting processes have been established to closely monitor and provide a venue for regular progress updates, alignment of efforts, discussion of critical implementation issues and challenges and help ensure successful execution of its change programs.

### **(e) Organizational Agility Risk**

Leading the digital lifestyle for customers and diversification of Globe's business portfolio is critical to maintain market competitiveness. Failure to drive the entire organization to quickly adapt work practices and make the right shift in skills and competencies necessary for the company to lead in the digital space and forge into adjacent spaces may lead to missed business opportunities.

Globe has initiated cultural change programs that focus on customer centricity and innovation. Opportunistic hiring of talents required for innovation and new investment areas are also carefully considered. Globe continues to build the right leadership structures and system team that will support an agile, future-ready and customer-centric organization.

**(f) Human Capital Risks**

Globe is exposed to risks in staffing critical functions with competent management and technical expertise. Globe's greatest asset is its people and the company's success is largely dependent on its ability to attract highly skilled personnel and to retain and motivate the best employees.

As new players are poised to ramp up their operations, this may result in poaching of key employees from the company's talent pool.

In line with Globe's Purpose of treating people right, and in support of the Department of Labor and Employment's campaign against all illegal forms of contractualization, Globe strictly monitors its accredited partners on their sustained compliance with pertinent labor laws and regulations.

Various people-related programs designed to engage and motivate employees are being implemented in order to retain and attract key talents. Globe University was formally organized to address the growing competency and development needs of Globe. With the need to develop key talent imperatives, it is a significant move towards achieving key improvements in workforce capabilities and performance.

**(g) Reputational Risk**

Globe is recognized as one of the Philippines' top companies providing innovative services and delivering superior customer experience while maintaining a socially responsible business. The company is exposed to reputational risks which may result from its actions or that of its competitors; indirectly due to the actions of an employee; or consequently through actions of outsourced partners, suppliers, or joint venture partners.

Damage to Globe Telecom's reputation and erosion of brand equity could also be triggered by the inability to swiftly and adequately handle negative traditional and social media sentiments on Globe Telecom's products and services resulting from unfavorable customer experience, among others.

Regular process effectiveness and efficiency reviews on existing customer-impacting processes are being conducted to identify and address existing gaps, thus minimizing exposure to reputational risks arising from problem areas. Front line staff are regularly trained to enable them to effectively handle customer cases. On the other hand, close monitoring of customers' online sentiments is being performed to quickly detect subscriber issues being surfaced in social media and be able to manage them early on.

**(h) Compliance Risks**

**(i) Cyber Threats**

The cyber security landscape is rapidly evolving and users are heavily relying on digitized information and sharing vast amounts of data across complex and inherently vulnerable networks. This exposes Globe to various forms of cyber-attacks which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims.

New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could outpace the organization's ability to properly identify, assess and address such risks. Further, new business models that rely heavily on global digitization, use of cloud, big data, mobile devices and social media increase the organization's exposure to cyber-attacks.

Globe continues to strengthen and enhance its existing security detection, vulnerability and patch management, configuration management, identity access management, events monitoring, data loss prevention and network/end-user perimeter capabilities to ensure that cyber threats are effectively managed.

As part of the company's mission to promote the intelligent and judicious use of the internet, Globe also educates the youth to better understand the impact of their online behavior so they can be responsible digital citizens, thereby lessening cyber threats to Globe. In parallel, online security is promoted through customer education drives.

(ii) Data Privacy

Globe, in the course of regular business, acquires personal information of its customers and retains the same either electronically or via hard copies. Existing laws require that information, especially customer information, be adequately protected against unauthorized access and or/disclosure. The risk of data leakage is high with the level of empowerment granted to in-house and outsourced employees handling sales and after sales support transactions to enable the efficient discharge of their functions.

Employee awareness on data protection and loss prevention is reinforced through regular corporate communication channels. Further, employees are made accountable for maintaining the confidentiality of data handled, including disclosures and information shared in various social media platforms. Controls over processes that require handling of customers' personal information are being tightened, coupled with enhancements in existing security capabilities to prevent compromise of customer data.

A Chief Information Security Officer and Data Protection Officer was appointed to strengthen the management of risks relating to the confidentiality and integrity of customer information while ensuring compliance with Data Privacy Act of 2012 or Republic Act 10173 (DPA). Our CISO/DPO reports to our Chief Technology and Information Officer (CTIO), and acts as Chairman of the Information Security and Privacy Committee in Management as well as leads our Information Security and Data Privacy Division (ISDP). ISDP is a fully-operationalized group that focuses on Globe's data privacy and cybersecurity matters.

The CISO provides regular updates on information security and data privacy matters to the Board, through the ARPT Committee to ensure that cyber risks and technology or digital threats to the business and our customers are addressed and managed effectively.

(iii) Business disruptions

The quality and continued delivery of Globe's services are highly dependent on its network and IT infrastructure which are vulnerable to damages caused by extreme weather disturbances, natural calamities, fire, acts of terrorism, intentional damage, malicious acts and other similar events which could negatively impact the attainment of revenue targets and the company's reputation.

Since 2012, our Business Continuity Management System (BCMS), which governs our Business Continuity and Disaster Recovery Planning, has been certified by BSI, Singapore – an internationally recognized certification body. The Globe BCMS is primarily responsible in ensuring that programs are in place for Globe to continuously improve on:

- the readiness of our employees to manage disastrous incidents;
- the ability of the organization to deliver critical products and services especially during disasters, and;
- the commitment to deliver on important legal and regulatory requirements.

The company is continuously enhancing its incident and crisis management plans and capabilities and have incorporated disaster risk reduction and response objectives in its business continuity planning. Part of Globe's Business Continuity Management Program initiatives include:

- Partnering with the Metropolitan Manila Development Authority (MMDA) and the Philippine Disaster Recovery Foundation (PDRF), to create a network of support during disasters.
- Sponsored the development of hazard maps for 54 out of 81 Philippine provinces, which will be used by Phivolcs to assist the provinces in their disaster management plans.
- Reinforced Ayala ASSIST, an app that enables Globe and other Ayala employees to easily seek assistance during disasters.
- Re-certification in Business Continuity (ISO 22301) on an enterprise-wide scale
- Reinforcing the company's business continuity policies and best practices through various awareness drives and training programs

(iv) Revenue leakage

The telecommunications industry is inherently vulnerable to revenue leakage with the continuing innovations in telco technologies, networks and IT systems and the multitude of its service plan offerings and accompanying such advancements. The pace at which new offers are launched in the market and the speed of technological innovations being adopted by Globe, coupled with the ongoing network and IT transformation programs heightens the need to identify and plug revenue leakages becomes an even more important capability in maximizing revenues and returns.

Globe strengthens its revenue assurance capabilities through the identification and embedding of appropriate revenue assurance controls into new products, services, and new systems as well as the implementation of sound controls on existing products and services.

Globe is continuously improving control effectiveness, efficiency, and coverage through periodic controls review exercises, controls discovery, and review of critical revenue-impacting processes. The company has recently completed the implementation of a revenue assurance tool that would increase efficiency in its operations through automated execution of controls.

(v) Fraud

Globe runs the risk of falling victim to fraud perpetrated by unscrupulous persons or syndicates either to avail of "free" services, to take advantage of device offers or defraud its customers. With the increased complexity of technologies, network elements and IT infrastructure, new types of fraud that are more difficult to detect or combat could also arise. This risk also involves irregularities in transactions or activities executed by employees for personal gain.

Globe remains committed to preventing and detecting fraud by institutionalizing processes and building capabilities that enable the early detection, investigation, resolution and enforcement of sanctions and legal options, close monitoring and timely reporting of various instances of fraudulent activities. The company has initiated various programs to equip its customers with the right and sufficient information so that they do not fall victim to fraudsters. Moreover, the company closely coordinates with law enforcement agencies to help protect customers from activities meant to defraud them.

Globe implements standards and practices that remind and deter employees, who through the course of business transactions with various partners, from engaging in corrupt or unethical practices. Management has zero tolerance for such acts and have corresponding severe penalties as provided in the company's Code of Conduct and Ethics (CoC). Globe employees, by virtue of his/her employment, are bound to uphold trust given to them by not seeking to gain any undue personal or pecuniary advantage (other than the rightful proceeds of employment) from dealings with or for and in behalf of Globe. Our employees maintain the

highest standards of honesty, integrity, and professional conduct. Seeking undue financial and material advantage from transactions with Globe is a breach of trust between the employee and the company. Globe's CoC promulgates policies governing conflict of interest, whistleblowers, unethical, and corrupt practices, among others.

## **N. Management of Risks**

Realizing the need to protect the business from losses arising from failures in internal processes, people, and systems or external events, which is an integral part of Globe's RM responsibility, an Operational Risk Management and Business Protection (ORB) department was established. ORB's primary objective is to provide end-to-end support for all activities under risk management, overseeing safety, environment, infrastructure hazard management, insurance, as well as enterprise business continuity management. ORB reports to the Head of Logistics and Administrative Services who directly reports to the CFO/CRO. The department is mandated to do the following:

- Provide hazard identification and risk assessment for Globe Telecom's operations, activities, events, and infrastructure;
- Facilitate implementation of risk control and mitigation measures for safety and environmental management, in collaboration with operational and business groups;
- Provide and facilitate risk transfer and business protection solutions through insurance or contractor liability agreements;
- Establish an effective framework for business continuity management for the organization to effectively respond to threats such as natural disasters, equipment failure, data breaches, and in effect, protect its business interests.

## **O. Debt Issues**

For details on Globe Group's Loans Payable see Note 16 of the attached Notes to the 2018 Audited Financial Statements.

## **Item 2. Properties**

### **A. Buildings and Leasehold Improvements**

Globe Telecom's Corporate Office is located at The Globe Tower, 32<sup>nd</sup> Street corner 7<sup>th</sup> Avenue, Bonifacio Global City, Taguig.

Globe also owns several floors of condominium corporation Pioneer Highlands Towers 1 and 2, located at Pioneer Street in Mandaluyong City. In addition, the Company also owns host exchanges in the following areas: Bacoar, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

The Company leases office spaces in W City Center, located at 7<sup>th</sup> Avenue corner 30<sup>th</sup> Street, Bonifacio Global City, Taguig, for its Network Technical Group. It also leases office spaces in Limketkai Gateway Tower located in Cagayan de Oro City and in Abreeza Technohub located in Davao City. It also leases the space for most of its Globe Stores, as well as the Company's base stations and cell sites scattered throughout the Philippines.

Globe's existing business centers and cell sites located in strategic locations all over the country are generally in good condition and are covered by specific lease agreements with various lease payments, expiration periods and renewal options. As the Company continues to expand its network, Globe intends to lease more spaces for additional cell sites, stores, and support facilities with lease agreements, payments, expiration periods and renewal options that are undeterminable at this time. *(For additional details on Buildings and Leasehold Improvements see Note 9 of the attached notes to the 2018 Audited Financial Statements)*

## **B. Telecommunications Equipment**

As of 31 December 2018, the Company has a nationwide Circuit Switch Core Network to provide voice service via 2G, 3G and 4G (using Circuit Switch Fallback). In addition, it has a nationwide network of Packet Switches to support its mobile broadband data services. The rest of Globe's nationwide core network includes Home Location Register, Signaling Gateways, and mobile broadband backend equipment. It also utilizes a number of Short Messaging Service Centers, and other Value Added Services application platforms to cater of Globe's rich portfolio of Value Added Service. In terms of cell sites, the Company has about 8,000 physical cell site locations providing 2G, 3G and 4G coverage nationwide. In 2018, Globe also implemented and put into service an Emergency Cell Broadcast Messaging system to provide for emergency alert messaging in compliance to Republic Act 10639 otherwise known as "AN ACT MANDATING THE TELECOMMUNICATIONS SERVICE PROVIDERS TO SEND FREE MOBILE ALERTS IN THE EVENT OF NATURAL AND MAN-MADE DISASTERS AND CALAMITIES".

The infrastructure for Innove's fixed telephone service includes a Nationwide Virtual IP Multimedia System (vIMS) infrastructure, the first of its kind implemented for domestic Fixed telephone service in the Philippines and an advanced Next Generation Network (NGN) International Gateway Facility that supports both traditional international long distance calls and international Voice Over IP Service. For Fixed Broadband service, Globe leverages on a combination of copper (ADSL, VDSL 35B), fiber (FTTx) technologies as well as wireless broadband technologies based on LTE where Globe also has the largest deployed base of high capacity Massive MIMO Radio Access Network nodes in the Philippines which serves both Fixed Wireless Broadband Customers and Mobile Broadband customers as well.

Globe also has a national transmission network Globe established, operates and maintains two (2) georedundant and complementary Fiber Optic Backbone Network (FOBN) linking the Luzon, Visayas and Mindanao island groups. These two (2) FOBNs are now the primary national transmission backbone for Globe backbone to support all of the different telecommunication services and Value Added Service offered by Globe to its customers. In addition to these two (2) FOBNs, Globe also operates and maintains a Digital Microwave (MW) Terrestrial network employing Next Generation Internet Protocol (IP) MW supplemented by an extensive fiber optic networks in the key urban areas.

With its aggressive mobile broadband expansion program, Globe was able to expand its mobile broadband coverage to 95% of Philippine Towns in December 2018. Of note also is Globe's successful demo of 5G technology in July 2018 with a target to commercially launch 5G initially for Fixed Wireless Service in the 2nd Quarter 2019 in line with its commitment to deliver 1st World Internet Access Service to the Filipino consumers.

## **C. Investments in Cable Systems**

To provide resiliency and geographic diversity, Globe has also invested in several submarine cable systems, which the Company either owns or has rights of use on, a share of the systems' total capacity. Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under Construction & Maintenance Agreements; or indefeasible rights of use (IRUs) under Capacity Purchase Agreements.

To date, Globe has investments in the following cable systems (shown below with their major connectivity paths):

- ☐ APCN2 – Asia Pacific Cable Network-2 (Trans-Asian region);
- ☐ C2C – City-to –City (Trans-Asian region);
- ☐ SEA-ME-W3 – Southeast Asia-Middle East-Western Europe;
- ☐ SJC – Southeast Asia Japan Cable System – connects Singapore, Brunei, Hong Kong, China Mainland, Japan and the Philippines, with option to extend to Thailand
- ☐ TGN-IA – Tata Global Network – Intra Asia cable system - connects the Philippines to Japan, Hong Kong, Vietnam, and Singapore with onward connectivity via the TGN-Pacific network to the United States; and
- ☐ SEA – US (Southeast Asia-United States) – connects Philippines, Indonesia, Guam, Hawaii and the mainland United States

The Company also has an international cable landing station located in Nasugbu, Batangas that directly accesses the C2C cable network, a 17,000 kilometer long submarine cable network linking the Philippines to Hong Kong, Taiwan, China, Korea, Japan and Singapore. Globe has separately purchased capacity in the C2C cable network which it subsequently transferred to its subsidiary, Innove.

Additionally, Globe has acquired capacities, either through lease or IRU, in selected cable systems where the Company is not a consortium member or a private cable partner. These include capacities in East Asia Crossing (EAC), and Fiber Optic Link Around the Globe (FLAG), among others.

On 17 March 2009, Globe formally opened its second international cable landing station in Ballesteros, Cagayan with the Company being the exclusive landing party in the Philippines to the Tata Global Network – Intra Asia (TGN-IA) cable system. TGN-IA is a 6,700 kilometer trans-Asian submarine cable system that links the Ballesteros, Cagayan cable landing station in the Philippines to Japan, Hong Kong, Vietnam, and Singapore with onward connectivity via the TGN-Pacific network to Guam and the United States.

On 1 October 2013, the Southeast Asia-Japan Cable (SJC) System was formally launched where Globe is the exclusive landing party in the Philippines. The SJC System is one of the highest capacity systems in the world (supporting an initial design capacity of 28 terabits per second, the fastest speed an undersea cable system can provide). This enhances the Company's global link to support businesses and consumers' increasing demand for high-speed internet and connectivity. Globe joins some of the biggest names in the industry including Brunei International Gateway Sendirian Berhad (BIG), Google, SingTel, KDDI, PT Telekomunikasi Indonesia International (Telin), China Mobile, China Telecom, China Telecom Global Limited (an affiliate of China Telecom), Donghwa Telecom Co., Ltd., and TOT of Thailand, in this consortium.

On August 2014, Globe Telecom joined a consortium of international telecommunications companies to build a \$250 million cable system directly connecting Southeast Asia and United States. Completed in July 2017, the SEA-US undersea cable system provides superior latency, delivering an additional 20Terabits per/second capacity, utilizing the latest 100 gigabits per second transmission equipment. Such additional capacity will cater to the exponential growth of bandwidth between the two continents.

*For more information on the Company's properties and equipment, refer to Note 9 of the attached notes to the 2018 Audited Financial Statements.*

### Item 3. Legal Proceedings

- a) On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charges to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from ₱1.00 to ₱0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from ₱1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present ₱1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated.

Thereafter, the NTC and Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate, who, in the meantime, had intervened in the case, filed their respective motions for reconsideration, which motions were both denied by the CA.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated 15 September 2017. Globe awaits the SC's action on said petition.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On 04 January 2018, Globe received a copy of the SC's Resolution dated 06 Nov. 2017, requiring it to comment on said petition.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

- b) On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the CMTS whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses

to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carrier's constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

Last January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. The case is now submitted for resolution.

- c) (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City. In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the Supreme Court.

(2) In a case filed BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds.

The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

- d) In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by Globe Telecom, PLDT and SMC on May 30, 2016 disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. I6-002 (MC No. I6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the Supreme Court docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the Supreme Court a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the Supreme Court did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the Supreme Court's en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the Supreme Court en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the Court of Appeals, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

e) Other Developments

The Globe Board of Directors approved last July 5, 2018, the creation of a separate tower holding company and started the process of incorporation. Following our press release dated 08 February 2018, the establishment of a tower company will help speed up the building and deployment of cellular towers in the country. On August 17, 2018, Globe received the approval of the Securities and Exchange Commission (SEC) on the incorporation of GTowers Inc.

Moreover, Globe announced last July 16, 2018 that after a thorough assessment, ABS-CBN Convergence deemed its current mobile business model to be financially unsustainable. As a result, ABS-CBN Convergence and Globe reached an agreement not to renew their mobile network sharing agreement and look at more profitable opportunities in the content business. ABS-CBN Convergence and Globe are exploring new ways and synergies that complement their business models. Leveraging on ABS-CBN Convergence's expertise as top content provider to the Filipino audience and the vast reach of Globe as the leading telecommunications company, both companies have decided to shift their focus in maximizing synergies. Meanwhile, all ABS-CBN mobile prepaid, postpaid, and SkyMobi subscribers will continue to enjoy text, call, and data services until the final date that will be approved by the National Telecommunications Commission (NTC).

On July 19, 2018, NTC released Memorandum Circular (MC) no. 05-07-2018 for the amendment of interconnect charge for voice from ₱2.50 per minute to ₱0.50 and text messaging rates from ₱0.15 per message to ₱0.05. This memorandum circular shall take effect fifteen days after publication.

In compliance with the directive of the NTC, Globe Telecom lowered its interconnection rates for voice calls to 50 centavos per minute from ₱2.50 per minute and Short Messaging Services (SMS) to 5 centavos per message from 15 centavos per message effective from September 1, 2018.

Moreover, in compliance with the directive of the National Telecommunications Commission (NTC), all telephone numbers of Globe customers in Greater Metro Manila (MM) with 02 area code will move to an 8-digit format on March 18, 2019. This directive is to ensure there will be sufficient resource pool to cater to the rapid growth of landline customers in major cities. The commission assigned a public telecommunications entity (PTE) identifier for telecom operators as an additional prefix in expanding from 7-digit to 8-digit landline number. The assigned PTE identifier for Globe and its subsidiary Innove is "7." For instance, a Globe customer with existing landline or DUO number of (02) 576-4567 will have to change his or her number to (02) 7576-4567 come March 18, 2019. Meanwhile, Bayan Telecommunications customers will follow the numbering format (02) 3000-XXXX to (02) 3499-XXXX effective March 18, 2019.

*Details on these transactions have been extensively discussed in the disclosures filed with the SEC and PSE and may be accessed from the PSE and Company websites.*

**Item 4. Submission of Matters to a Vote of Security Holders**

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Issuer's Equity, Market Price, Dividends and Related Stockholder Matters

#### A. Capital Stock

|                                                 | 2018    |           | 2017    |           |
|-------------------------------------------------|---------|-----------|---------|-----------|
|                                                 | Shares  | Amount    | Shares  | Amount    |
| <i>(In Thousand Pesos and Number of Shares)</i> |         |           |         |           |
| Voting Preferred stock - ₱5 per share           | 160,000 | ₱800,000  | 160,000 | ₱800,000  |
| Non-Voting Preferred stock - ₱50 per share      | 40,000  | 2,000,000 | 40,000  | 2,000,000 |
| Common stock - ₱50 per share                    | 148,934 | 7,446,719 | 148,934 | 7,446,719 |

Globe Telecom's issued and subscribed capital stock consists of:

|                                                 | 2018    |            | 2017    |            |
|-------------------------------------------------|---------|------------|---------|------------|
|                                                 | Shares  | Amount     | Shares  | Amount     |
| <i>(In Thousand Pesos and Number of Shares)</i> |         |            |         |            |
| Voting Preferred stock - ₱5 per share           | 158,515 | ₱792,575   | 158,515 | ₱792,575   |
| Non-Voting Preferred stock - ₱50 per share      | 20,000  | 1,000,000  | 20,000  | 1,000,000  |
| Common stock - ₱50 per share                    | 133,053 | 6,652,663  | 132,917 | 6,645,829  |
| Total capital stock                             |         | ₱8,445,238 |         | ₱8,438,404 |

#### 1. Preferred Stock

##### *Non-Voting Preferred Stock*

On February 10, 2014, the Globe Telecom's BOD approved the amendment of Articles of Incorporation (AOI) to reclassify 31 million of unissued common shares with par value of ₱50 per share and 90 million of unissued voting preferred shares with par value of ₱5 per share into a new class of 40 million non-voting preferred shares with par value of ₱50 per share.

On April 8, 2014, the stockholders approved the issuance, offer and listing of up to 20 million non-voting preferred shares, with an issue volume of up to ₱10 billion. The non-voting preferred shares shall be redeemable, non-convertible, non-voting, cumulative and may be issued in series.

On June 5, 2014, the Securities and Exchange Commission (SEC) approved the amendment of AOI to implement the foregoing reclassification of shares.

On August 8, 2014, the SEC approved the offer of non-voting preferred perpetual shares and on August 15, 2014, the 20 million non-voting preferred shares were fully subscribed and issued. Subsequently, the shares were listed at the Philippines Stock Exchange (PSE) on August 22, 2014.

Non-voting preferred stock has the following features:

- (a) Issued at ₱50 par;
- (b) Dividend rate to be determined by the BOD at the time of issue;
- (c) Redemption - at Globe's option at such times and price(s) as may be determined by the BOD at the time of issue, which price may not be less than the par value thereof plus accrued dividends;
- (d) Eligibility of investors - Any person, partnership, association or corporation regardless of nationality wherein at least 60% of the outstanding capital stock shall be owned by Filipino
- (e) No voting rights;
- (f) Cumulative and non-participating;
- (g) No pre-emptive rights over any sale or issuance of any share in Globe Telecom's capital stock; and

- (h) Shares shall rank ahead of the common shares and equally with the voting preferred shares in the event of liquidation.

### *Voting Preferred Stock*

Voting Preferred stock has the following features:

- (a) Issued at ₱5 par;
- (b) Dividend rate to be determined by the BOD at the time of issue;
- (c) One preferred share is convertible to one common share starting at the end of the 10<sup>th</sup> year of the issue date at a price to be determined by the Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;
- (d) Call option - Exercisable any time by Globe Telecom starting at the end of the 5<sup>th</sup> year from issue date at a price to be determined by the BOD at the time of issue;
- (e) Eligibility of Investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock or voting power is owned by Filipino;
- (f) With voting rights;
- (g) Cumulative and non-participating;
- (h) Preference as to dividends and in the event of liquidation; and
- (i) No preemptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred shares are declared upon the sole discretion of the Globe Telecom's BOD.

## **2. Common Stock**

The roll forward of outstanding common shares is as follows:

|                                                                                      | 2018                                     |                   | 2017    |            |
|--------------------------------------------------------------------------------------|------------------------------------------|-------------------|---------|------------|
|                                                                                      | Shares                                   | Amount            | Shares  | Amount     |
|                                                                                      | (in Thousand Pesos and Number of Shares) |                   |         |            |
| At beginning of year                                                                 | <b>132,917</b>                           | <b>₱6,645,829</b> | 132,759 | ₱6,637,929 |
| Exercise of stock options                                                            | <b>7</b>                                 | <b>371</b>        | 18      | 900        |
| Issuance of shares under share-based compensation plan and exercise of stock options | <b>129</b>                               | <b>6,463</b>      | 140     | 7,000      |
| At end of year                                                                       | <b>133,053</b>                           | <b>₱6,652,663</b> | 132,917 | ₱6,645,829 |

Fully paid common stock, which have a par value of ₱50, carry one vote per share and carry a right to dividends

## B. Market Information

The Company's common equity is traded at the Philippine Stock Exchange (PSE) under the ticker symbol GLO.

On August 2014, the Company issued Series A Non-Voting Perpetual Preferred shares. The shares are being traded in the Philippine Stock Exchange under the ticker GLOPP.

Below are the quarterly high and low prices in the last two (2) fiscal years.

| COMMON SHARES               |                       |            |
|-----------------------------|-----------------------|------------|
|                             | Price Per Share (PHP) |            |
| <u>Calendar Period</u>      | <u>High</u>           | <u>Low</u> |
| 2017                        |                       |            |
| First Quarter               | 2,032                 | 1,514      |
| Second Quarter              | 2,228                 | 1,990      |
| Third Quarter               | 2,130                 | 1,980      |
| Fourth Quarter              | 2,118                 | 1,680      |
| 2018                        |                       |            |
| First Quarter               | 1,900                 | 1,540      |
| Second Quarter              | 1,766                 | 1,475      |
| Third Quarter               | 2,222                 | 1,600      |
| Fourth Quarter              | 2,330                 | 1,728      |
| NON-VOTING PREFERRED SHARES |                       |            |
|                             | Price Per Share (PHP) |            |
| <u>Calendar Period</u>      | <u>High</u>           | <u>Low</u> |
| 2017                        |                       |            |
| First Quarter               | 540                   | 517        |
| Second Quarter              | 530                   | 512        |
| Third Quarter               | 539                   | 515        |
| Fourth Quarter              | 541                   | 515        |
| 2018                        |                       |            |
| First Quarter               | 530                   | 504.5      |
| Second Quarter              | 518                   | 500        |
| Third Quarter               | 510                   | 490        |
| Fourth Quarter              | 530                   | 441        |

The price information as of latest practicable trading date (as of March 29, 2019):

- ₱1,938 per common share
- ₱494.80 per non-voting preferred share

## C. Holders

There are approximately 3,166 holders of common shares, 6 holders of voting preferred shares, and 14 holders of non-voting preferred shares as of 31 December 2018.

The following are the top 20 registered holders of the Company's securities:

### Common Stock:

|   | Stockholder Name                        | No. of Common Shares | Percentage owned out of total outstanding common shares |
|---|-----------------------------------------|----------------------|---------------------------------------------------------|
| 1 | Singapore Telecom Int'l. Pte. Ltd.      | 62,646,487           | 47.08%                                                  |
| 2 | Ayala Corporation                       | 41,157,276           | 30.93%                                                  |
| 3 | PCD Nominee Corp. (Non-Filipino)        | 17,738,921           | 13.33%                                                  |
| 4 | PCD Nominee Corp. (Filipino)            | 10,560,670           | 7.94%                                                   |
| 5 | Guillermo D. Luchangco                  | 24,000               | 0.02%                                                   |
| 6 | Ernest L. Cu                            | 22,309               | 0.02%                                                   |
| 7 | The First National Investment Co., Inc. | 21,001               | 0.02%                                                   |
| 8 | Cedar Commodities, Inc.                 | 12,900               | 0.01%                                                   |

|    |                                     |        |       |
|----|-------------------------------------|--------|-------|
| 9  | Gil B. Genio                        | 10,082 | 0.01% |
| 10 | GTESOP98053                         | 10,000 | 0.01% |
| 10 | GTESOP98055                         | 10,000 | 0.01% |
| 10 | GTESOP98058                         | 10,000 | 0.01% |
| 10 | GTESOP98063                         | 10,000 | 0.01% |
| 10 | GTESOP98054                         | 10,000 | 0.01% |
| 10 | GTESOP98056                         | 10,000 | 0.01% |
| 10 | GTESOP98057                         | 10,000 | 0.01% |
| 10 | GTESOP98059                         | 10,000 | 0.01% |
| 10 | GTESOP98060                         | 10,000 | 0.01% |
| 10 | GTESOP98061                         | 10,000 | 0.01% |
| 10 | GTESOP98062                         | 10,000 | 0.01% |
| 10 | GTESOP98064                         | 10,000 | 0.01% |
| 10 | Bernadette Say Go                   | 10,000 | 0.01% |
| 11 | Renato Manuel M. Jiao               | 9,405  | 0.01% |
| 11 | Rebecca V. Eclipse                  | 9,405  | 0.01% |
| 12 | Ferdinand M. dela Cruz              | 8,174  | 0.01% |
| 13 | Jose Tan Yan Doo                    | 8,071  | 0.01% |
| 14 | Ma. Teresa V. Teng                  | 8,015  | 0.01% |
| 15 | Anna Irmira B. Navarette            | 7,653  | 0.01% |
| 16 | Joseph Caliro                       | 6,605  | 0.00% |
| 17 | Alfonso S. Teh                      | 6,000  | 0.00% |
| 17 | Mechatrends Contractors Corporation | 6,000  | 0.00% |
| 18 | Guillermo D. Luchangco              | 5,500  | 0.00% |
| 19 | Agro Resources & Development        | 5,330  | 0.00% |
| 20 | Alberto M. de Larrazabal            | 5,250  | 0.00% |

#### Voting Preferred Stock:

|   | Stockholder Name          | No. of Preferred Shares | Percentage (of Voting Preferred Shares) |
|---|---------------------------|-------------------------|-----------------------------------------|
| 1 | Asiacom Philippines, Inc. | 158,515,016             | 100.00%                                 |
| 2 | Rex Ma. A. Mendoza        | 1 *                     | 0.00%                                   |
| 3 | Cirilo P. Noel            | 1 *                     | 0.00%                                   |
| 4 | Ernest Lawrence Cu        | 1 *                     | 0.00%                                   |
| 5 | Saw Phaik Hwa             | 1 *                     | 0.00%                                   |
| 6 | Romeo L. Bernardo         | 1 *                     | 0.00%                                   |

\* Nominee shares

#### Non-Voting Preferred Stock:

|    | Stockholder Name                                             | No. of Preferred Shares | Percentage (of Non-Preferred Shares) |
|----|--------------------------------------------------------------|-------------------------|--------------------------------------|
| 1  | PCD Nominee Corp. – Filipino                                 | 19,737,020              | 98.69%                               |
| 2  | Knights of Columbus Fraternal Association of the Phils. Inc. | 88,140                  | 0.44%                                |
| 3  | PCD Nominee Corp. – Non-Filipino                             | 78,990                  | 0.39%                                |
| 4  | RCBC Securities Inc.                                         | 60,000                  | 0.30%                                |
| 5  | First Life Financial Co. Inc.                                | 20,000                  | 0.10%                                |
| 6  | Tan Ben Cuevo and or Tan Imelda Toralba                      | 4,000                   | 0.02%                                |
| 7  | Yao Wilson Ang                                               | 3,000                   | 0.02%                                |
| 8  | Robles Ma. Theresa Frasco                                    | 2,150                   | 0.01%                                |
| 9  | Henry Dy Tan or Sherley Gargantos Tan                        | 2,000                   | 0.01%                                |
| 9  | Zalamea Enrique Jr M                                         | 2,000                   | 0.01%                                |
| 10 | Teh Alfonso S Macabuhay Angelo de Guzman                     | 1,000                   | 0.01%                                |
| 11 | Lim Ernesto Kiong or Flora Go Lim                            | 600                     | 0.00%                                |
| 12 | Lim Iris Veronica Go                                         | 600                     | 0.00%                                |
| 13 | Teh Alfonso S                                                | 500                     | 0.00%                                |

## D. Dividends

### 1. Cash Dividends

The dividend policy of Globe Telecom as approved by the Company's Board of Directors is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. The current policy, as approved by the Company's BOD in 2018, is to distribute cash dividends at the rate of 60% to 75% of prior year's core net income.

The dividend distribution policy is reviewed annually and subsequently each quarter of the year, taking into account the Company's operating results, cash flows, debt covenants, capital expenditure levels, and liquidity.

Total cash dividends distributed per common share for the past 3 years are listed below.

#### a. Common shares

| CASH DIVIDEND (Per Share) |                  |                   |                   |
|---------------------------|------------------|-------------------|-------------------|
| AMOUNT<br>(Php)           | DECLARATION DATE | RECORD DATE       | PAYMENT DATE      |
| 22.00                     | February 5, 2016 | February 22, 2016 | March 4, 2016     |
| 22.00                     | May 4, 2016      | May 19, 2016      | June 3, 2016      |
| 22.00                     | August 2, 2016   | August 16, 2016   | September 1, 2016 |
| 22.00                     | November 4, 2016 | November 18, 2016 | December 2, 2016  |
| 22.75                     | February 7, 2017 | February 21, 2017 | March 8, 2017     |
| 22.75                     | May 9, 2017      | May 23, 2017      | June 7, 2017      |
| 22.75                     | August 7, 2017   | August 22, 2017   | September 6, 2017 |
| 22.75                     | November 3, 2017 | November 17, 2017 | December 1, 2017  |
| 22.75                     | February 5, 2018 | February 20, 2018 | March 5, 2018     |
| 22.75                     | May 4, 2018      | May 21, 2018      | June 1, 2018      |
| 22.75                     | August 8, 2018   | August 24, 2018   | September 6, 2018 |
| 22.75                     | November 5, 2018 | November 19, 2018 | December 5, 2018  |

#### b. Voting Preferred shares

| AMOUNT<br>(Php) | DECLARATION DATE | RECORD DATE       | PAYMENT DATE     |
|-----------------|------------------|-------------------|------------------|
| 0.20            | November 4, 2016 | November 18, 2016 | December 2, 2016 |
| 0.21            | November 3, 2017 | November 17, 2017 | December 1, 2017 |
| 0.26            | November 5, 2018 | November 19, 2018 | December 5, 2018 |

#### c. Non-Voting Preferred shares

| AMOUNT<br>(Php) | DECLARATION DATE | RECORD DATE      | PAYMENT DATE      |
|-----------------|------------------|------------------|-------------------|
| 13.00           | May 4, 2016      | August 10, 2016  | August 22, 2016   |
| 13.00           | December 7, 2016 | January 27, 2017 | February 22, 2017 |
| 13.00           | May 9, 2017      | August 10, 2017  | August 22, 2017   |
| 13.00           | December 5, 2017 | January 26, 2018 | February 22, 2018 |
| 13.00           | May 4, 2018      | August 10, 2018  | August 22, 2018   |
| 13.00           | December 6, 2018 | January 28, 2019 | February 22, 2019 |

#### Cash Dividends Declared After Balance Sheet Date

On 12 February 2019, Globe's Board of Directors approved the declaration of the first quarter cash dividend of ₱22.75 per common share payable on March 13, 2019 to shareholders on record as of February 26, 2019.

## **2. Restrictions on Retained Earnings**

The total unrestricted retained earnings available for dividend declaration amounted to ₱10,603.03 million as of December 31, 2018. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability, currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 16 of the attached Notes to the 2018 Audited Financial Statements).

### **E. Recent Sale of Unregistered or Exempt Securities, including recent issuance of securities constituting an exempt transaction**

There were no private placements undertaken in the past three years.

## F. Minimum Public Ownership

| GLOBE TELECOM, INC.                                     |                                  |                            |
|---------------------------------------------------------|----------------------------------|----------------------------|
| Computation of Public Ownership as of December 31, 2018 |                                  |                            |
|                                                         |                                  | Number of Shares<br>Common |
| Number of Issued Shares                                 |                                  | 133,053,248                |
| Less: Number of Treasury Shares (if any)                |                                  | 0                          |
| <b>Number of Issued and Outstanding Shares</b>          |                                  | <b>133,053,248</b>         |
| <b>Less:</b>                                            |                                  |                            |
|                                                         | <b>% to total<br/>I/O Shares</b> | <b>Common</b>              |
| <b>Directors</b>                                        |                                  |                            |
| <b>Sub-total</b>                                        | <b>0.0571 %</b>                  | <b>166,442</b>             |
| <b>Principal Stockholders</b>                           |                                  |                            |
| Asiacom Phils., Inc.                                    |                                  |                            |
| Direct                                                  | 54.3663 %                        | 0                          |
| Singapore Telecom Int'l. Pte Ltd                        |                                  |                            |
| Direct                                                  | 21.4860 %                        | 62,646,487                 |
| Ayala Corporation                                       |                                  |                            |
| Direct                                                  | 14.1158 %                        | 41,157,276                 |
| <b>Sub-total</b>                                        | <b>89.9682 %</b>                 | <b>103,803,763</b>         |
| <b>Others</b>                                           |                                  |                            |
| <b>Sub-total</b>                                        | <b>0.0514 %</b>                  | <b>149,805</b>             |
| <b>TOTAL</b>                                            | <b>90.1155 %</b>                 | <b>104,233,172</b>         |
| <b>Total Number of Shares Owned by the Public</b>       |                                  | <b>28,820,076</b>          |

| PUBLIC OWNERSHIP PERCENTAGE                |   |        |
|--------------------------------------------|---|--------|
| Total Number of Shares Owned by the Public |   |        |
| 28,820,076 shares                          | = | 21.66% |
| 133,053,248 shares                         |   |        |

|                                                  |   |             |
|--------------------------------------------------|---|-------------|
| Number of Issued and Outstanding Shares          | = | 133,053,248 |
| Number of Outstanding Shares                     | = | 133,053,248 |
| Number of Treasury Shares                        | = | 0           |
| Number of Listed Shares                          |   |             |
| Common Shares                                    | = | 132,127,588 |
| Preferred "A" Shares                             | = | 158,515,021 |
| Non-Voting Preferred Shares                      | = | 20,000,000  |
| Number of Foreign-Owned Shares                   |   |             |
| Common Shares                                    | = | 80,396,976  |
| Preferred "A" Shares                             | = | 1           |
| Non-Voting Preferred Shares                      | = | 78,990      |
| Foreign Ownership Level (%) - on voting shares   | = | 27.57%      |
| Foreign Ownership Level (%) - on all Outstanding | = | 25.83%      |
| Foreign Ownership Limit (%)                      | = | 40%         |

## Item 6. Management's Discussion and Analysis of Operations

### For The Financial Year Ended 2018

#### GROUP FINANCIAL HIGHLIGHTS

| Results of Operations<br>(Php Mn)  | Globe Group<br>Year on Year |                |                      |                |
|------------------------------------|-----------------------------|----------------|----------------------|----------------|
|                                    | Pre-PFRS                    |                | YoY<br>Change<br>(%) | Post-PFRS      |
|                                    | 31-Dec<br>2018              | 31-Dec<br>2017 |                      | 31-Dec<br>2018 |
| <b>Operating Revenues</b>          | <b>150,320</b>              | <b>135,281</b> | <b>11%</b>           | <b>151,172</b> |
| Service Revenues                   | 140,232                     | 127,906        | 10%                  | 132,875        |
| <i>Mobile</i> *                    | 106,925                     | 98,483         | 9%                   | 99,530         |
| <i>Home Broadband</i> **           | 18,543                      | 15,645         | 19%                  | 18,606         |
| <i>Corporate Data</i>              | 11,782                      | 10,288         | 15%                  | 11,762         |
| <i>Fixed line Voice</i>            | 2,982                       | 3,490          | -15%                 | 2,977          |
| Non-Service Revenues               | 10,088                      | 7,375          | 37%                  | 18,297         |
| <b>Costs and Expenses</b>          | <b>85,449</b>               | <b>81,955</b>  | <b>4%</b>            | <b>86,045</b>  |
| Cost of Sales                      | 14,792                      | 13,014         | 14%                  | 18,645         |
| Operating Expenses                 | 70,657                      | 68,941         | 2%                   | 67,400         |
| <b>EBITDA</b>                      | <b>64,871</b>               | <b>53,326</b>  | <b>22%</b>           | <b>65,127</b>  |
| <b>EBITDA Margin</b>               | <b>46%</b>                  | <b>42%</b>     | <b>11%</b>           | <b>49%</b>     |
| <b>Depreciation</b>                | <b>30,422</b>               | <b>27,513</b>  | <b>11%</b>           | <b>30,422</b>  |
| <b>EBIT</b>                        | <b>34,449</b>               | <b>25,813</b>  | <b>33%</b>           | <b>34,705</b>  |
| <b>EBIT Margin</b>                 | <b>25%</b>                  | <b>20%</b>     | <b>22%</b>           | <b>26%</b>     |
| <b>Non-Operating Charges</b>       | <b>7,092</b>                | <b>4,271</b>   | <b>66%</b>           | <b>7,092</b>   |
| <b>Net Income After Tax (NIAT)</b> | <b>18,447</b>               | <b>15,084</b>  | <b>22%</b>           | <b>18,626</b>  |
| <b>Core Net Income</b>             | <b>18,555</b>               | <b>13,546</b>  | <b>37%</b>           | <b>18,735</b>  |

Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with 2017.

\*Mobile business includes mobile and fully mobile broadband

\*\*Home Broadband includes fixed wireless and wired broadband

- Full year consolidated service revenues reached ₱140.2 billion in 2018 from ₱127.9 billion last year due to the sustained data revenue growth across all business segments. Mobile revenues were up 9% to ₱106.9 billion from last year's ₱98.5 billion, coming largely from Prepaid, resulting from increased data consumption and higher top-ups. Home Broadband posted a 19% increase from a year ago, due to the strong subscriber growth boosted by the growing demand for faster internet connectivity. Corporate Data likewise grew by 15% from the ₱10.3 billion reported last year. Including the impact of PFRS 15, total consolidated service revenues for the period stood at ₱132.9 billion.
- Total operating expenses and subsidy slightly increased by 1% year-on-year to ₱75.4 billion from ₱74.6 billion a year ago. This was primarily driven by the significant declines in interconnect, provisions and subsidy. In addition, the Company's cost control initiatives contributed in keeping its expenses low, despite supporting all existing network projects in response to the growing business' demands. Including the impact of PFRS adjustments, total operating expenses and subsidy as of end-December 2018 amounted to ₱67.7 billion.
- Globe's consolidated EBITDA reached ₱64.9 billion, surpassing last year's level of ₱53.3 billion, due mainly to the strong topline and minimal growth in operating expenses. EBITDA margin for 2018 was at 46%, higher versus last year's margin of 42%. Including the impact of the PFRS adjustments, Globe's consolidated EBITDA for the period stood at ₱65.1 billion, while EBITDA margin was at 49%.
- Total depreciation expenses posted an 11% increase to ₱30.4 billion from the ₱27.5 billion reported in 2017, given Globe's higher capital investments.

- Overall, total operating costs including depreciation charges rose to ₱105.8 billion or 4% higher than the ₱102.1 billion reported in 2017. While including the PFRS adjustments, total operating costs and subsidy including depreciation as of end-December 2018 was at ₱98.2 billion.
- Full year 2018 non-operating charges significantly increased by 66% from the ₱4.3 billion reported last year to ₱7.1 billion this period. This was attributed to higher interest on bank loans, net forex loss position in 2018, higher losses from affiliates and frequency amortization, as well as the provision for impairment of Taodharma investment booked in the third quarter of 2018. Note that last year's lower non-operating charges was partly due to the one-time gain related to the fair value of retained equity interest of Globe in Globe Fintech Innovations, Inc. (Mynt).
- The Globe Group closed the year with consolidated net income of ₱18.4 billion, up 22% from previous year's ₱15.1 billion mainly due to the gains in EBITDA, offsetting depreciation charges and non-operating expenses booked for the year just ended. Post-PFRS adjustments resulted to slight improvement to the consolidated net income, ending the year at ₱18.6 billion.
- Globe's core net income, which excludes the impact of non-recurring charges, one-time gain, foreign exchange gains and mark-to-market charges, stood at ₱18.6 billion, up a robust 37% year-on-year. In addition, core net income improved to ₱18.7 billion as of end-December 2018 after the PFRS adoption.
- As of the end-December 2018, total cash capital expenditures stood at about ₱43.3 billion (approximately \$821 million), 2% higher than last year's level of ₱42.5 billion. The increase in capex was due to the Company's continued network upgrade and expansion.

## GROUP OPERATING REVENUES BY SEGMENT

|                                                    | Globe Group<br>Year-on-Year |                |               |                |
|----------------------------------------------------|-----------------------------|----------------|---------------|----------------|
|                                                    | Pre-PFRS                    |                | Post-PFRS     |                |
|                                                    | 31-Dec<br>2018              | 31-Dec<br>2017 | YoY<br>Change | 31-Dec<br>2018 |
| <b>Operating Revenues<br/>By Business (Php Mn)</b> |                             |                |               |                |
| <b>Mobile*</b>                                     | <b>116,621</b>              | <b>105,586</b> | <b>10%</b>    | <b>117,435</b> |
| Service Revenues                                   | 106,925                     | 98,483         | 9%            | 99,530         |
| Non-Service Revenues                               | 9,696                       | 7,103          | 36%           | 17,905         |
| <b>Fixed Line and Home Broadband**</b>             | <b>33,699</b>               | <b>29,695</b>  | <b>13%</b>    | <b>33,737</b>  |
| Service Revenues                                   | 33,307                      | 29,423         | 13%           | 33,345         |
| Non-Service Revenues                               | 392                         | 272            | 44%           | 392            |
| <b>Total Operating Revenues</b>                    | <b>150,320</b>              | <b>135,281</b> | <b>11%</b>    | <b>151,172</b> |

Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.

\*Mobile business includes mobile and fully mobile broadband

\*\*Home Broadband includes fixed wireless and wired broadband

The Globe Group ended the year with total operating revenues of ₱150.3 billion, up 11% from the ₱135.3 billion recorded last year. This was driven by robust service revenue growth, which was up 10% year-on-year to reach ₱140.2 billion from ₱127.9 billion a year ago. Post-PFRS adjustments, Globe Group's total operating revenues stood at ₱151.2 billion.

Mobile service revenues, which accounted for 76% of Globe's consolidated service revenues for the year just ended, rose to ₱106.9 billion, up a robust 9% from last year's level of ₱98.5 billion, due to the continued strong revenue contributions from mobile data (+28%) as partly offset by the decline in traditional voice (-6%) and SMS (-8%). Post-PFRS adjustments, full year 2018 revenues stood at ₱99.5 billion.

Globe Group's Fixed Line and Home Broadband service revenues posted a 13% increase year-on-year from ₱29.4 billion in 2017 to ₱33.3 billion in 2018. The growth was driven by solid contributions of both

Home Broadband and Corporate Data segments. Post-PFRS adjustments, Globe Group's Home Broadband and Fixed Line business service revenues for the full year of 2018 showed a ₱38 million improvement from the pre-PFRS service revenues.

Mobile non-service revenues increased year-on-year by 36%. Fixed Line and Home Broadband non-service revenues, likewise grew by 44% compared from a year ago.

## **MOBILE BUSINESS**

|                                            | Globe Group<br>Year on Year |                |                      |                |
|--------------------------------------------|-----------------------------|----------------|----------------------|----------------|
|                                            | Pre-PFRS                    |                | Post-PFRS            |                |
|                                            | 31-Dec<br>2018              | 31-Dec<br>2017 | YoY<br>Change<br>(%) | 31-Dec<br>2018 |
| <b>Mobile Service Revenue<br/>(Php Mn)</b> |                             |                |                      |                |
| Service                                    |                             |                |                      |                |
| Mobile Voice <sup>1</sup>                  | 30,348                      | 32,275         | -6%                  | 28,520         |
| Mobile SMS <sup>2</sup>                    | 21,281                      | 23,149         | -8%                  | 20,190         |
| Mobile Data <sup>3</sup>                   | 55,296                      | 43,059         | 28%                  | 50,820         |
| <b>Mobile Service Revenues</b>             | <b>106,925</b>              | <b>98,483</b>  | <b>9%</b>            | <b>99,530</b>  |

*Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.*

<sup>1</sup> Mobile Voice service revenues include the following:

- Prorated monthly service fees on consumable minutes of postpaid plans;
- Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
- Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
- Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
- Mobile service revenues of GTI.

Revenues from (a) to (e) are reduced by any payouts to content providers.

<sup>2</sup> Mobile SMS net service revenues consist of revenues from value-added services such as inbound and outbound SMS and MMS, and infotext, subscription fees on unlimited and bucket prepaid SMS services net of any interconnection or settlement payouts to international and local carriers and content providers.

<sup>3</sup> Mobile Data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses.

### **Mobile Voice**

Mobile voice revenues, which accounted for 28% of total mobile service revenues, declined by 6% to only ₱30.3 billion in 2018 from ₱32.3 billion in 2017. Consistent with global trends, voice revenues declined given the migration of voice traffic to alternative internet-based applications. Post-PFRS 15 adjustment, total mobile voice revenues as of end-December 2018 was ₱28.5 billion.

To support the revenue stream, the Company continues to provide attractive and affordable bulk voice offers such: (1) *Tawag 236\** for 20-minute consumable calls for only ₱20 - *Globe Postpaid* and *Globe Prepaid* subscribers by simply replacing the 0 at the start of the number with 236 (dial 236 + 10-digit Globe number); (2) *Super Sakto Calls\**- calls to Globe and TM numbers for only ₱0.15 per second by just replacing the zero at the beginning of the Globe or TM number with 232 (dial 232 + 10-digit Globe

*\*With at least Php7.50 load requirement*

number) for the special rate to apply; (3) *GoCall100* provides *Globe Prepaid* subscribers 500 minutes of on-net calls to Globe/TM for only ₱100 for 7 days. Meanwhile, *TM* subscribers may choose *UnliTawag15* which gives its subscribers unlimited calls to all Globe and TM subscribers for as low as ₱15 valid for 1 day. Through the *Extend all-you-can promo*, *TM* subscribers can extend for another 24 hours their favorite *TM* promo for only ₱5 up to 365 times by simply texting “EXTEND” to 8888 before their current promo expires.

Filipinos who wish to stay connected with their loved ones abroad, Globe continues to offer its pioneering per-second charging for international voice calls, *IDD Sakto Calls* for both *Globe Postpaid* and *Globe Prepaid* subscribers. *Globe Prepaid's GoTipIDD* service remains to be the lowest per-minute IDD rates in the market (*Go tipIDD30* for as low as Php2.50 per minute valid for three (3) days; *Go tipIDD50* valid for seven (7) days; *Go tipIDD100* valid for 15 days). For *TM* customers, they may opt to subscribe to *TM TipIDD30* which offer four (4) minutes of international calls to Saudi, UAE, Kuwait, Bahrain, Italy, UK, Australia and Japan for only ₱30 a day. Globe also provides unlimited calls to 49 countries for as low as Php99 to select destinations worldwide with Globe's *Unli IDD*. *Unli IDD99* provides for one day unlimited calls to three (3) unique international numbers for only Php99; *Unli IDD499* for unlimited calls to 5 unique international numbers for 7 days and *Unli IDD 999* for unlimited calls to 10 unique international numbers for 30 days. In addition, Globe also provides a bucket IDD service to popular and selected overseas destinations with *Go IDD*. *Globe Prepaid* customers can make IDD calls for as low as ₱1.50 per minute to U.S. Mainland, Canada, China, Hawaii, Hong Kong, Singapore, and Thailand for only ₱200, valid for 30 day. Meanwhile for *TM* subscribers, *GoCallIDD30* provides for a ₱5 per minute rate for calls to the Middle East and Europe and as low as ₱2.50 per minute for calls to North America and Asia for only ₱30 valid for 7 days.

In addition, Filipinos or OFWs abroad can likewise spend more talk time with their loved ones in the Philippines with *Globe Duo International*. It is a subscription service that assigns a virtual international number to a registered *Globe Prepaid*, *Postpaid* or *TM* mobile number. This service allows their friends and family members from abroad to call that virtual number, giving them a 'local' calling experience, which is more affordable compared to the standard IDD call rates to the Philippines. *DUO International* number is designed to receive incoming calls only. This service is currently available in 24 countries including USA, Canada, UK, Japan, Korea, Spain, Malaysia, Australia, Hong Kong, New Zealand, Israel, Norway, Sweden, Denmark, South Africa, Portugal, Finland, Italy, Greece, Netherlands, Switzerland, Austria, Ireland and Belgium. Promo packages from 7-days up to 180-days subscription are available for all *Globe Postpaid/Prepaid* and *TM* subscribers in the Philippines. Filipinos abroad may also avail of the promo by registering the *Globe Postpaid/Prepaid* or *TM* mobile numbers of their family members in the Philippines via website: [duo.globe.com.ph](http://duo.globe.com.ph).

The Company also provides its subscribers with the best possible mix of voice, SMS, and mobile browsing services through its combo packages. For *Globe Prepaid*, subscribers have the choice to avail of *Go AllNet* or *GoUnli* promos. *Go AllNet* promos provides unlimited SMS to all networks, plus calls to Globe/TM and calls to all networks and consumable mobile browsing. *Go All-Net* promotions include *GoAllNet25* which gives its subscribers unlimited texts to all networks, 75 mins of calls to Globe/TM, 5 mins of calls to all networks and 5MB Facebook for ₱25 good for 1 day. Also available are *GoAllNet70*, *GoAllNet200*, *GoAllNet300*, and *GoAllNet500* for all-net offers valid for 3, 7, 15 and 30 days, respectively. Meanwhile, *GoUnli* promos include *GoUnli20* which gives its customers unli texts to All networks, unli calls to Globe/TM, 20 MB mobile internet valid for 1 day for only ₱20; *GoUnli25* for unli calls to Globe/TM, unli texts to all networks, free FB plus one (1) app of choice valid for 1 day for ₱25; *GoUnli30* for unli texts to All networks, unli calls to Globe/TM, 30 MB mobile internet valid for 2 days for ₱30; and *GoUnli150* for unli calls to Globe/TM, unli texts to all networks, 50 MB mobile internet valid for 3 days for only ₱50. *Globe* customers can also subscribe to *SuperAllTxtPlus20* which provides 250 local texts to All networks, plus 10 minutes voice calls (Globe/TM) for one day. In addition, *Globe Prepaid* subscribers also have the option to subscribe to *Go19*, whereby subscribers can send unlimited texts to all networks, make 20 minutes of calls to Globe/TM, and surf up to 15MB for only ₱19 valid for 1 day. Also available are *ATxtPlus20*, which allows 10 minutes calls to Globe/TM, 250 texts to all networks, valid for 1 day for only ₱20; and *UAllPlus25* for unli calls to Globe/TM, unli texts to Globe/TM and one (1) hour mobile internet valid for 1 day for ₱25 only. For *TM* on the other hand, subscribers can choose from a wide array of promo offers which will best fit their budget and lifestyle. *TM* subscribers may avail of *ComboAll10* which provides for unlimited calls & texts to TM/Globe plus 50 texts to all networks for only ₱10 a day or may opt to subscribe to longer validity period -- *ComboAll15* valid for 2 days for ₱15 and *ComboAll20* valid for 3 days ₱20. *CU10* was likewise introduced to the market which offers unli calls to TM/Globe plus 100 all-net texts for 2 days for only ₱10. *Combo15* which

provides for unlimited all-network texts plus 60 minutes calls TM/Globe valid for 3 days for only ₱15 or choose to subscribe to *Combo20* valid for 4 days for ₱20. Through the *Extend all-you-can promo* all TM subscribers have the option to extend all TM call and text promos up to 365 times by simply texting “EXTEND” to 8888 before their current promo expires. In 2017, Globe launched the all-net call promos for as low as ₱1/minute as a result of lowered voice interconnect access charges across telcos. Under the Company’s latest all-net promos, postpaid customers with Plan 2499 and up may choose to avail of a ₱299 tack-on that will give them 300-minute calls to all networks. On the other hand, Globe Prepaid subscribers may avail of *GoCall50* which gives 50 minutes of calls to all networks, good for 3 days; TM customers may add ₱5 to any existing call and text promo for 5 minutes of calls to any network, good for 1 day.

### **Mobile SMS**

Mobile SMS revenues, which accounted for 20% of total mobile service revenues, closed the year at ₱21.3 billion, or 8% lower against the ₱23.1 billion reported last year. Post-PFRS 15 adjustment, mobile SMS revenues as of end-December of 2018 stood at ₱20.2 billion. Similar to voice, mobile SMS declined with the continuous migration of mobile messaging traffic to over-the-top (OTT) messaging apps.

On the product front, Globe continues to showcase a comprehensive line up of mobile SMS value offers ranging from unlimited and bucket text services. Globe continues to provide its prepaid subscribers with all-day unlimited on-net SMS with UnliTxt promos: *UnliTxt20* valid for 1 day for ₱20; *UnliTxt40* valid for 2 days for ₱40 and *UnliTxt80* valid for 5 days for ₱80. *GoUnlitxt49* was also made available in the market which offers its subscribers unlimited on-net texts to *Globe/TM* for only ₱49 valid for 7 days. For budget conscious customers, *SuliTxt15* provides its subscribers with 100 text messages to *Globe/TM* for one day. With the use of the *GoSakto*, *Globe Prepaid* subscribers can create a promo exactly how they want it based on their lifestyle and budget.

With TM’s continued dedication of giving its subscribers wonderful and value-for-money offers, TM customers can get to choose from wide array of promo offers ranging from bucket or unlimited SMS. With *SuliTxt5*, TM subscribers can send 25 texts to TM/Globe, valid for 1 day for only ₱5. *UnliAllNet10* which provides its subscribers with unlimited texts to all networks for ₱10 a day or subscribe to *Txt10* for unlimited text to TM/Globe, valid for 2 days. Also available is *AstigTxt30* which gives TM subscribers 5 days of unlimited text to TM/Globe for ₱30. *Dagdagtxt* was likewise introduced to the market which provides additional 100 all-network texts as an add-on to an UnliCall promo for only ₱5 a day. Moreover, TM subscribers can also enjoy unlimited one day text to TM/Globe as on add-on to their UnliTawag15 subscription for just minimal price of ₱5.

Meanwhile, for Filipinos who wish to send messages to their family and friends abroad, Globe continues to offer *iTxtAll30*, for 100 SMS to over 40 countries and all networks in the Philippines for only Php30 a day. Also available is *Unli iSMS USA299* for unlimited texts to the US Mainland\* valid for 30 days and *Unli IDD and iSMS USA599* for unlimited calls and texts to the US Mainland\* valid for 30 days. (\*Excluding Alaska, Guam, Hawaii, American Samoa, Northern Mariana Islands, Puerto Rico and U.S. Virgin Islands).

### **Mobile Data**

*Mobile Browsing, Internet-on-the-Go and Other Data*

Mobile data, the biggest contributor to mobile business, accounted for 52% of total mobile service revenues (vs. 44% in 2017). As of end-December 2018, mobile data revenues posted ₱55.3 billion, up a strong 28% from ₱43.1 billion a year ago. The sustained growth momentum in mobile data revenues was driven by the increasing consumption of streaming and always-on digital services coupled with the growing smartphone penetration. Likewise, data traffic rose as more Globe customers are benefitting from the company’s massive network upgrades. Post-PFRS 15 adjustment, total mobile data for the year just ended was at ₱50.8 billion.

Over the years, Globe has pioneered efforts in introducing product and services that cater to the customer’s digital preferences, enabling Globe to be the preferred brand for Filipinos’ digital lifestyle choices. This was done through collaborative partnerships with global giants in the world of content. The Company partnered with internet giant Google to provide free access to Google mobile services and to provide its subscribers the ability to charge purchases of applications to their postpaid bill or prepaid load, bypassing the need for credit cards and enhancing the convenience for Globe and TM

customers. Likewise, the Company was able to tailor-make lifestyle packages for all its subscribers to meet their social networking needs and crowd-sourced content (via *Facebook* and *Wattpad*), chatting and digital communication (*Viber*), music (*Spotify*), sports (*NBA*) and media (*HOOQ* and *Walt Disney*). *Piso Video* was also made available to provide *Globe* and *TM* subscribers' access to videos on their cellphones for as low as ₱1 per video. Moreover, *Globe* continues its drive to position the Philippines as the Digital Capital of the World as it expanded its line-up of content partners with its new international partnerships with *Netflix*, *Disney*, *Sports Illustrated*, *Astro*, *Turner* and *Smule*.

*Globe's* mobile browsing services include the consumable mobile internet plan "*GoSurf*" which gives its subscribers bulk megabytes of mobile data consumable per kilobyte for as low as ₱10/day. *Globe Postpaid*, *Prepaid* and *TM* subscribers can choose from a variety of *GoSurf* consumable data plans ranging from ₱10 for 40 MB for a day to ₱2,499 for 20 GB per month. With every *GoSurf* data plan, subscribers can get free access to *Spotify*<sup>1</sup>. Subscribers who register to *GoSurf99* and below get free music streaming on *Spotify Basic*, while those who register to *GoSurf299* and above get free music streaming on *Spotify Premium* or *HOOQ*<sup>2</sup> with free access to *YouTube* and *Dailymotion*. All *GoSurf* plans are automatically bundled with the "*Globe No Bill Shock Guarantee*", so subscribers who exceed their monthly MB allocations will never pay more than ₱1,500 for *GoSurf* plans 99 to 999 and ₱3,000 for *GoSurf* plans 1799 and 2499. In addition, game bundles were likewise introduced to the market which give *Globe Prepaid* customers all-day access to their favorite mobile games and live the thrill of fighting clans, summoning spells, assembling a team of super heroes with *Clash Royal*, *Clash of Clans*, *Candy Crush* and more for a minimum cost of ₱15/day for 100MB data allocation to a maximum of ₱99 for 30 days for 300MB data allocation. In 2017, *Globe* introduced yet another game-changing offer that transformed the way people enjoy and consume video content on mobile with the launch of *GoWatch*. This promo allows subscribers to get as much as 2GB for video streaming per day starting at ₱29 as an add-on to any *GoSurf* promo starting with *GoSurf50*. *GoWatch* allows its users to watch hours of content without worrying about using up their data allowance through a separate data allocation dedicated for streaming on popular platforms: *Netflix*, *YouTube*, *Tribe*, *HOOQ*, *NBA*, *Cartoon Network*, and *Disney Channel Apps*. For bigger data options and longer validity, *Globe* customers may also avail *GoWatch99* to get 2.5GB for three days at ₱99 or *GoWatch399* for 10GB valid for 30 days at ₱399, as an add-on to *GoSurf299* and up. Furthermore, the "*Share-A-Promo*" allows its users to share *GoSurf* promos to their relatives and friends. The promo can be sent to any mobile phone, tablet, or *Tattoo* mobile Wi-Fi. *Share-A-Promo* is open to all *Globe (Postpaid, Prepaid, Tattoo, and TM)* subscribers. Likewise *TM*, introduced *Net2* which gives *TM* subscribers an option to add mobile internet on top of any *TM* promo subscription for just a minimal fee of ₱2. *Net2* gives its users 20MB for *Youtube* streaming or 10MB for *CoC*, *Google*, *Twitter*, *Instagram*, or *WeChat* for one whole day. *TM* subscribers may also opt to subscribe for ₱5 for 20MB for *Youtube* streaming, *CoC*, *Google*, *Twitter* valid for two (2) days. *TM* customers can also have free access to *JOFOM* as long as they are registered to any *TM* promos. *JOFOM* is a blue collar mobile app launched by *jobstreet* giving access to more than 5,000 local jobs for high-school and vocational course graduates. *JOFOM* can be downloaded via *internet.org* and *Google Play* or via the website ([www.jofom.com](http://www.jofom.com)).

Meanwhile, unlimited chat offers (*UnliChat25* valid for 1 day and *UnliChat299* valid for 30 days) *GMESSAGE*, *Viber*, *FB Messenger*, *KakaoTalk*, *WeChat*, *WhatsApp*, and *LINE* even without a *WiFi* connection are also available for *Globe Prepaid* subscribers. *Globe Prepaid* or *TM* customers may also opt to avail of site bundles to enjoy 24-hour unlimited access to various websites of their choice for only ₱20 per day. In addition to these, the Company introduced the *ChatPlus*, an all-in-one bundle that not only gives customers access to their favorite messaging apps but to a generous amount of *IDD* minutes to the *US Mainland* and *Canada* for as low as ₱25 per day. Customers can enjoy free access to messaging apps (such as *Facebook Messenger*, *Viber*, *WhatsApp*, *Google Messenger*, *Kakao Talk*, *WeChat*, and *LINE*) plus 15 *IDD* minutes for calls from the Philippines to the *US Mainland* and *Canada*. For those opting for a longer subscription and more free *IDD* minutes, there is also the *ChatPlus 299*, valid for 30 days with 60 *IDD* minutes. Likewise, the Company continued to offer *Globe Prepaid Roam Surf*, a flat rate offer for unlimited data roaming service to its prepaid customers. This offer allows prepaid customers to access the internet abroad for an entire 24-hour cycle, making their data connectivity experience more seamless and worry-free. *Roam Surf* for *Globe Prepaid* is available in three variants, ₱599 for 24 hours, ₱1797 for 3 full days and ₱2995 for 5 full days.

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<sup>1</sup> *Spotify* is a music streaming service that you can listen to anywhere and anytime. You can also create and share your playlists to your friends and better yet follow your favorite artists and listen to their playlists as well.

<sup>2</sup> *HOOQ* is an online video-on-demand service that provides access to over 10,000 foreign and local movies and TV shows that can be watched on PCs, tablets, and smartphones connected to the Internet

Globe continues to rollout more *GoWiFi*<sup>1</sup> hotspots, as part of the network's goal to elevate the state of internet connectivity in the country. This developed as Globe partnered with the Department of Information and Communications Technology (DICT) for the EDSA WiFi project which aims to provide high-speed internet connectivity throughout the 24-kilometer stretch of EDSA. DICT is targeting to reach over 13,000 public places across 145 cities and 1,489 municipalities nationwide. *GoWiFi*, is available at a growing number of hotspots nationwide. Get connected at malls, coffee shops, restaurants, convenience stores, transportation hubs, and more. Meanwhile the *GoWiFi Auto*, is an affordable paid service for customers to continue browsing once their daily allowance of free WiFi minutes is fully consumed. *GoWiFi Auto* allows customers who have purchased a package to automatically connect to the *GoWiFi Auto* network without having to login again even when transferring between multiple locations. Customers can enjoy fast uninterrupted browsing, no ads, no timeouts, and no need to remember username and passwords. To enjoy *GoWiFi Auto*, customers simply connect to the @GoWiFi\_Auto network, wait for the GoWiFi Auto portal to pop up (or open the browser) and sign up with a mobile number. GoWiFi Auto's affordable plans start at P15/day for 500 MB. Larger plans, specifically a P50 plan offering 1.5 GB of data for 3 days and a P99 plan, also with 1.5 GB of data, but valid for 30 days, are also available.

From May 18 up to October 31, 2018, Globe Prepaid customers who subscribed to *GoSurf50* and up, GOTSCOMBODD70 and 90, or GoSakto120 and 140 were able to enjoy the additional 2 GB for free to access their favorite video streaming and gaming apps and sites. With this freebie, Globe customers can immerse in thrilling movies, award-winning shows, and fun videos from Netflix, YouTube, HOOQ, NBA, Cartoon Network, and Disney; plus, they can step into the exciting worlds of Arena of Valor, Mobile Legends, Clash of Clans, Pokemon Go, and Clash Royale! Stream and play away without worrying about consuming your GoSurf or GoSakto MBs or getting charged regular browsing rates. Similarly, TM customers who subscribed to *EasySurf50* and up were also given the additional 2 GB for free to access their favorite video streaming and gaming apps and sites. This new freebie includes the following apps: EasyWatch apps (Youtube, Netflix, HooQ, NBA, Cartoon Network, Disney, Tribe); and EasyPlay apps (Arena of Valor, Mobile Legends, Clash of Clans, Pokemon Go, and Clash Royale). HOOQ & Disney are available freebies for EasySurf599 & 999.

In 2018, with Globe's committed to enriching its lineup of content partners to cater to its customers' evolving digital lifestyle, Filipinos can now catch the Korean wave on Viu, the localized digital platform providing online Asian video content. K-Drama fans with a Globe Postpaid ThePLAN or ThePLAN PLUS subscription can enjoy unlimited downloads, priority viewing as fast as 8 hours after its telecast, full HD resolution up to 1080p, and access to Asian blockbuster movies with Viu Premium! Simply text VIU99 to 8080, click on the activation link that will be sent to you via text, confirm your mobile number, and download the Viu app to start enjoying your 30-day subscription to Viu Premium. Also during the year, Globe, together with The Walt Disney Company Southeast Asia, introduced *DisneyLife*: The World of Disney in One App. *DisneyLife* is a unique digital content offering for fans of Disney, Pixar, Marvel and Star Wars in the Philippines. All existing Globe Postpaid customers and new or recontracting customers on ThePLAN or ThePLAN PLUS 999 and above get a free 6-month subscription to *DisneyLife*. *DisneyLife* offers are coming soon with GoWatch for Prepaid mobile customers. In the meantime, they can watch out for wonderful surprises from Disney and Globe. Apart from mobile and broadband offerings, Globe now offers consumers *DisneyLife* for a monthly subscription of Php149. With each subscription, consumers can create 6 accounts, register up to 10 gadgets, and use the *DisneyLife* app simultaneously across four devices.

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<sup>1</sup> *GoWiFi* is Globe Telecom's premium public WiFi service

## **Key Mobile Drivers**

In view of the new regulatory requirement, Globe closed the year with a total mobile subscriber base of 74.1 million. This will now become the new baseline given the impact of the one (1) year extension of prepaid load validity.

Based on the National Telecommunications Commission (NTC) Memorandum Circular 03-07-2009, the first expiry periods ranges from 3 days for ₱10 or below to 120 days for reloads amounting to ₱300 and above. The second expiry remains at 120 days from the date of the new first expiry periods. The first expiry is reset based on the longest expiry period among current and previous reloads. Under this policy, subscribers are included in the subscriber count until churned. Under the new pronouncement based on the National Telecommunications Commission (NTC), Department of Information and Communications Technology (DICT), and Department of Trade and Industry (DTI) Joint Memorandum Circular No. 05-12-2017 all prepaid load will now carry a one-year expiration period regardless of amount.

In compliance to this new regulation, effective January 6, 2018, Globe implemented a one year expiration period for prepaid load worth 300 pesos and above. Then in July 5, 2018, Globe expanded the implementation to all Globe prepaid load, including those with denominations below 300 pesos.

The succeeding sections cover the key segments and brands of the mobile business – *Globe Postpaid*, *Globe Prepaid* and *TM*.

### **Globe Postpaid**

As of the end of December 2018, *Globe Postpaid* had 2.6 million subscribers, or 5% higher from a year ago. *Globe Postpaid*'s gross acquisitions for the year just ended stood at 660,972 or 11% lower than last year. The improvement in churn rate from 2.5% a year ago to only 1.8% in 2018 brought total net additions in postpaid subscribers to reach 113,383 subs, compared to last year's net reduction of 4,931.

*Globe Postpaid* expanded its smartphone line-up with the successful launch of the new *iPhone XR*, *iPhone Xs/Xs Max* in the last quarter of 2018. Customers can avail of the newest generation of iPhone devices through *Globe Postpaid*'s "*ThePLAN*" which ranges from ₱599 to ₱2499 monthly which already come with unlimited texts and calls to *Globe/TM*, mobile data, with free 6-month subscriptions to Amazon Prime Video and DisneyLife. The new iPhone Xs can be availed for only ₱3,499 (*ThePLAN* 1799 + ₱1,700 monthly cashout) or iPhone Xs Max for only ₱3,799 (*ThePLAN* 1799 + ₱2,000 monthly cashout)). Meanwhile, iPhone XR can be availed at ₱2,899 (*ThePLAN* 1799 + ₱1,100 monthly cashout).

*Globe Postpaid* ARPU registered at ₱1,161, which decreased by 1% from a year ago. On a post-PFRS basis, full year 2018 *Globe Postpaid* ARPU was at ₱919.

*Globe Postpaid* subscriber acquisition cost (SAC) was 7% lower year-on-year, to reach ₱8,177 from ₱8,824 from a year ago. On a post-PFRS basis, full year 2018 SAC was ₱1,644. *Globe Postpaid* SAC remains recoverable well within the 24-month contract of the postpaid plans.

### **Prepaid**

Globe's prepaid brands, which includes the *Globe Prepaid* and *TM*, accounts for 96% of its total mobile subscriber base. As of end-December 2018, cumulative prepaid subscribers stood at 71.5 million, 23% higher than last year's level of 58.2 million. This will now become the new baseline given the impact of the one (1) year extension of prepaid load validity (as stated above).

The succeeding sections discuss the performance of the *Globe Prepaid* and *TM* brands in more detail.

#### **a. Globe Prepaid**

As of end-December 2018, *Globe Prepaid* ended the year with 34.6 million subscribers which will now become the new baseline given the regulatory requirement mentioned above.

**b. TM**

TM's total cumulative subscriber registered at 36.9 million for the year just ended. Similar to Globe Prepaid, this will now become the new baseline, in compliance to the regulatory requirement of prepaid load validity extension stated above.

*Note: There will be no year-on-year comparison for the Prepaid cumulative subscriber count, Prepaid ARPU, SAC and churn rate for 2017 and 2018 given the impact of the prepaid load validity extension to one (1) year in 2018.*

**FIXED LINE AND BROADBAND BUSINESS**

|                                                         | Globe Group    |                |                      |                |
|---------------------------------------------------------|----------------|----------------|----------------------|----------------|
|                                                         | Year on Year   |                |                      |                |
|                                                         | Pre-PFRS       |                | Post-PFRS            |                |
|                                                         | 31-Dec<br>2018 | 31-Dec<br>2017 | YoY<br>Change<br>(%) | 31-Dec<br>2018 |
| <b>Service Revenues (Php Mn)</b>                        |                |                |                      |                |
| Service                                                 |                |                |                      |                |
| Home Broadband <sup>1</sup>                             | 18,543         | 15,645         | 19%                  | 18,606         |
| Corporate Data <sup>2</sup>                             | 11,782         | 10,288         | 15%                  | 11,762         |
| Fixed line Voice <sup>3</sup>                           | 2,982          | 3,490          | -15%                 | 2,977          |
| <b>Fixed Line &amp; Home Broadband Service Revenues</b> | <b>33,307</b>  | <b>29,423</b>  | <b>13%</b>           | <b>33,345</b>  |

*Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.*

<sup>1</sup> Home Broadband service revenues consist of the following:

- Monthly service fees of wired, fixed wireless, bundled voice and data subscriptions;
- Browsing revenues from all postpaid and prepaid wired, fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
- Value-added services such as games; and
- Installation charges and other one-time fees associated with the service.
- Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

<sup>2</sup> Corporate data service revenues consist of the following:

- Monthly service fees from international and domestic leased lines;
- Other wholesale transport services;
- Revenues from value-added services; and
- One-time connection charges associated with the establishment of service.

<sup>3</sup> Fixed line voice service revenues consist of the following:

- Monthly service fees;
- Revenues from local, international and national long distance calls made by postpaid, prepaid Fixed Line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
- Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
- Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
- Installation charges and other one-time fees associated with the establishment of the service; and
- Revenues from DUO and SUPERDUO (Fixed Line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

## Home Broadband

|                                         | Globe Group      |                  |                      |
|-----------------------------------------|------------------|------------------|----------------------|
|                                         | Year on Year     |                  |                      |
|                                         | 31-Dec<br>2018   | 31-Dec<br>2017   | YoY<br>Change<br>(%) |
| <b>Cumulative Broadband Subscribers</b> |                  |                  |                      |
| Fixed Wireless                          | 984,238          | 655,441          | 50%                  |
| Wired                                   | 631,439          | 645,720          | -2%                  |
| <b>Total (end of period)</b>            | <b>1,615,677</b> | <b>1,301,161</b> | <b>24%</b>           |

Globe Group's Fixed Line and Home Broadband service revenues posted a 13% increase year-on-year to ₱33.3 billion in 2018 from ₱29.4 billion in 2017. The growth was mainly driven by solid contributions of both Home Broadband and Corporate Data business. On a post-PFRS 15 basis, Globe Group's Fixed Line and Home Broadband full year 2018 service revenues improved by ₱38 million from the pre-PFRS revenues.

*Globe Home Broadband* service revenues posted a 19% growth, ending the year at ₱18.5 billion from the ₱15.6 billion reported a year ago. This was due to the sustained expansion of its customer base, now rising to 1.6 million subscribers from 1.3 million last year. The revenue growth and customer uptake was boosted by Home Broadband's compelling new bundles and packages, coupled with the growing popularity of the Home Prepaid Wi-Fi product. Post PFRS 15 adjustments, Home Broadband service revenues as of end-December 2018 registered at ₱18.6 billion.

Globe At Home Prepaid strengthens its commitment to providing the Filipino customer with the best that the international and local entertainment has to offer, with the launch of Globe Streamwatch Xtreme. This is the world's first all-in-one device with fast home internet, free local TV channels, and Internet TV with 1M videos, shows, and movies. Globe Streamwatch Xtreme was launched with an introductory price of ₱2999 (that's ₱2000 off from the standard retail price of ₱4,999) starting December 15, 2018. It has internet connection that is 2x faster, 2X stronger, 2x wider coverage than pocket wifi device. Globe Streamwatch Xtreme is also videoke-ready with two built-in microphone outlets for those who enjoy the signature Filipino home past time.

## Corporate Data

Globe's Corporate Data business sustained its growth momentum, ending the year with ₱11.8 billion revenues, up 15% against last year, driven by the strong demand for domestic and international leased line services, sustained circuit base expansion, and the increasing demand for cloud-based services, managed/modern business solutions. Post PFRS 15 adjustments, Corporate Data service revenues for the year just ended was lower by ₱20 million versus the pre-PFRS revenues.

## OTHER GLOBE GROUP REVENUES

### International Long Distance (ILD) Services

Both Globe and Innove offer ILD voice services which cover international call services between the Philippines to 237 destinations with 768 roaming partners. This service generates revenues from both inbound and outbound international call traffic, with pricing based on agreed international termination rates for inbound traffic revenues and NTC-approved ILD rates for outbound traffic revenues.

Globe's ILD voice revenues from the mobile and Fixed Line businesses declined year-on-year by 15% from ₱7.8 billion last year to ₱6.7 billion this period. This is attributed to the continued migration of international traffic through alternative channels that make use of internet-based applications (Viber, Skype, Line, Yahoo, etc.).

Meanwhile, Globe sustained its promotion on OFW SIM packs and the discounted call rate offers such as *IDD Sakto Calls* (per-second IDD), *Tip/IDD* card, and *IDD Tingi* – the first bulk IDD service which can be purchased via registration and through AMAX retailers nationwide.

## GROUP OPERATING EXPENSES

Globe ended the year with total costs and expenses at ₱105.8 billion or 4% higher from ₱102.1 billion a year ago, bulk coming from depreciation, services, staff cost, and utilities. Higher network related expenses for the period was mainly in response to the growing business' demands as well as to support the continued subscriber expansion.

| (Php Mn)                                            | Globe Group<br>Year on Year |                |                      |                |
|-----------------------------------------------------|-----------------------------|----------------|----------------------|----------------|
|                                                     | Pre-PFRS                    |                | Post-PFRS            |                |
|                                                     | 31-Dec<br>2018              | 31-Dec<br>2017 | YoY<br>Change<br>(%) | 31-Dec<br>2018 |
| Cost of Sales                                       | 14,792                      | 13,014         | 14%                  | 18,645         |
| Less: Non-service Revenues                          | 10,088                      | 7,375          | 37%                  | 18,297         |
| <b>Subsidy</b>                                      | <b>4,704</b>                | <b>5,639</b>   | <b>-17%</b>          | <b>348</b>     |
| Interconnect                                        | 5,677                       | 7,852          | -28%                 | 5,677          |
| Selling, Advertising and Promotions                 | 5,655                       | 5,415          | 4%                   | 5,620          |
| Re-contracting                                      | 3,853                       | 3,594          | 7%                   | -              |
| Staff Costs                                         | 13,271                      | 12,238         | 8%                   | 13,271         |
| Utilities, Supplies & Other Administrative Expenses | 5,951                       | 5,216          | 14%                  | 5,958          |
| Rent                                                | 6,535                       | 6,471          | 1%                   | 6,535          |
| Repairs and Maintenance                             | 7,944                       | 7,823          | 2%                   | 7,944          |
| Provisions                                          | 3,938                       | 5,109          | -23%                 | 4,788          |
| Services and Others                                 | 17,833                      | 15,223         | 17%                  | 17,607         |
| <b>Operating Expenses</b>                           | <b>70,657</b>               | <b>68,941</b>  | <b>2%</b>            | <b>67,400</b>  |
| <b>Depreciation and Amortization</b>                | <b>30,422</b>               | <b>27,513</b>  | <b>11%</b>           | <b>30,422</b>  |
| <b>Costs and Expenses</b>                           | <b>105,783</b>              | <b>102,093</b> | <b>4%</b>            | <b>98,170</b>  |

*Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.*

### Interconnect

Interconnect charges for the year declined by 28% to only ₱5.7 billion from the ₱7.9 billion in 2017, driven by the decline in inter-network traffic usages for Mobile voice, SMS and roaming coupled with impact of the drop in interconnection rates for both SMS (₱0.15 to ₱0.05) and voice (from ₱2.50 to ₱0.50) effective September 1, 2018.

### Subsidy

Subsidy expenses declined by 17% from ₱5.6 billion reported a year ago due to the continued increase in the number of subscribers availing of line-only plans. Including the impact of PFRS15 adoption, total subsidy expenses for full year 2018 was only at ₱348 million.

### Marketing

Accounting for 8% of total operating expenses and subsidy, selling, advertising, and promotion expenses grew by 4% to reach ₱5.7 billion from ₱5.4 billion a year ago. This was mainly driven by higher ads & promo on increased spending for online placements, TV airtime and merchandising materials for product campaigns to boost plan/product awareness, partly offset by lower commissions. Including the impact of PFRS15 adoption, total subsidy expenses for full year 2018 was at ₱5.6 billion.

### Re-contracting

Globe's re-contracting costs for the year increased by 7% from the ₱3.6 billion posted last year due to higher volume of subscribers renewing their contracts given the launch of the newest Samsung Galaxy

(S9/S9+/Note 9) and iPhone (Xs,Xs Max,XR) during the year. Re-contracting costs for the year accounted for 5% of total operating expenses and subsidy.

#### **Staff Costs**

Staff costs increased by 8% to ₱13.3 billion in 2018 from ₱12.2 billion in 2017 mainly due to higher headcount (7,729 in 2018 vs. 7,206 in 2017), coupled with higher corporate incentives and training costs.

#### **Utilities, Supplies and Other Administrative Expenses**

Utilities, supplies, and other administrative expenses, which contribute 8% of total operating expenses and subsidy, also reported an increase of 14%, totaling close to ₱6.0 billion from the ₱5.2 billion reported in 2017. The increase was mainly driven by utilities, on electricity's higher average rate and consumption, coupled with higher travel expenses and supplies on service unit/demo, tools and product peripherals. However, including the PFRS 15 adjustments, total utilities, and other administrative expenses for full year 2018 would increase by ₱7 million from the Pre-PFRS figures.

#### **Rent**

Rent expenses for the year 2018 was at ₱6.5 billion, up by 1% from a year ago. This accounts for 9% of total operating expenses and subsidy.

#### **Repairs and Maintenance**

Repairs and maintenance costs for the year stood at close to ₱8.0 billion, up 2% from the ₱7.8 billion reported a year ago. This was mainly on higher expenditures for hardware/software and subscriber lines, partly offset by lower premium content payout. Repairs and maintenance accounted for 11% of total operating expenses and subsidy.

#### **Provisions**

This account includes provisions related to trade, non-trade and traffic receivables and inventory. Overall, provisions account for 5% of total operating expenses and subsidy. Total provisions for the year declined to only ₱3.9 billion, or 23% lower than the ₱5.1 billion reported in 2017 due to lower trade provisions booked this year. Including the impact of PFRS15 adoption, provisions as of end-December 2018 was ₱4.8 billion.

#### **Services and Others**

Accounting for 24% of total operating expenses and subsidy, services and expenses grew by 17% from ₱15.2 billion reported in 2017 driven mostly by higher managed IT and cloud services partly cushioned by lower customer contact services and professional fees. Meanwhile, including the PFRS adjustment on services, total services and others for the year 2018 was lower by ₱226.0 million from the Pre-PFRS figures.

#### **Depreciation and Amortization**

Depreciation and amortization expenses for the year grew 11% to ₱30.4 billion from ₱27.5 billion reported in 2017, given Globe's higher capital investments.

## OTHER INCOME STATEMENT ITEMS

Other income statement items include net financing costs, net foreign exchange gain (loss), interest income, and net property and equipment-related income (charges) as shown below:

| (Php Mn)                             | Globe Group    |                |                      |
|--------------------------------------|----------------|----------------|----------------------|
|                                      | Year on Year   |                |                      |
|                                      | 31-Dec<br>2018 | 31-Dec<br>2017 | YoY<br>Change<br>(%) |
| <b>Financing Costs</b>               |                |                |                      |
| Interest Expense                     | (5,975)        | (5,043)        | 18%                  |
| Loss on derivative instruments (net) | -              | (128)          | -100%                |
| Swap costs and other financing costs | (220)          | (209)          | 5%                   |
| Foreign Exchange Loss (net)          | (900)          | -              | -                    |
|                                      | <b>(7,096)</b> | <b>(5,380)</b> | <b>32%</b>           |
| <b>Other Income</b>                  |                |                |                      |
| Gain on derivative instruments (net) | 1,004          | -              | -                    |
| Foreign Exchange gain (net)          | -              | 214            | -100%                |
| Interest Income                      | 391            | 140            | 180%                 |
| Equity share from Affiliates (net)   | (956)          | (661)          | 45%                  |
| Frequency Amortization               | (294)          | (185)          | 59%                  |
| Mynt Gain                            | -              | 1,604          | -100%                |
| Taodharma Impairment                 | (140)          | -              | -                    |
| Others – net                         | (2)            | (3)            | -33%                 |
| <b>Total Income (Other Expenses)</b> | <b>(7,092)</b> | <b>(4,271)</b> | <b>66%</b>           |

The Globe Group's full year 2018 non-operating charges, significantly increased by 66% from the ₱4.3 billion reported last year to ₱7.1 billion this period. This was attributed to higher interest on bank loans, net forex loss position in 2018, higher losses from affiliates and frequency amortization, as well as the provision for impairment of Taodharma investment booked in the third quarter of 2018. Note that last year's lower non-operating charges was partly due to the one-time gain related to the fair value of retained equity interest of Globe in Globe Fintech Innovations, Inc. (Mynt)).

*(See related discussion on derivative instruments and swap costs in the Foreign Exchange and Interest Rate Exposure section).*

## Liquidity and Capital Resources

|                                             | Globe Group    |                |                      |
|---------------------------------------------|----------------|----------------|----------------------|
|                                             | 31-Dec<br>2018 | 31 Dec<br>2017 | YoY<br>Change<br>(%) |
| <b>Balance Sheet Data (Php Mn)</b>          |                |                |                      |
| Total Assets                                | 299,498        | 277,766        | 8%                   |
| Total Debt                                  | 148,282        | 131,529        | 13%                  |
| Total Stockholders' Equity                  | 73,144         | 66,558         | 10%                  |
| <b>Financial Ratios (x)</b>                 |                |                |                      |
| Total Debt to EBITDA (gross)                | 2.33           | 2.43           |                      |
| Total Debt to EBITDA (net)                  | 1.96           | 2.22           |                      |
| Debt Service Coverage                       | 4.30           | 3.38           |                      |
| Interest Cover (Gross)                      | 9.34           | 9.36           |                      |
| Debt to Equity (Gross)                      | 2.03           | 1.98           |                      |
| Debt to Equity (Net) <sup>1</sup>           | 1.71           | 1.81           |                      |
| Total Debt to Total Capitalization (Book)   | 0.67           | 0.66           |                      |
| Total Debt to Total Capitalization (Market) | 0.36           | 0.33           |                      |

<sup>1</sup> Net debt is calculated by subtracting cash, cash equivalents and short term investments from total debt.

Globe's balance sheet and cash flows remain strong with ample liquidity and gearing below bank covenants.

Globe Group's consolidated assets as of 31 December 2018 amounted to ₱299.5 billion compared to ₱277.8 billion in 2017. Consolidated cash, cash equivalents and short term investments (including investments in assets available for sale and held to maturity investments) reached ₱23.3 billion as of end December of 2018 compared to ₱11.2 billion as of end December 2017.

Globe ended the year with gross debt to equity ratio on a consolidated basis at 2.03:1 and is still below the 3.0:1 debt to equity limit dictated by Globe's debt covenants. Meanwhile, net debt to equity ratio was at 1.71:1 as of end December 2018 and 1.81:1 as of end December 2017.

Globe's current ratio was at 0.86:1 as of 31 December 2018 and 0.72:1 as of 31 December 2017, which are at par with industry standards. While Globe's average current ratio was below the SEC's minimum of 1:1, Globe believes it has more than sufficient cash flows from operations to meet its debt maturities, currently and prospectively.

The financial tests under Globe's loan agreements include compliance with the following ratios:

- Total debt\* to equity not exceeding 3.0:1;
- Total debt to EBITDA not exceeding 3.5:1;
- Debt service coverage<sup>2</sup> exceeding 1.3 times; and
- Secured debt ratio<sup>3</sup> not exceeding 0.2 times.

\*Composed of notes payable, current portion of long term debt, long term debt and net derivative liabilities

In October 2018, the Bond Trust Indentures were amended to adjust the maximum debt to equity ratio from 2.5:1 to 3.0:1.

In December 2018, the loan agreements with Non-Bank Financial Institutions were amended to adjust the debt to equity ratio from 2.5:1 to 3.0:1 and adjust the debt to EBITDA ratio from 3.0:1 to 3.5:1.

<sup>2</sup> Debt service coverage ratio is defined as the ratio of EBITDA to required debt service, where debt service includes subordinated debt but excludes shareholder loans.

<sup>3</sup> Secured debt ratio is defined as the ratio of the total amount for the period of all present consolidated obligations for payment, whether actual or contingent which are secured by Permitted Security Interest as defined in the loan agreement to the total amount of consolidated debt.

In December 2018, the loan agreements with Financial Institutions were amended to adjust the debt to EBITDA ratio from 3.0:1 to 3.5:1.

As of 31 December 2018, Globe is well within the ratios prescribed under its loan agreements.

## Consolidated Net Cash Flows

| (Php Mn)                           | Globe Group    |                |                      |
|------------------------------------|----------------|----------------|----------------------|
|                                    | 31-Dec<br>2018 | 31-Dec<br>2017 | YoY<br>Change<br>(%) |
| Net Cash from Operating Activities | 57,851         | 50,304         | 15%                  |
| Net Cash from Investing Activities | (42,652)       | (55,422)       | -23%                 |
| Net Cash from Financing Activities | (3,435)        | 7,814          | -144%                |

Net cash flows provided by operating activities for the year just ended was at ₱57.9 billion grew by 15% year on year.

Meanwhile, net cash used in investing activities amounting to ₱42.7 billion, was 23% lower than last year. Consolidated cash capital expenditures as of end of December 2018 amounted to ₱43.3 billion, up by 2% from last year's ₱42.5 billion.

| (Php Mn)                                                                      | Globe Group    |                |                      |
|-------------------------------------------------------------------------------|----------------|----------------|----------------------|
|                                                                               | 31-Dec<br>2018 | 31-Dec<br>2017 | YoY<br>Change<br>(%) |
| <b>Cash Capital Expenditures<sup>1</sup></b>                                  | 43,259         | 42,541         | 2%                   |
| Total Additions to Property and equipment and Intangible assets <sup>2</sup>  | 36,315         | 51,432         | -29%                 |
| <b>Cash Capital Expenditures<sup>1</sup> / Service Revenues-BAU (%)</b>       | <b>30.8%</b>   | <b>33.3%</b>   |                      |
| <b>Cash Capital Expenditures<sup>1</sup> / Service Revenues-Post IFRS (%)</b> | <b>32.6%</b>   | <b>-</b>       |                      |

<sup>1</sup> Cash capital expenditures – property and equipment and intangibles acquired as of report date

<sup>2</sup> Includes property and equipment, intangibles and capitalized borrowing costs acquired as of report date regardless of whether payment has been made or not.

Consolidated net cash used for financing activities amounted to ₱3.4 billion in 2018 versus last year's net cash provided by financing activities of ₱7.8 billion in 2017. Consolidated total debt, increased by 13% from ₱131.5 billion at the end of 2017 to reach ₱148.3 billion at the end of December 2018.

86% of US\$ consolidated loans have been effectively converted to PHP via US\$386 million in currency hedges. After swaps, effectively 2% of conso debt is in USD.

Below is the schedule of debt maturities for consolidated Globe for the years stated below based on total outstanding debt as of 31 December 2018:

| Year Due          | Principal*<br>(US\$ Mn) |
|-------------------|-------------------------|
| 2019              | 318.81                  |
| 2020              | 250.74                  |
| 2021              | 149.24                  |
| 2022 through 2031 | 2,114.75                |
| <b>Total</b>      | <b>2,833.55</b>         |

\*Principal amount before debt issuance costs

The Globe Group has available uncommitted short-term credit facilities of USD119.00 million and ₱14.0 billion as of December 31, 2018, USD94.9 million and ₱32.0 billion as of June 30, 2017 and USD118.9 million and ₱19.5 billion as of December 31, 2017.

The Globe Group also has available committed short-term credit facilities of ₱3.0 billion as of December 31, 2018 and 2017.

There are no outstanding short term loans as of December 31, 2018 and December 31, 2017.

Stockholders' equity as of end-December 2018 was higher by 10% from ₱66,558 million to ₱73,144 million this period. Globe's capital stock consists of the following:

#### Voting Preferred Shares

Voting Preferred stock at a par value of ₱5 per share of which 158.5 million shares are outstanding out of a total authorized of 160 million shares.

The dividends for voting preferred stock are declared upon the sole discretion of the Globe Telecom's BOD.

To date, none of the voting preferred shares have been converted to common shares.

#### Non-Voting Preferred stock

Non-Voting Preferred stock at a par value of ₱50 per share of which 20 million shares are issued out of a total authorized of 40 million shares.

#### Common Shares

Common shares at par value of ₱50 per share of which 133.1 million are issued and outstanding out of a total authorized of 149 million shares.

#### Cash Dividends

The dividend policy of Globe Telecom as approved by the Board of Directors is to declare cash dividends to its common stockholders on a regular basis as may be determined by the Board. The dividend payout rate is reviewed annually by the Board of Directors, taking into account the company's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

On November 8, 2011, the Board of Directors amended the Company's dividend policy to be based on core instead of reported net income. Pay-out range remains at 75% to 90%. This is to ensure that dividends will remain sustainable and yields competitive despite the expected near-term decline in net income that would result from the accelerated depreciation charges related to assets that will be decommissioned as part of the Company's network and IT transformation programs which were ongoing during the time. As currently defined, core net income excludes all foreign exchange, mark-to-market gains and losses, as well as non-recurring items.

On August 6, 2013, the Board of Directors approved the proposed change in the frequency of the cash dividend distribution from semi-annual to quarterly. On December 10, 2013, the BOD approved to defer the implementation of the quarterly dividend payout to the second semester of 2014.

On November 5, 2018, the Board of Directors likewise approved the proposed change in the dividend policy from 75% to 90% of prior year's core net income to 60% to 75% of prior year's core net income, to be applied to the 2019 dividend declaration. The amended policy will provide Globe with increased flexibility with respect to capital management. This adjustment will also ensure the sustainability of the operations in this investment-heavy environment, while protecting future dividends, once planned expansion yields beneficial results.

On May 4, 2018, the Board of Directors of Globe approved the declaration of the second semi-annual cash dividend for holders of its non-voting preferred shares on record as of August 10, 2018. The amount of the cash dividend shall be at a fixed rate of 5.2006% per annum calculated in respect of each share

by reference to the offer price of ₱500.00 per share on a 30/360 day basis for the nine-month dividend period. Total amount of the cash dividend was paid last August 22, 2018.

The Board of Directors of Globe approved in separate approvals the declaration of three quarterly distributions of cash dividends of ₱22.75 per share, paid each last March 5, 2018, June 1, 2018, September 6, 2018 and December 5, 2018, respectively. Each cash dividend payment total to about ₱3.0 billion, bringing total distribution by end of December 2018 to ₱12.0 billion.

On November 5, 2018, the BOD likewise approved the declaration of annual cash dividend payable to voting preferred stockholders of record as of November 19, 2018. The amount of the cash dividend was based on the average 30-day PDST-R2, as computed by the Philippine Dealing and Exchange Corporation plus 2%. Total dividend payment made last December 5, 2018 was about ₱41.8 million.

On December 6, 2018, Globe's BOD approved the declaration and payment of the first semi-annual cash dividends for the Company's non-voting preferred shareholders on record as of January 28, 2019. The amount of the cash dividend was at a fixed rate of 5.2006% per annum calculated in respect of each share by reference to the offer price of ₱500.00 per share on a 30/360 day basis for the six-month dividend period. Payment Date was February 22, 2019.

#### Return on Average Equity (ROE)

Consolidated Return on Average Equity (ROE) registered at 26% as of end-December 2018, compared to 23% in 2017 using net income and based on average equity balances for the year ended. Using annualized core net income excluding the effects of non-recurring expenses, foreign exchange loss, one-time gains on net income, return on average equity for the year just ended was at 27% compared to 21% of 2017.

#### Earnings Per Share (EPS)

Consolidated basic earnings per common share were ₱135.91 and ₱109.22, while consolidated diluted earnings per common share were ₱135.40 and ₱109.01 as of end-December 2018 and 2017, respectively.

## Financial Risk Management

### FOREIGN EXCHANGE EXPOSURE

Foreign exchange risks are managed such that USD inflows from operations (transaction exposures) are balanced or offset by the net USD liability position of the company (translation exposures). Globe Group's objective is to maintain a position which results in, as close as possible, a neutral effect to the P&L relative to movements in the foreign exchange market.

#### Transaction exposures

Globe has natural net US\$ inflows arising from its operations. Consolidated foreign currency-linked revenues<sup>1</sup> were at 10% of total service revenues for the periods ended 31 December 2018 and 2017, respectively. In contrast, Globe's foreign-currency linked expenses were at 13% of total operating expenses for the same periods ended, respectively. The US\$ flows are as follows:

|                               | December 2018 |
|-------------------------------|---------------|
| US\$ and US\$ Linked Revenues | ₱13.6 billion |
| US\$ Operating Expenses       | ₱7.8 billion  |
| US\$ Net Interest Expense     | ₱0.6 billion  |

Due to these net US\$ inflows, an appreciation of the Peso have a negative impact on Globe's Peso EBITDA. Globe occasionally enters into forward contracts to hedge against a peso appreciation.

There were no realized gains or losses from forward contracts in 2018.

There were no outstanding forward contracts as of December 2018.

#### Translation Exposures

Globe's foreign exchange translation exposures results primarily from movements of the Philippine Peso (Php) against the U.S. Dollars (USD) with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in Php, while substantially all of capital expenditures are in USD. In addition, 16% of debt as of December 31, 2018 are denominated in USD before taking into account any swaps and hedges.

Globe also has US\$ assets and liabilities which are revalued at market rates every period. These are as follows:

|                             | December 2018   |
|-----------------------------|-----------------|
| US\$ Assets                 | US\$196 million |
| US\$ Liabilities            | US\$856 million |
| Net US\$ Liability Position | US\$660 million |

As of end-December 2018, the Globe Group posted a total of ₱900 million net foreign exchange loss.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. Globe Telecom enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

As of end-December 2018 Globe has US\$300 million in cross currency swap contracts which are hedges of the interest and foreign exchange risks of some of our US\$ loans maturing in April 2020, December 2023, August 2024, March 2025 and August 2027. The MTM of the outstanding swap contracts stood at a gain of ₱1.6 billion as of end-December 2018.

<sup>1</sup>Includes the following revenues:

(1) billed in foreign currency and settled in foreign currency, and  
(2) billed in Pesos at rates linked to a foreign currency tariff and settled in Pesos

As of end-December 2018, Globe has US\$86 million in principal only swap contracts which are hedges of the foreign exchange risks of some of our US\$ loans maturing in April 2020, April 2022 and October 2022. The MTM of the swap contracts stood at a gain of ₱496 million as of end-December 2018.

### **INTEREST RATE EXPOSURE**

Interest rate exposures are managed via targeted levels of fixed versus floating rate debt that are meant to achieve a balance between cost and volatility. Globe's policy is to maintain between 44-88% of its peso debt in fixed rate, and between 31-62% of its US\$ debt in fixed rate.

As of end-December 2018, Globe has a total of US\$61 million in US\$ interest swaps and US\$300 million in cross currency swaps that were entered in to contracts to achieve these targets. The US\$ swaps fixed some of the Company's outstanding floating rate debts with semi-annual payment intervals up to April 2020, and quarterly payment intervals up to October 2022, December 2023, August 2024, March 2025, and August 2027.

As of end-December 2018, 87% (excluding short-term debt) of peso debt is fixed, while 42% of USD debt is fixed after swaps.

The MTM of the interest rate swap contracts stood at a gain of ₱47 million as of end-December 2018.

### **CREDIT EXPOSURES FROM FINANCIAL INSTRUMENTS**

Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

For investments, the Globe Group does not have investments in foreign securities (bonds, collateralized debt obligations (CDO), collateralized mortgage obligations (CMO), or any instruments linked to the mortgage market in the US). Globe's excess cash is invested in short term bank deposits.

The Globe Group also does not have any investments or hedging transactions with investment banks. Derivative transactions as of the end of the period are with large foreign and local banks. Furthermore, the Globe Group does not have instruments in its portfolio which became inactive in the market nor does the company have any structured notes which require use of judgment for valuation purposes.

### **VALUATION OF DERIVATIVE TRANSACTIONS**

The Company uses valuation techniques that are commonly used by market participants and that have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Company uses readily observable market yield curves to discount future receipts and payments on the transactions. The net present value of receipts and payments are translated into Peso using the foreign exchange rate at time of valuation to arrive at the mark to market value. For derivative instruments with optionality, the Company relies on valuation reports of its counterparty banks, which are the Company's best estimates of the close-out value of the transactions.

Gains (losses) on derivative instruments represent the net mark-to-market (MTM) gains (losses) on derivative instruments. As of 31 December 2018, the MTM value of the derivatives of the Globe Group amounted to ₱2,051.7 million while net gain on derivative instruments arising from changes in MTM reflected in the consolidated income statements amounted to ₱1,004.2 million.

To measure riskiness, the Company provides a sensitivity analysis of its profit and loss from financial instruments resulting from movements in foreign exchange and interest rates. The interest rate sensitivity estimates the changes to the following P&L items, given an indicated movement in interest rates: (1) interest income, (2) interest expense, (3) mark-to-market of derivative instruments. The foreign exchange sensitivity estimates the P&L impact of a change in the USD/PHP rate as it specifically pertains to the revaluation of the net unhedged liability position of the company, and foreign exchange derivatives.

**1. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:**

Contingencies

- (a) On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from P1.00 to P0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated. The respective motions for reconsideration filed by NTC and that of intervenor Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate were both denied.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated September 15, 2017.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6, 2017, requiring it to comment on said petition of Bayan Muna. Subsequently, on February 21, 2018, Globe received a copy of the SC's Resolution dated December 13, 2017 consolidating the Petitions for Review filed by Bayan Muna and NTC, and requiring Globe to file its comment on the petition for review filed by NTC. Thus, on April 2, 2018, Globe filed its Consolidated Comment on both Bayan Muna and the NTC's petitions for review. On September 18, 2018, Globe received a copy of Bayan Muna's Consolidated Reply to Globe's Consolidated Comment and Digitel and Smart's Comment.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims

currently.

- (b) On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the Cellular Mobile Telephone System (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

On January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

- (c) (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the SC.

(2) In a case filed by BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds.

The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

- (d) In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. I6-002 (MC No. I6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to

Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the SC a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the SC did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the SC en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the SC en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the CA, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

## 2. Causes of any material change from period to period: 2018 vs. 2017

### Assets

#### **Current**

- Cash and cash equivalents – Increase of ₱12.0B in cash is largely due to higher amount of cash generated from operations and lower cash used in investing activities. This was slightly offset by net cash used in financing activities versus 2017.
- A**
- Receivable – Decline of ₱2.8B is due to higher collections as well as higher write-offs for the period
- B**
- Allowance for Doubtful Accounts – Increase of ₱3.4B is largely due to a write-off in the first half of 2018.
- C**
- Traffic Settlement Receivable – Slight increase of ₱50M is from higher net local, foreign, and MVNO traffic, slightly offset by data and roaming traffic.
- D**
- Other Receivables – Lower by ₱226M, largely from the impact of PFRS 15 to the company's unbilled handset recovery program, slightly offset by an increase in corporate partners for AMAX load.
- E**
- Allowance for Doubtful Accounts (Traffic and others) – Slight decrease is from net reversals of traffic provisions.
- F**
- Contract Assets and deferred contract costs – Due to the implementation of PFRS 15, the company now recognizes contract assets representing the unbilled amounts allocated to handset sales. The company also recognized deferred contract costs after capitalizing certain costs that are incremental in obtaining and fulfilling its performance obligations.
- G**
- Prepayments and Other Current Assets – The ₱64M increase mostly due to prepayments for taxes and licenses, partly offset by application of previous year's advance payments for completed network projects.
- H**
- Inventories and Supplies – Increase of ₱1.6B is attributable to higher inventory purchases for the fixed line business as well as higher purchases of mobile handsets
- I**

#### **Noncurrent**

- Fixed Assets – Increase of ₱6.8B is largely due to the addition and acquisition of various telecom equipment, as well as building and leasehold improvements within the year. Innove's various asset capitalization for completed projects also contributed to the increase.
- J**
- Intangible Assets – Decrease of ₱1.0B is from normal amortization of various computer software and licenses, offset by a few direct acquisitions of the same.
- K**
- Investment in Joint Venture and Associates – Decline of ₱1.2B is due to increased share in net losses from Mynt and AFPI, slightly offset by additional contributions and funding for AFPI and Vega.
- L**
- Goodwill – Decrease of ₱143M is from provisions for expected subsidiary losses.
- M**
- Other Investments – Increase of ₱242M is from KVI's valuation and purchase of AFS investments
- N**
- Deferred Tax Asset – Decline of ₱687M is mostly from Innove's higher allowance for doubtful accounts and derecognition of certain deferred tax assets.
- O**
- Derivative Assets – ₱1.4B increase is attributable to higher MTM value gains.
- P**
- Misc. Deposits and Others – Slight increase of ₱45M is from rental deposits as well as additional notes receivable from Mynt, offset by loan collections from GGRP.
- Q**

## **Liabilities**

### ***Current***

- R** Trade Payables – Decline of ₱961M is from higher settlements to local and foreign suppliers.
- S** Traffic Settlement Payable – Slight higher by ₱28M due to increased net payable for foreign, local and data traffics, partly offset by roaming and MVNO traffic.
- T** Other Creditors – Decrease of ₱647M is attributable to net settlements to various VAS providers.
- U** Taxes Payable – Declined by ₱644M from lower VAT and overseas communications tax
- V** Income Taxes Payable – Increase of ₱428M is due to higher net provisions versus last year, mostly for Innove.
- W** Provisions – The ₱659M increase is largely driven by payments of assumed liabilities to Vega and the deconsolidation of Mynt, countered by real property taxes and national taxes.
- X** Accrued Expenses – The ₱2.6B increase is attributable to higher accrual of corporate incentives, lease and maintenance charges, taxes and license fees, and contractual services.
- Y** Accrued Interest on Loans – Increase of ₱224M is due to higher interest accruals from existing and new loans versus payments.
- Z** Accrued Project Cost – Decrease of ₱6.6B is attributable to payments made for various completed projects
- AA** Derivative Liabilities – Increase of ₱95M is due to the decreasing value of MTM of swaps and cash flow hedges.
- AB** Contract Liabilities and Deferred Revenue – Increase of ₱2.5B is attributable to higher contingent liability for rewards, higher prepaid top-ups, and higher advanced MSF for postpaid accounts.
- AC** Dividends Payable – Pertains to dividends declared on December 2018 for preferred non - voting shares to be paid in January 2019.
- AD** Current Portion of Long Term Debt-Bank – Increase in bank debt was due to availment of loans from various banks in 2018.

### ***Noncurrent***

- AE** Net Deferred Tax Liability – Bulk of the ₱1.2B increase is due to higher depreciation in 2018 and net write offs of accounts receivables adding to Globe's net deferred tax liability.
- AF** Long Term Debt (Bank) – Increase in bank debt was due to availment of loans from various banks in 2018.
- AG** Other Long-term Liabilities – Decrease of ₱559M is attributable to payments made for the pension accrual of retirement funds.

- 3. Description of material commitments and general purpose of such commitments. Material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period.**

For details on material commitments and arrangements, see Notes 29 in the attached Notes to the Financial Statements.

- 4. Seasonal Aspects that have a material effect on the FS**

No seasonal aspects that have a material effect on the financial statements.

## For The Financial Year Ended 2017

### GROUP FINANCIAL HIGHLIGHTS

| Results of Operations (Php Mn)     | Globe Group    |                |                   |
|------------------------------------|----------------|----------------|-------------------|
|                                    | Year on Year   |                |                   |
|                                    | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| <b>Operating Revenues</b>          | <b>135,281</b> | <b>126,782</b> | <b>7%</b>         |
| Service Revenues*                  | 127,906        | 120,588        | 6%                |
| <i>Mobile**</i>                    | 98,483         | 92,255         | 7%                |
| <i>Home Broadband***</i>           | 15,645         | 14,680         | 7%                |
| <i>Corporate Data</i>              | 10,288         | 9,873          | 4%                |
| <i>Fixed line Voice</i>            | 3,490          | 3,780          | -8%               |
| Non-Service Revenues               | 7,375          | 6,194          | 19%               |
| <b>Costs and Expenses</b>          | <b>81,955</b>  | <b>76,804</b>  | <b>7%</b>         |
| Cost of Sales                      | 13,014         | 11,914         | 9%                |
| Operating Expenses*                | 68,941         | 64,890         | 6%                |
| <b>EBITDA</b>                      | <b>53,326</b>  | <b>49,978</b>  | <b>7%</b>         |
| <b>EBITDA Margin</b>               | <b>42%</b>     | <b>41%</b>     |                   |
| <b>Depreciation</b>                | <b>27,513</b>  | <b>23,849</b>  | <b>15%</b>        |
| <b>EBIT</b>                        | <b>25,813</b>  | <b>26,129</b>  | <b>-1%</b>        |
| <b>EBIT Margin</b>                 | <b>20%</b>     | <b>22%</b>     |                   |
| <b>Non-Operating Charges</b>       | <b>4,271</b>   | <b>4,192</b>   | <b>2%</b>         |
| <b>Net Income After Tax (NIAT)</b> | <b>15,084</b>  | <b>15,888</b>  | <b>-5%</b>        |
| <b>Core Net Income</b>             | <b>13,546</b>  | <b>16,014</b>  | <b>-15%</b>       |

\*Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

\*\*Mobile business includes mobile and fully mobile broadband

\*\*\*Home Broadband includes fixed wireless and wired broadband

- Full year consolidated service revenues reached ₱127.9 billion in 2017 from ₱120.6 billion last year due to the increasing popularity of Globe's data-related product and services across all business segments. Mobile revenues were up 7% to ₱98.5 billion from last year's ₱92.3 billion, coming mostly from Globe Prepaid (+11%), and the Company's mass market brand TM (+8%), due to increased data consumption and improved top-ups despite lower cumulative customer base. Home broadband and corporate data likewise, sustained their growth momentum, posting a 7% and 4% increase from a year ago respectively, due to the strong subscriber growth and increasing demand for faster data connectivity and corporate internet solutions.
- Total operating expenses and subsidy increased by 6% year-on-year to ₱74.6 billion from ₱70.6 billion a year ago. This was mainly driven by increases across all expense line items (except for subsidy, interconnect costs and marketing expenses) to support Globe's aggressive data network expansion and overall service enhancements.
- Globe's consolidated EBITDA reached ₱53.3 billion, surpassing last year's level of ₱50.0 billion, due mainly to the strong topline. EBITDA margin for 2017 was at 42%, higher versus last year's margin of 41%, as the overall revenue gains fully covered for the increase in expenses
- Total depreciation expenses posted a 15% increase to ₱27.5 billion from the ₱23.8 billion reported in 2016, given the depreciation costs of incremental asset builds related to Globe's 2016 and 2017 capital expenditure programs.
- Overall, total operating costs including depreciation charges rose to ₱102.1 billion or 8% higher than the ₱94.5 billion reported in 2016.

- Non-operating charges increased year-on-year by 2% to ₱4.3 billion in 2017 from the ₱4.2 billion reported a year ago, mainly on higher interest expenses and spectrum amortization related to the SMC telco asset acquisition booked during the period. This however, was partly cushioned by the one-time gain booked last September, related to the fair value of retained equity interest of Globe in Globe Fintech Innovations, Inc. (GFI/Mynt). In addition, increase in interest expense as of end December 2017 was due to this year's higher interest expense on higher loan balance.
- The Globe Group closed the year with consolidated net income of ₱15.1 billion, down 5% from previous year's ₱15.9 billion due mainly to higher depreciation expenses and increased non-operating charges booked during the year, as we recognized the full year impact of the additional costs related to the SMC telco asset acquisition.
- Globe's core net income, which excludes the impact of non-recurring charges, one-time gain, foreign exchange gains and mark-to-market charges, stood at ₱13.5 billion, down by 15% year-on-year.
- As of end-December 2017, total cash capital expenditures stood at about ₱42.5 billion (approximately \$844 million), 16% higher than last year's level of ₱36.7 billion. The increase in capital expenditures was partially driven by the delay in capex cash flows in the latter part of 2016, which spilled into 2017 coupled with the Company's continued aggressive network expansion. To date, Globe has a total of 37,517 base stations, with over 24,700 for 4G, to support the service requirements of its customers.

## GROUP OPERATING REVENUES BY SEGMENT

| Operating Revenues<br>By Business (Php Mn)  | Globe Group    |                |                   |
|---------------------------------------------|----------------|----------------|-------------------|
|                                             | Year on Year   |                |                   |
|                                             | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| <b>Mobile<sup>1</sup></b>                   | <b>105,586</b> | <b>97,925</b>  | <b>8%</b>         |
| Service Revenues*                           | 98,483         | 92,255         | 7%                |
| Non-Service Revenues                        | 7,103          | 5,670          | 25%               |
| <b>Fixed Line and Broadband<sup>2</sup></b> | <b>29,695</b>  | <b>28,857</b>  | <b>3%</b>         |
| Service Revenues*                           | 29,423         | 28,333         | 4%                |
| Non-Service Revenues                        | 272            | 524            | -48%              |
| <b>Total Operating Revenues</b>             | <b>135,281</b> | <b>126,782</b> | <b>7%</b>         |

\*Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

<sup>1</sup>Mobile business includes mobile and fully mobile broadband.

<sup>2</sup>Home broadband includes fixed wireless and wired broadband; Fixed Line and Home Broadband includes corporate data, fixed line voice, and home broadband.

The Globe Group ended the year with total operating revenues of ₱135.3 billion, up 7% from close to ₱126.8 billion recorded last year. This was driven by robust service revenue growth, which was up 6% year-on-year to reach ₱127.9 billion from ₱120.6 billion a year ago

Mobile service revenues, which accounted for 77% of Globe's consolidated service revenues for the year just ended, rose to ₱98.5 billion, up a robust 7% from last year's level of ₱92.3 billion, due to the continued strong revenue contributions from mobile data (+23%) as partly offset by the decline in traditional voice.

Globe Group's fixed line and home broadband revenues posted a 4% increase year-on-year from ₱28.3 billion in 2016 to ₱29.4 billion in 2017. The growth was driven by solid contributions of both home broadband and corporate data segments.

Mobile non-service revenues increased year-on-year by 25%. Fixed line and home broadband non-service revenues, on the other hand dipped by 48% compared from a year ago.

## **MOBILE BUSINESS**

| Mobile Service Revenues (Php Mn) | For the Year Ended |                |                      |
|----------------------------------|--------------------|----------------|----------------------|
|                                  | 31-Dec<br>2017     | 31-Dec<br>2016 | YoY<br>Change<br>(%) |
| Service                          |                    |                |                      |
| Mobile Voice <sup>1</sup>        | 32,275             | 34,065         | -5%                  |
| Mobile SMS <sup>2</sup>          | 23,149             | 23,199         | -                    |
| Mobile Data <sup>3</sup>         | 43,059             | 34,991         | 23%                  |
| <b>Mobile Service Revenues</b>   | <b>98,483</b>      | <b>92,255</b>  | <b>7%</b>            |

<sup>1</sup> Mobile voice service revenues include the following:

- Prorated monthly service fees on consumable minutes of postpaid plans;
- Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
- Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
- Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
- Mobile service revenues of GTI.

Revenues from (a) to (e) are reduced by any payouts to content providers.

<sup>2</sup> Mobile SMS revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

<sup>3</sup> Mobile Data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses. Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison.

### **Mobile Voice**

Mobile voice revenues, which accounted for 33% of total mobile service revenues, declined by 5% to only ₱32.3 billion in 2017 from ₱34.1 billion in 2016. Consistent with global trends, voice revenues remain challenged given the migration of voice traffic to alternative internet-based applications, such as Viber, Facebook, Skype, and Whatsapp, among others.

The Company continues to provide attractive and affordable bulk voice offers such as Tawag 236\* for 20-minute consumable calls for only ₱20 for Globe Postpaid and Globe Prepaid subscribers by simply replacing the 0 at the start of the number with 236 (dial 236 + 10-digit Globe number). Super Sakto Calls\* on the other hand, provides for calls to Globe and TM numbers for only ₱0.15 per second by just replacing the zero at the beginning of the Globe or TM number with 232 (dial 232 + 10-digit Globe number) for the special rate to apply. Super Sakto Calls is available all day and night, from Monday to Sunday, to Globe Postpaid and Prepaid subscribers. Likewise, GoCall100 provides Globe Prepaid subscribers 500 minutes of on-net calls to Globe/TM for only ₱100 for 7 days. Meanwhile, TM subscribers may choose UnliTawag15 which gives its subscribers unlimited calls to all Globe and TM

\* With at least ₱7.50 load requirement

subscribers for as low as ₱15 valid for 1 day. Through the Extend all-you-can promo, TM subscribers can extend for another 24 hours their favorite TM promo for only ₱5 up to 365 times by simply texting “EXTEND” to 8888 before their current promo expires.

Meanwhile, for Filipinos who wish to stay connected with their loved ones abroad, Globe continues to offer its pioneering per-second charging for international voice calls, IDD Sakto Calls for both Globe Postpaid and Globe Prepaid subscribers. Globe Prepaid’s GoTipIDD service remains to be the lowest per-minute IDD rates in the market (Go tipIDD30 for as low as Php2.50 per minute valid for three (3) days; Go tipIDD50 valid for seven (7) days; Go tipIDD100 valid for 15 days). Also, TM customers may opt to subscribe to TM TipIDD30 which offer four (4) minutes of international calls to Saudi, UAE, Kuwait, Bahrain, Italy, UK, Australia and Japan for only ₱30 a day. In addition, Globe also provides unlimited calls to 49 countries for as low as Php99 to select destinations worldwide with Globe’s Unli IDD. Unli IDD99 provides for one day unlimited calls to three (3) unique international numbers for only Php99; Unli IDD499 for unlimited calls to 5 unique international numbers for 7 days and Unli IDD 999 for unlimited calls to 10 unique international numbers for 30 days. In addition, Globe also provides a bucket IDD service to popular and selected overseas destinations with Go IDD. Globe Prepaid customers can make IDD calls for as low as ₱1.50 per minute to U.S. Mainland, Canada, China, Hawaii, Hong Kong, Singapore, and Thailand for only ₱200, valid for 30 day. Meanwhile for TM subscribers, GoCallIDD30 provides for a ₱5 per minute rate for calls to the Middle East and Europe and as low as ₱2.50 per minute for calls to North America and Asia for only ₱30 valid for 7 days.

In addition, Filipinos or OFWs abroad can likewise spend more talk time with their loved ones in the Philippines with Globe Duo International. It is a subscription service that assigns a virtual international number to a registered Globe Prepaid, Postpaid or TM mobile number. This service allows their friends and family members from abroad to call that virtual number, giving them a ‘local’ calling experience, which is more affordable compared to the standard IDD call rates to the Philippines. DUO International number is designed to receive incoming calls only. This service is currently available in 24 countries including USA, Canada, UK, Japan, Korea, Spain, Malaysia, Australia, Hong Kong, New Zealand, Israel, Norway, Sweden, Denmark, South Africa, Portugal, Finland, Italy, Greece, Netherlands, Switzerland, Austria, Ireland and Belgium. Promo packages from 7-days up to 180-days subscription are available for all Globe Postpaid/Prepaid and TM subscribers in the Philippines. Filipinos abroad may also avail of the promo by registering the Globe Postpaid/Prepaid or TM mobile numbers of their family members in the Philippines via website: [duo.globe.com.ph](http://duo.globe.com.ph). In addition, subscription to any Globe Duo-USA variant of all U.S. based customers from March 1, 2017 to February 28, 2018 entitles them to join the “Globe Duo Fly PAL for Free raffle promo”. One round trip ticket will be given away quarterly. Four lucky winners may choose from any of the following routes: New York (JFK) – Manila – New York; San Francisco (SFO) – Manila – San Francisco; Los Angeles (LAX) – Manila – Los Angeles; Hawaii (HNL) – Manila – Hawaii.

The Company also provides its subscribers with the best possible mix of voice, SMS, and mobile browsing services through its combo packages. For Globe Prepaid, subscribers have the choice to avail of Go AllNet or GoUnli promos. Go AllNet promos provide unlimited SMS to all networks, plus calls to Globe/TM and calls to all networks and consumable mobile browsing. Go All-Net promotions include GoAllNet25 which gives its subscribers unlimited texts to all networks, 75 mins of calls to Globe/TM, 5 mins of calls to all networks and 5MB Facebook for ₱25 good for 1 day. Also available are GoAllNet70, GoAllNet200, GoAllNet300, and GoAllNet500 for all-net offers valid for 3, 7, 15 and 30 days, respectively. Meanwhile, GoUnli promos include GoUnli20 which gives its customers unli texts to All networks, unli calls to Globe/TM, 20 MB mobile internet valid for 1 day for only ₱20; GoUnli25 for unli calls to Globe/TM, unli texts to all networks, free FB plus one (1) app of choice valid for 1 day for ₱25; GoUnli30 for unli texts to All networks, unli calls to Globe/TM, 30 MB mobile internet valid for 2 days for ₱30; and GoUnli150 for unli calls to Globe/TM, unli texts to all networks, 50 MB mobile internet valid for 3 days for only ₱50. Globe customers can also subscribe to SuperAllTxtPlus20 which provides 250 local texts to All networks, plus 10 minutes voice calls (Globe/TM) for one day. In addition, Globe Prepaid subscribers also have the option to subscribe to Go19, whereby subscribers can send unlimited texts to all networks, make 20 minutes of calls to Globe/TM, and surf up to 15MB for only ₱19 valid for 1 day. Also available are ATxtPlus20, which allows 10 minutes calls to Globe/TM, 250 texts to all networks, valid for 1 day for only ₱20; and UAllPlus25 for unli calls to Globe/TM, unli texts to Globe/TM and one (1) hour mobile internet valid for 1 day for ₱25 only. For TM on the other hand, subscribers can choose from a wide array of promo offers which will best fit their budget and lifestyle. TM subscribers may avail of ComboAll10 which provides for unlimited calls & texts to TM/Globe plus 50 texts to all networks for only ₱10 a day or may opt to subscribe to longer validity period -- ComboAll15

valid for 2 days for ₱15 and ComboAll20 valid for 3 days ₱20. CU10 was likewise introduced to the market which offers unli calls to TM/Globe plus 100 all-net texts for 2 days for only ₱10. Combo15 which provides for unlimited all-network texts plus 60 minutes calls TM/Globe valid for 3 days for only ₱15 or choose to subscribe to Combo20 valid for 4 days for ₱20. Through the Extend all-you-can promo all TM subscribers have the option to extend all TM call and text promos up to 365 times by simply texting "EXTEND" to 8888 before their current promo expires. In the first quarter of 2017, Globe introduced All-Net call promos. Globe Prepaid customers may avail of GoCall50 which gives 50 minutes of calls to any network valid for three (3) days. TM customers may add ₱5 to any existing calls and text promo for 5 minutes of calls to any network, good for one (1) day. Meanwhile, Postpaid customers with Plan 2499 and up may choose to avail of a ₱299 tack-on that will give them 300-minute calls to all networks. In the first quarter of 2017, Globe launched the all-net call promos for as low as ₱1/minute as a result of lowered voice interconnect access charges across telcos. Under the Company's latest all-net promos, postpaid customers with Plan 2499 and up may choose to avail of a ₱299 tack-on that will give them 300-minute calls to all networks. On the other hand, Globe Prepaid subscribers may avail of GoCall50 which gives 50 minutes of calls to all networks, good for 3 days; TM customers may add ₱5 to any existing call and text promo for 5 minutes of calls to any network, good for 1 day.

### **Mobile SMS**

Mobile SMS revenues, which accounted for 24% of total mobile service revenues, closed the year at ₱23.2 billion, relatively flat against the same period last year.

Globe showcases a comprehensive line up of mobile SMS value offers ranging from unlimited and bucket text services. Globe continues to provide its prepaid subscribers with all-day unlimited on-net SMS with UnliTxt promos: UnliTxt20 valid for 1 day for ₱20; UnliTxt40 valid for 2 days for ₱40 and UnliTxt80 valid for 5 days for ₱80. GoUnlitxt49 was also made available in the market which offers its subscribers unlimited on-net texts to Globe/TM for only ₱49 valid for 7 days. For budget conscious customers, SuliTxt15 provides its subscribers with 100 text messages to Globe/TM for one day. With the use of the GoSakto, Globe Prepaid subscribers can create a promo exactly how they want it based on their lifestyle and budget.

With TM's continued dedication of giving its subscribers wonderful and value-for-money offers, TM customers can get to choose from wide array of promo offers ranging from bucket or unlimited SMS. With SuliTxt5, TM subscribers can send 25 texts to TM/Globe, valid for 1 day for only ₱5. UnliAllNet10 which provides its subscribers with unlimited texts to all networks for ₱10 a day or subscribe to Txt10 for unlimited text to TM/Globe, valid for 2 days. Also available is AstigTxt30 which gives TM subscribers 5 days of unlimited text to TM/Globe for ₱30. Dagdagtxt was likewise introduced to the market which provides additional 100 all-network texts as an add-on to an UnliCall promo for only ₱5 a day. Moreover, TM subscribers can also enjoy unlimited one day text to TM/Globe as an add-on to their UnliTawag15 subscription for just minimal price of ₱5.

Meanwhile, for Filipinos who wish to send messages to their family and friends abroad, Globe continues to offer iTxtAll30, for 100 SMS to over 40 countries and all networks in the Philippines for only ₱30 a day. Also available is Unli iSMS USA299 for unlimited texts to the US Mainland\* valid for 30 days and Unli IDD and iSMS USA599 for unlimited calls and texts to the US Mainland\* valid for 30 days. (\*Excluding Alaska, Guam, Hawaii, American Samoa, Northern Mariana Islands, Puerto Rico and U.S. Virgin Islands).

### **Mobile Data**

#### ***Mobile Browsing, Internet-on-the-Go, and Other Data***

Mobile data, the biggest contributor to mobile business, accounted for 44% of total mobile service revenues (vs. 38% in 2016). As of end-December 2017 mobile data revenues stood at ₱43.1 billion, up a robust 23% from ₱35.0 billion a year ago. The sustained growth momentum in mobile data revenues was driven by rising consumption on streaming and on demand video content and the growing smartphone penetration. Data traffic likewise continue to increase year-on-year boosted by the enhanced network experience from our improved 3G, HSPA+ and LTE networks. On a

normalized basis<sup>1</sup>, mobile data revenues would have grown by 30% against the same period last year.

Over the years, Globe has pioneered efforts in introducing product and services that cater to the customer's digital preferences, enabling Globe to be the preferred brand for Filipinos' digital lifestyle choices. This was done through collaborative partnerships with global giants in the world of content. The Company partnered with internet giant Google to provide free access to Google mobile services and to provide its subscribers the ability to charge purchases of applications to their postpaid bill or prepaid load, bypassing the need for credit cards and enhancing the convenience for Globe and TM customers. Likewise, the Company was able to tailor-make lifestyle packages for all its subscribers to meet their social networking needs and crowd-sourced content (via *Facebook* and *Wattpad*), chatting and digital communication (*Viber*), music (*Spotify*), sports (*NBA*) and media (*HOOQ* and *Walt Disney*). *Piso Video* was also made available to provide Globe and TM subscribers' access to videos on their cellphones for as low as ₱1 per video. Moreover, Globe continues its drive to position the Philippines as the Digital Capital of the World as it expanded its line-up of content partners with its new international partnerships with *Netflix*, *Disney*, *Sports Illustrated*, *Astro*, *Turner* and *Smule*.

Globe's mobile browsing services include the consumable mobile internet plan "GoSurf" which gives its subscribers bulk megabytes of mobile data consumable per kilobyte for as low as ₱10/day. *Globe Postpaid*, *Prepaid* and *TM* subscribers can choose from a variety of *GoSurf* consumable data plans ranging from ₱10 for 40 MB for a day to ₱2,499 for 20 GB per month. With every *GoSurf* data plan, subscribers can get free access to *Spotify*<sup>2</sup>. Subscribers who register to *GoSurf99* and below get free music streaming on *Spotify Basic*, while those who register to *GoSurf299* and above get free music streaming on *Spotify Premium* or *HOOQ*<sup>3</sup> with free access to *YouTube* and *Dailymotion*. All *GoSurf* plans are automatically bundled with the "Globe No Bill Shock Guarantee", so subscribers who exceed their monthly MB allocations will never pay more than ₱1,500 for *GoSurf* plans 99 to 999 and ₱3,000 for *GoSurf* plans 1799 and 2499. In addition, game bundles were likewise introduced to the market which give *Globe Prepaid* customers all-day access to their favorite mobile games and live the thrill of fighting clans, summoning spells, assembling a team of super heroes with *Clash Royal*, *Clash of Clans*, *Candy Crush* and more for a minimum cost of ₱15/day for 100MB data allocation to a maximum of ₱99 for 30 days for 300MB data allocation. In the second quarter of 2017, Globe introduced yet another game-changing offer that will transform the way people enjoy and consume video content on mobile with the launch of *GoWatch*. This promo allows subscribers to get as much as 2GB for video streaming per day starting at ₱29 as an add-on to any *GoSurf* promo starting with *GoSurf50*. *GoWatch* allows its users to watch hours of content without worrying about using up their data allowance through a separate data allocation dedicated for streaming on popular platforms: *Netflix*, *YouTube*, *Tribe*, *HOOQ*, *NBA*, *Cartoon Network*, and *Disney Channel Apps*. For bigger data options and longer validity, Globe customers may also avail *GoWatch99* to get 2.5GB for three days at ₱99 or *GoWatch399* for 10GB valid for 30 days at ₱399, as an add-on to *GoSurf299* and up. Furthermore, the "Share-A-Promo" allows its users to share *GoSurf* promos to their relatives and friends. The promo can be sent to any mobile phone, tablet, or Tattoo mobile Wi-Fi. *Share-A-Promo* is open to all Globe (*Postpaid*, *Prepaid*, *Tattoo*, and *TM*) subscribers. Likewise *TM*, introduced *Net2* which gives *TM* subscribers an option to add mobile internet on top of any *TM* promo subscription for just a minimal fee of ₱2. *Net2* gives its users 20MB for *Youtube* streaming or 10MB for *CoC*, *Google*, *Twitter*, *Instagram*, or *WeChat* for one whole day. *TM* subscribers may also opt to subscribe for ₱5 for 20MB for *Youtube* streaming, *CoC*, *Google*, *Twitter* valid for two (2) days. *TM* customers can also have free access to *JOFOM* as long as they are registered to any *TM* promos. *JOFOM* is a blue collar mobile app launched by jobstreet giving access to more than 5,000 local jobs for high-school and vocational course graduates. *JOFOM* can be downloaded via internet.org and Google Play or via the website ([www.jofom.com](http://www.jofom.com)).

Meanwhile, unlimited chat offers (*UnliChat25* valid for 1 day and *UnliChat299* valid for 30 days) *GMESSAGE*, *Viber*, *FB Messenger*, *KakaoTalk*, *WeChat*, *WhatsApp*, and *LINE* even without a WiFi connection are also available for *Globe Prepaid* subscribers. *Globe Prepaid* or *TM* customers may also opt to avail of site bundles to enjoy 24-hour unlimited access to various websites of their choice

<sup>1</sup> Normalized view reflects the true growth of the mobile data business. The Free Facebook offer, which Globe began to bundle in the lower denominated prepaid promos in 2015 and subsequently ended in June 2016 for *TM* and May 2017 for *Globe Prepaid*, mutes the performance of the mobile data business due to the application of certain accounting standards on bundled promotions.

<sup>2</sup> *Spotify* is a music streaming service that you can listen to anywhere and anytime. You can also create and share your playlists to your friends and better yet follow your favorite artists and listen to their playlists as well.

<sup>3</sup> *HOOQ* is an online video-on-demand service that provides access to over 10,000 foreign and local movies and TV shows that can be watched on PCs, tablets, and smartphones connected to the internet.

for only ₱20 per day. In addition to these, the Company introduced the *ChatPlus*, an all-in-one bundle that not only gives customers access to their favorite messaging apps but to a generous amount of IDD minutes to the US Mainland and Canada for as low as ₱25 per day. Customers can enjoy free access to messaging apps (such as *Messenger*, *Viber*, *WhatsApp*, *Google Messenger*, *Kakao Talk*, *WeChat*, and *LINE*) plus 15 IDD minutes for calls from the Philippines to the US Mainland and Canada. For those opting for a longer subscription and more free IDD minutes, there is also the *ChatPlus 299*, valid for 30 days with 60 IDD minutes. Likewise, the Company continued to offer *Globe Prepaid Roam Surf*, a flat rate offer for unlimited data roaming service to its prepaid customers. This offer allows prepaid customers to access the internet abroad for an entire 24-hour cycle, making their data connectivity experience more seamless and worry-free. *Roam Surf* for *Globe Prepaid* is available in three variants, ₱599 for 24 hours, ₱1,797 for 3 full days and ₱2,995 for 5 full days.

In the third quarter of 2017, Globe continues to rollout more *GoWiFi*<sup>1</sup> hotspots, as part of the network's goal to elevate the state of internet connectivity in the country. This developed as Globe partnered with the Department of Information and Communications Technology (DICT) for the EDSA WiFi project which aims to provide high-speed internet connectivity throughout the 24-kilometer stretch of EDSA. DICT is targeting to reach over 13,000 public places across 145 cities and 1,489 municipalities nationwide. *GoWiFi*, has now surpassed 10,000 access points in major malls, coffee chains, convenience stores, transport hubs, schools, hospitals, and many other locations across the country. Meanwhile the *GoWiFi Auto*, is an affordable paid service for customers to continue browsing once their daily allowance of free WiFi minutes is fully consumed. *GoWiFi Auto* allows customers who have purchased a package to automatically connect to the *GoWiFi Auto* network without having to login again even when transferring between multiple locations. Customers can enjoy fast uninterrupted browsing, no ads, no timeouts, and no need to remember username and passwords. To enjoy *GoWiFi Auto*, customers simply connect to the *@GoWiFi\_Auto* network, wait for the *GoWiFi Auto* portal to pop up (or open the browser) and sign up with a mobile number. *GoWiFi Auto*'s affordable plans start at ₱15/day for 500 MB. Larger plans, specifically a ₱50 plan offering 1.5 GB of data for 3 days and a ₱99 plan, also with 1.5 GB of data, but valid for 30 days, are also available.

In the fourth quarter of the year, through the partnership and collaboration of Globe Telecom and SM Supermalls, mall goers will now be able to experience quality connectivity with *GoWiFi Auto*. This premium *GoWiFi* service allows customers to surf all day in 34 selected SM malls nationwide.

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<sup>1</sup> *GoWiFi* is Globe Telecom's premium public WiFi service

The key drivers for the mobile business are set out in the table below:

|                                                                    | For the Year Ended |                   |                      |
|--------------------------------------------------------------------|--------------------|-------------------|----------------------|
|                                                                    | 31-Dec<br>2017     | 31-Dec<br>2016    | YoY<br>Change<br>(%) |
| <b>Cumulative Subscribers (or SIMs) Net (End of period)* .....</b> | <b>60,686,155</b>  | <b>62,798,858</b> | <b>-3%</b>           |
| <i>Globe Postpaid .....</i>                                        | 2,484,788          | 2,489,719         | -                    |
| <i>Prepaid .....</i>                                               | 58,201,367         | 60,309,139        | -3%                  |
| <i>Globe Prepaid .....</i>                                         | 27,909,102         | 28,433,793        | -2%                  |
| <i>TM .....</i>                                                    | 30,292,265         | 31,875,346        | -5%                  |
| <b>Net Subscriber (or SIM) Additions.....</b>                      | <b>(2,112,703)</b> | <b>6,616,180</b>  | <b>-132%</b>         |
| <i>Globe Postpaid .....</i>                                        | (4,931)            | (107,308)         | -95%                 |
| <i>Prepaid .....</i>                                               | (2,107,772)        | 6,723,488         | -131%                |
| <i>Globe Prepaid .....</i>                                         | (524,691)          | 2,518,697         | -121%                |
| <i>TM .....</i>                                                    | (1,583,081)        | 4,204,791         | -138%                |
| <b><u>Average Revenue Per Subscriber (ARPU)</u></b>                |                    |                   |                      |
| <b>ARPU<sup>1</sup></b>                                            |                    |                   |                      |
| <i>Globe Postpaid .....</i>                                        | 1,173              | 1,132             | 4%                   |
| <i>Prepaid</i>                                                     |                    |                   |                      |
| <i>Globe Prepaid.....</i>                                          | 115                | 108               | 6%                   |
| <i>TM.....</i>                                                     | 66                 | 63                | 5%                   |
| <b><u>Subscriber Acquisition Cost (SAC)<sup>2</sup></u></b>        |                    |                   |                      |
| <i>Globe Postpaid.....</i>                                         | 8,824              | 7,452             | 18%                  |
| <i>Prepaid</i>                                                     |                    |                   |                      |
| <i>Globe Prepaid.....</i>                                          | 33                 | 33                | -                    |
| <i>TM.....</i>                                                     | 13                 | 13                | -                    |
| <b><u>Average Monthly Churn Rate (%)</u></b>                       |                    |                   |                      |
| <i>Globe Postpaid.....</i>                                         | 2.5%               | 3.3%              |                      |
| <i>Prepaid</i>                                                     |                    |                   |                      |
| <i>Globe Prepaid.....</i>                                          | 7.7%               | 6.8%              |                      |
| <i>TM.....</i>                                                     | 8.0%               | 6.8%              |                      |

<sup>1</sup> ARPU is computed by dividing recurring gross service revenues (gross of interconnect expenses) segment by the average number of the segment's subscribers and then dividing the quotient by the number of months in the period.

<sup>2</sup> SAC for 2016 have been restated for purposes of comparison

\*Beginning the first quarter of 2017, the Company excluded in their reporting the prepaid subscribers who do not reload within 90 days of the second expiry period, versus the previous cut-off of 120 days

Globe closed the year with a total mobile subscriber base of 60.7 million, down 3% from 62.8 million subscribers last year. Due to the elevated level of prepaid churn rates (caused by the change in the basis for reporting subscribers<sup>3</sup>), this period showed a net reduction of 2.1 million subscribers versus the 6.6 million net incremental subscribers in the same period of 2016.

The succeeding sections cover the key segments and brands of the mobile business – *Globe Postpaid*, *Globe Prepaid* and *TM*.

## **Globe Postpaid**

As of the end of December 2017, *Globe Postpaid* had 2.5 million subscribers, which was relatively flat versus last year. *Globe Postpaid*'s gross acquisitions for the year just ended stood at 744,443 or 17% lower than last year. Total net reduction in postpaid subscribers as of end-December 2017 despite the improved churn rate (from 3.3% a year ago to only 2.5% this period), resulted from the slowdown in gross acquisitions.

*Globe Postpaid* expanded its smartphone line-up with the successful launch of the new *iPhone 8/ 8 Plus* and *iPhone X* last November 2017. Customers can avail of the newest generation of iPhone devices through *Globe Postpaid*'s "*ThePLAN*" which ranges from ₱599 to ₱2499 monthly which already come with unlimited texts and calls to Globe/TM, mobile data, and free 6 months access to content such as Netflix and Disney Channel Apps and free 3 months access to premium Spotify. The new *iPhone 8* may be availed via *ThePLAN* 1799 + ₱800 cash-out for 24 months (for a total of ₱2,599 monthly) or may opt to choose *iPhone 8 Plus* with *ThePLAN* 1799 + ₱1,050 cash-out for 24 months (for a total of ₱2,849 monthly). In addition, *iPhone X* may also be availed via *ThePlan* 1799 with an additional ₱1,600 cash out monthly (for a total of ₱3,399 monthly).

*Globe Postpaid* ARPU registered at ₱1,173, which increased by 4% from a year ago due to the continued retention efforts of quality subscribers.

*Globe Postpaid* subscriber acquisition cost (SAC) was 18% higher year-on-year to ₱8,824 from ₱7,452 from a year ago. *Globe Postpaid* SAC remains recoverable well within the 24-month contract of the postpaid plans.

## **Prepaid**

Globe's prepaid segment, which includes the *Globe Prepaid* and *TM* brands, accounts for 96% of its total mobile subscriber base. As of end-December 2017, cumulative prepaid subscribers stood at about 58.2 million, 3% lower than last year's level of 60.3 million.

The succeeding sections discuss the performance of the *Globe Prepaid* and *TM* brands in more detail.

### **a. Globe Prepaid**

*Globe Prepaid* gross acquisitions grew by 3% year-on-year from the 24.6 million gross additions in 2016. The year-on-year improvement in gross additions was driven by the brand's continued acquisition efforts and the strong take-up of value-for-money data bundles. Total net reduction in subscribers stood at 525 thousand as of end-December 2017 compared to the 2.5 million net incremental subs in 2016 due mainly to the increased churn rate (from 6.8% in 2016 to 7.7% in 2017). Total cumulative *Globe Prepaid* subscribers reached 27.9 million as of end December 2017, down 2% from a year ago. Increase in churn rate was due mainly to the shift in subscriber recognition in 2017, excluding those who do not reload within 90 days of the second expiry period.

*Globe Prepaid* ARPU was up year-on-year to reach ₱115 this period from ₱108 a year ago. *Globe Prepaid* SAC and *TM* SAC, however was flat year-on-year at ₱33. *Globe Prepaid* SAC remained recoverable within a month's ARPU.

### **b. TM**

*TM*'s gross acquisitions on the other hand, slightly declined year-on-year by 1%, reaching 28.1 million in 2017 from the previous year's 28.5 million. Due to the increased churn rates as of end-December 2017 (from 6.8% in 2016 to 8.0% this period), total net reduction in subscribers stood at 1.6 million this period compared to 4.2 million net incremental subs in 2016. *TM* cumulative subscriber base stood at 30.3 million subscribers at the end of December 2017, down 5% from the 31.9 million subscribers a year ago. Similar to *Globe Prepaid*, the increased churn this period was mainly due to the change in the basis for reporting subscribers (as stated above).

*TM* ARPU likewise followed the same trajectory as *Globe Prepaid*, ending the year with an ARPU of ₱66, up by 5% against 2016 and SAC of ₱13, flat versus a year ago.

## FIXED LINE AND BROADBAND BUSINESS

| Service Revenues (Php Mn)                               | Globe Group    |                |                   |
|---------------------------------------------------------|----------------|----------------|-------------------|
|                                                         | Year on Year   |                |                   |
|                                                         | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| Service                                                 |                |                |                   |
| Home Broadband <sup>1</sup>                             | 15,645         | 14,680         | 7%                |
| Corporate Data <sup>2</sup>                             | 10,288         | 9,873          | 4%                |
| Fixed line Voice <sup>3</sup>                           | 3,490          | 3,780          | -8%               |
| <b>Fixed Line &amp; Home Broadband Service Revenues</b> | <b>29,423</b>  | <b>28,333</b>  | <b>4%</b>         |

<sup>1</sup> Home broadband service revenues consist of the following:

- a) Monthly service fees of wired, fixed wireless, and bundled voice and data subscriptions;
- b) Browsing revenues from all postpaid and prepaid wired, fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
- c) Value-added services such as games; and
- d) Installation charges and other one-time fees associated with the service.
- e) Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

<sup>2</sup> Corporate data (previously called fixed line data) service revenues consist of the following:

- f) Monthly service fees from international and domestic leased lines;
- g) Other wholesale transport services;
- h) Revenues from value-added services; and
- i) One-time connection charges associated with the establishment of service.

<sup>3</sup> Fixed line voice service revenues consist of the following:

- f) Monthly service fees;
- g) Revenues from local, international and national long distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
- h) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
- i) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
- j) Installation charges and other one-time fees associated with the establishment of the service; and
- k) Revenues from DUO and SUPERDUO (Fixed line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

### Home Broadband

|                                              | Globe Group      |                  |                   |
|----------------------------------------------|------------------|------------------|-------------------|
|                                              | Year on Year     |                  |                   |
|                                              | 31-Dec<br>2017   | 31-Dec<br>2016   | YoY<br>Change (%) |
| <b>Cumulative Home Broadband Subscribers</b> |                  |                  |                   |
| Fixed Wireless                               | 655,441          | 520,117          | 26%               |
| Wired                                        | 645,720          | 610,633          | 6%                |
| <b>Total (end of period)</b>                 | <b>1,301,161</b> | <b>1,130,750</b> | <b>15%</b>        |

Globe Group's fixed line and home broadband revenues posted a 4% increase year-on-year from ₱28.3 billion in 2016 to ₱29.4 billion in 2017. The growth was driven by solid contributions of both home broadband and corporate data segments.

*Globe Home Broadband* posted 7% growth to reach ₱15.6 billion in the year just ended from ₱14.7 billion reported a year ago, as a result of sustained expansion of its customer base mainly from the growth in fixed wireless services (up 26% year-on-year). The revenue growth and customer uptake throughout the year was partially driven by the relevant and compelling new *Globe Home Broadband* bundles and packages. This was likewise supported by the higher subscriber base, rising to 1.3 million subscribers or 15% increase year-on-year.

In the last quarter of the year, Globe At Home has committed itself to transforming home entertainment from strict schedules to making primetime your time through its high-speed internet and partnerships with world class content partners. Through Globe At Home's partnership with FOX Networks Group, customers can experience a wider variety of content (latest Hollywood movies, TV shows, live sports and more) with Globe Streamwatch Roku Powered's collaboration with FOX+<sup>1</sup>. Customers now have access to FOX+ for 3 months using Globe Streamwatch Roku Powered device. Globe Streamwatch Roku Powered device can be availed by adding ₱50 for 24 months to a Globe At Home plan or a one-time payment of ₱999.

Globe At Home is bridging the gap between OFWs and their families as the Prepaid Home WiFi becomes finally available on *SarisariPH*<sup>2</sup>. Sending a *Globe Prepaid Home WiFi* along with other gift items through *SarisariPH* is easy: customers simply choose the items from over 170 brands for dining, shopping, health, leisure, and other services on the website. Then, they must fill out an order form, pay by credit card or pay cash via PayRemit outlets in key OFW cities abroad. The recipient will receive the eGift via SMS or email within a few minutes. Globe will contact eGift recipient within 24 hours upon receipt of eGift to confirm his/her preferred date and time of delivery.

### Corporate Data

The *corporate data* segment sustained its growth momentum, ending the year with ₱10.3 billion revenues, up 4% against the same period of 2016, fueled by strong demand for domestic and international leased line services, sustained circuit base expansion, and the increasing demand for cloud-based services, managed solutions.

### Fixed Line Voice

|                                                                        | Globe Group    |                |                   |
|------------------------------------------------------------------------|----------------|----------------|-------------------|
|                                                                        | Year on Year   |                |                   |
|                                                                        | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| <b>Cumulative Voice Subscribers – Net (End of period)</b> <sup>1</sup> | 1,399,057      | 1,237,973      | 13%               |

<sup>1</sup> Includes DUO and SuperDUO subscribers

Globe's total fixed line voice revenues on the other hand, declined year-on-year by 8%.

### OTHER GLOBE GROUP REVENUES

#### International Long Distance (ILD) Services

Both Globe and Innove offer ILD voice services which cover international call services between the Philippines to 236 destinations with 756 roaming partners. This service generates revenues from both inbound and outbound international call traffic, with pricing based on agreed international termination rates for inbound traffic revenues and NTC-approved ILD rates for outbound traffic revenues.

Globe's ILD voice revenues from the mobile and fixed line businesses declined year-on-year by 14% from ₱9.6 billion last year to ₱7.8 billion this period. This is attributed to the continued migration of international traffic through alternative channels that make use of internet-based applications (Viber, Skype, Line, Yahoo, etc.).

Meanwhile, Globe sustained its promotion on OFW SIM packs and the discounted call rate offers such as *IDD Sakto Calls* (per-second IDD), *Tip/IDD* card, and *IDD Tingi* – the first bulk IDD service which can be purchased via registration and through AMAX retailers nationwide.

<sup>1</sup> FOX+ is a video-streaming service in Asia promising an unrivalled combination of the latest TV series, first-run Hollywood blockbusters, hit Asian series and movies, live sports, thrilling documentaries and a big library of content all in one place in stunning high-definition.

<sup>2</sup> *SarisariPH*, an online gifting service made possible by Globe International Business, allows Filipinos from all over the world to send electronic gift certificates or eGifts to their family and friends in the Philippines.

In the fourth quarter of 2017, Globe and Abojeb, a leading maritime solutions services and manpower provider, have initiated a stronger collaboration as part of their shared common advocacy to support more than 400,000 Filipino Seafarers working globally and their families at home. To help seafarers stay connected with their families at home, easing loneliness and bridging the distance between their loved ones, Globe rolled out the Globe Seafarer SIM which offers special roaming rates for calling and texting. The Globe Seafarer SIM has unique features designed for seafarer needs to call home for as low as ₱30 per minute and ₱10 per text while abroad to Globe numbers. The SIM which is valid for one year has a pre-activated international roaming feature and comes with free five (5) international text credits to Globe/TM numbers every month for 12 months from over 50 destinations.

## GROUP OPERATING EXPENSES

Globe ended the year with total costs and expenses at ₱102.1 billion or 8% higher from ₱94.5 billion a year ago, bulk coming from depreciation, staff cost, repairs and maintenance and provisions. Higher network related expenses for the period was mainly to support the continued enhancement of Globe network's data capacities.

| (Php Mn)                                            | Globe Group    |                |                   |
|-----------------------------------------------------|----------------|----------------|-------------------|
|                                                     | Year on Year   |                |                   |
|                                                     | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| Cost of Sales                                       | 13,014         | 11,914         | 9%                |
| Less: Non-service Revenues                          | 7,375          | 6,194          | 19%               |
| <b>Subsidy</b>                                      | <b>5,639</b>   | <b>5,720</b>   | <b>-1%</b>        |
| Interconnect                                        | 7,852          | 9,623          | -18%              |
| Selling, Advertising and Promotions                 | 5,415          | 5,738          | -6%               |
| Re-contracting                                      | 3,594          | 3,569          | 1%                |
| Staff Costs                                         | 12,238         | 10,110         | 21%               |
| Utilities, Supplies & Other Administrative Expenses | 5,216          | 5,001          | 4%                |
| Rent                                                | 6,471          | 5,902          | 10%               |
| Repairs and Maintenance*                            | 7,823          | 6,326          | 24%               |
| Provisions                                          | 5,109          | 3,262          | 57%               |
| Services and Others                                 | 15,223         | 15,359         | -1%               |
| <b>Operating Expenses</b>                           | <b>68,941</b>  | <b>64,890</b>  | <b>6%</b>         |
| <b>Depreciation and Amortization</b>                | <b>27,513</b>  | <b>23,849</b>  | <b>15%</b>        |
| <b>Costs and Expenses</b>                           | <b>102,093</b> | <b>94,459</b>  | <b>8%</b>         |

\*Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

### Interconnect

Interconnect charges for the year declined by 18% to only ₱7.9 billion from the ₱9.6 billion in 2016, driven by the drop in interconnection rate to ₱2.50 coupled with lower inter-network traffic usages of domestic promo offers, outbound regular streams and outbound roaming.

### Subsidy

Subsidy expenses slightly declined by 1% from ₱5.7 billion reported a year ago due to the continued slow-down in Postpaid acquisitions and higher number of subscribers availing of line-only plans.

### Marketing

Accounting for 7% of total operating expenses and subsidy, selling, advertising, and promotion expenses declined by 6% to only ₱5.4 billion from ₱5.7 billion a year ago, driven mainly by lower online and media placements, TV airtime, sponsorships and merchandising materials as well as lower commissions.

### Re-contracting

Globe's re-contracting costs for the year slightly grew by 1% from the ₱3.6 billion posted last year. Re-contracting costs for the year accounted for 5% of total operating expenses and subsidy.

### Staff Costs

Staff costs increased by 21% to ₱12.2 billion in 2017 from ₱10.1 billion in 2016 mainly due to higher variable incentive pay related to 2016 payout and higher accrual for corporate incentives this year.

## **Utilities, Supplies and Other Administrative Expenses**

Utilities, supplies, and other administrative expenses, which contribute 7% of total operating expenses and subsidy, also reported an increase of 4%, totaling ₱5.2 billion from the ₱5.0 billion reported in 2016. The increase was mainly driven by utilities, on higher electricity charges due to the 12% increase in rate (from LY's ₱8.29 kwh), coupled with incremental sites and new corporate offices; partly offset by lower supplies costs on product peripherals and SLI materials and lower travel expenses.

## **Rent**

Rent expenses for the year 2017 was at ₱6.5 billion, a 10% increase from ₱5.9 billion reported a year ago. This accounts for 9% of total operating expenses and subsidy. The growth in lease expenses was mainly on international leases on incremental capacities to support data-related requirements, increase in the number of leased cell sites, co-location, joint pole, service vehicle and corporate offices.

## **Provisions**

This account includes provisions related to trade, non-trade and traffic receivables and inventory. Overall, provisions account for 7% of total operating expenses and subsidy. Total provisions for the year increased to ₱5.1 billion, 57% higher than the ₱3.3 billion reported in 2016. The increase was mainly on higher trade due to the additional provisions booked this year, higher Inventory provisions due to increased refurbished stocks, defective handsets, modems and sim packs (e.g. non-LTE sims), partly offset by lower traffic provisions this period.

## **Repairs and Maintenance**

Repairs and maintenance costs for the year stood at ₱7.8 billion, a 24% increase from the ₱6.3 billion reported a year ago. This was largely coming from premium content payout (*Spotify*, *NBA*, *Disney*, *HOOQ*, and *Netflix*). In addition, Globe also incurred higher communication equipment maintenance cost, supplies facilities and subscriber line maintenance, partly offset by lower international cable system. All in all, repairs and maintenance accounted for 10% of total operating expenses and subsidy.

## **Services and Others**

Accounting for 20% of total operating expenses and subsidy, services and expenses slightly declined by 1% from ₱15.4 billion in 2016 driven by lower subscriber line installation services following lower acquisitions coupled with lower professional/advisory fees.

## **Depreciation and Amortization**

Depreciation and amortization expenses for the year grew 15% to ₱27.5 billion from ₱23.8 billion reported in 2016. This was largely driven by increased depreciation costs of incremental asset builds related to Globe's 2016 and 2017 capital expenditure programs.

## OTHER INCOME STATEMENT ITEMS

Other income statement items include net financing costs, net foreign exchange gain (loss), interest income, and net property and equipment-related income (charges) as shown below:

| (Php Mn)                             | Globe Group    |                |                   |
|--------------------------------------|----------------|----------------|-------------------|
|                                      | Year on Year   |                |                   |
|                                      | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change (%) |
| <b>Financing Costs</b>               |                |                |                   |
| Interest Expense                     | (5,043)        | (3,409)        | 48%               |
| Loss on derivative instruments       | (128)          | -              | -                 |
| Swap costs and other financing costs | (208)          | (163)          | 28%               |
| Foreign Exchange Loss                | -              | (525)          | -100%             |
|                                      | <b>(5,379)</b> | <b>(4,097)</b> | <b>31%</b>        |
| <b>Other Income</b>                  |                |                |                   |
| Gain on derivative instruments       | -              | 587            | -100%             |
| Foreign Exchange gain                | 214            | -              | -                 |
| Interest Income                      | 140            | 152            | -8%               |
| Equity share from affiliates         | (661)          | (575)          | 15%               |
| Frequency Amortization               | (185)          | (281)          | -34%              |
| Mynt Gain                            | 1,890          | -              | -                 |
| AFPI impairment                      | (286)          | -              | -                 |
| Others -net                          | (3)            | 22             | -114%             |
| <b>Total Income (Other Expenses)</b> | <b>(4,271)</b> | <b>(4,192)</b> | <b>2%</b>         |

The Globe Group's Non-operating charges increased year-on-year by 2% to ₱4.3 billion in 2017 from the ₱4.2 billion reported a year ago, mainly on higher interest expenses and spectrum amortization related to the SMC telco asset acquisition booked during the period. This however, was partly cushioned by the one-time gain booked this year, related to the fair value of retained equity interest of Globe in Globe Fintech Innovations, Inc. (GFI/Mynt). In addition, increase in interest expense as of end December 2017 was due to this year's higher interest expense on higher loan balance.

(See related discussion on derivative instruments and swap costs in the Foreign Exchange and Interest Rate Exposure section).

## Liquidity and Capital Resources

|                                             | Globe Group    |                |                      |
|---------------------------------------------|----------------|----------------|----------------------|
|                                             | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>Change<br>(%) |
| <b>Balance Sheet Data (Php Mn)</b>          |                |                |                      |
| Total Assets                                | 277,766        | 249,863        | 11%                  |
| Total Debt                                  | 131,529        | 105,729        | 24%                  |
| Total Stockholders' Equity                  | 66,558         | 63,476         | 5%                   |
| <b>Financial Ratios (x)</b>                 |                |                |                      |
| Total Debt to EBITDA (gross)                | 2.43           | 2.15           |                      |
| Total Debt to EBITDA (net)                  | 2.22           | 1.97           |                      |
| Debt Service Coverage                       | 3.38           | 4.18           |                      |
| Interest Cover (Gross)                      | 9.36           | 12.50          |                      |
| Total Debt to Equity (Gross)                | 1.98           | 1.67           |                      |
| Total Debt to Equity (Net) <sup>1</sup>     | 1.81           | 1.53           |                      |
| Total Debt to Total Capitalization (Book)   | 0.66           | 0.62           |                      |
| Total Debt to Total Capitalization (Market) | 0.33           | 0.33           |                      |

<sup>1</sup> Net debt is calculated by subtracting cash, cash equivalents and short term investments from total debt.

Globe's balance sheet and cash flows remain strong with ample liquidity and gearing below bank covenants.

Globe Group's consolidated assets as of 31 December 2017 amounted to ₱277.8 billion compared to nearly ₱250.0 billion in 2016. Consolidated cash, cash equivalents and short term investments (including investments in assets available for sale and held to maturity investments) reached close to ₱11.2 billion as of end December of 2017 compared to ₱8.6 billion as of end December 2016.

On a consolidated basis, Globe ended the year with gross debt to equity ratio of 1.98:1 and is still within the 2.5:1 debt to equity limit dictated by Globe's debt covenants. Meanwhile, net debt to equity ratio was at 1.81:1 as of end December 2017 and 1.53:1 as of end December 2016.

Globe's current ratio was at 0.72:1 as of 31 December 2017 and 0.64:1 as of 31 December 2016, which are at par with industry standards. While Globe's average current ratio was below the SEC's minimum of 1:1, Globe believes it has more than sufficient cash flows from operations to meet its debt maturities, currently and prospectively.

The financial tests under Globe's loan agreements include compliance with the following ratios:

- Total debt\* to equity not exceeding 2.5:1;
- Total debt to EBITDA not exceeding 3:1;
- Debt service coverage<sup>2</sup> exceeding 1.3 times; and
- Secured debt ratio<sup>3</sup> not exceeding 0.2 times.

*\*Composed of notes payable, current portion long term debt, long term debt and net derivative liabilities*

As of 31 December 2017, Globe is well within the ratios prescribed under its loan agreements.

<sup>2</sup> Debt service coverage ratio is defined as the ratio of EBITDA to required debt service, where debt service includes subordinated debt but excludes shareholder loans.

<sup>3</sup> Secured debt ratio is defined as the ratio of the total amount for the period of all present consolidated obligations for payment, whether actual or contingent which are secured by Permitted Security Interest as defined in the loan agreement to the total amount of consolidated debt.

## Consolidated Net Cash Flows

| (Php Mn)                                | Globe Group    |                |                      |
|-----------------------------------------|----------------|----------------|----------------------|
|                                         | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>change<br>(%) |
| Net Cash from Operating Activities..... | 50,304         | 37,463         | 34%                  |
| Net Cash from Investing Activities..... | (55,422)       | (57,662)       | -4%                  |
| Net Cash from Financing Activities..... | 7,814          | 16,965         | -54%                 |

Net cash flows provided by operating activities for the year just ended was at ₱50.3 billion which grew by 34% year-on-year.

Meanwhile, net cash used in investing activities amounted to ₱55.4 billion, 4% lower than last year. Consolidated cash capital expenditures as of end of December 2017 amounted to ₱42.5 billion, up by 16% from last year's ₱36.7 billion.

| (Php Mn)                                                                     | Globe Group    |                |                      |
|------------------------------------------------------------------------------|----------------|----------------|----------------------|
|                                                                              | 31-Dec<br>2017 | 31-Dec<br>2016 | YoY<br>change<br>(%) |
| <b>Cash Capital Expenditures<sup>1</sup></b>                                 | <b>42,541</b>  | <b>36,745</b>  | <b>16%</b>           |
| Total Additions to Property and equipment and Intangible assets <sup>2</sup> | 51,432         | 39,091         | 32%                  |
| <b>Cash Capital Expenditures<sup>1</sup> / Service Revenues (%)</b>          | <b>33%</b>     | <b>30%</b>     |                      |

<sup>1</sup> Cash capital expenditures-property & equipment and intangibles as of report date

<sup>2</sup> Includes property and equipment, intangibles and capitalized borrowing costs acquired as of report date regardless of whether payment has been made or not.

Consolidated net cash provided by financing activities amounted to ₱7.8 billion in 2017 versus last year's net cash used of nearly ₱17.0 billion for financing activities in 2016. Consolidated total debt, likewise, increased by 24% from ₱105.7 billion at the end of 2016 to reach ₱131.5 billion at the end of December 2017.

84% of US\$ consolidated loans have been effectively converted to PHP via US\$335 million in currency hedges. After swaps, effectively 2% of conso debt is in USD.

Below is the schedule of debt maturities for consolidated Globe for the years stated below based on total outstanding debt as of 31 December 2017:

| Year Due                | Principal<br>(US\$ Mn) |
|-------------------------|------------------------|
| 2018 .....              | 165.8                  |
| 2019 .....              | 334.8                  |
| 2020 .....              | 228.1                  |
| 2021 through 2031 ..... | 1,914.6                |
| <b>Total</b>            | <b>2,643.3</b>         |

\* Principal amount before debt issuance costs.

Globe Telecom has unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated term loans. The term loans bear interest at stipulated and prevailing market rates. Globe Group also has a secured debt amounting to USD2.54 million as of December 31, 2017, arising from its acquisition of BTI (see Note 3 of the attached consolidated financial statement).

The Globe Group has available uncommitted short-term credit facilities of USD118.90 million and ₱19.50 billion as of December 31, 2017 and USD80.40 million and ₱13.45 billion, as of December 31, 2016.

The Globe Group also has available committed short-term credit facilities of ₱3.00 billion and ₱1.20 billion as of December 31, 2017 and 2016, respectively.

Outstanding short-term notes payable from various local and foreign banks amounted to nil and ₱4.50 billion as of December 31, 2017 and 2016, respectively.

These short-term loans have maturities ranging from 1 to 3 months and bear interest ranging from 2.4% to 3.25%.

Stockholders' equity as of end-December 2017 was higher by 5% from ₱63,476 million to ₱66,558 million this period. Globe's capital stock consists of the following:

#### Voting Preferred Shares

Voting Preferred stock at a par value of ₱5 per share of which 158.5 million shares are outstanding out of a total authorized of 160 million shares.

The dividends for voting preferred stock are declared upon the sole discretion of the Globe Telecom's BOD.

To date, none of the voting preferred shares have been converted to common shares.

#### Non-Voting Preferred stock

Non-Voting Preferred stock at a par value of ₱50 per share of which 20 million shares are issued out of a total authorized of 40 million shares.

#### Common Shares

Common shares at par value of ₱50 per share of which 132.9 million are issued and outstanding out of a total authorized of 149 million shares.

#### Cash Dividends

The dividend policy of Globe Telecom as approved by the Board of Directors is to declare cash dividends to its common stockholders on a regular basis as may be determined by the Board. The dividend payout rate is reviewed annually by the Board of Directors, taking into account the company's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

On November 8, 2011, the Board of Directors amended the Company's dividend policy to be based on core instead of reported net income. Pay-out range remains at 75% to 90%. This is to ensure that dividends will remain sustainable and yields competitive despite the expected near-term decline in net income that would result from the accelerated depreciation charges related to assets that will be decommissioned as part of the Company's network and IT transformation programs which were ongoing during the time. As currently defined, core net income excludes all foreign exchange, mark-to-market gains and losses, as well as non-recurring items.

On August 6, 2013, the Board of Directors approved the proposed change in the frequency of the cash dividend distribution from semi-annual to quarterly. On December 10, 2013, the BOD approved to defer the implementation of the quarterly dividend payout to the second semester of 2014.

On May 9, 2017, the Board of Directors of Globe approved the declaration of the second semi-annual cash dividend for holders of its non-voting preferred shares on record as of August 10, 2017. The amount of the cash dividend shall be at a fixed rate of 5.2006% per annum calculated in respect of each share by reference to the offer price of ₱500.00 per share on a 30/360 day basis for the six-month dividend period. Total amount of the cash dividend will be paid on August 22, 2017.

The Board of Directors of Globe approved in separate approvals the declaration of four quarterly distributions of cash dividends of ₱22.75 per common share paid each last March 8, June 7, September 6 and December 1, 2017. Each cash dividend payments total about ₱3.0 billion, bringing total distribution by the end of December 2017 to ₱12.0 billion.

On November 3, 2017, the BOD likewise approved the declaration of annual cash dividend payable to voting preferred stockholders of record as of November 17, 2017. The amount of the cash dividend was

based on the average 30-day PDST-R2, as computed by the Philippine Dealing and Exchange Corporation plus 2%. Total dividend payment made last December 1, 2017 was about ₱33.7 million.

On December 5, 2017, Globe's BOD approved the declaration and payment of the first semi-annual cash dividends for the Company's non-voting preferred shareholders on record as of January 26, 2018. The amount of the cash dividend was at a fixed rate of 5.2006% per annum calculated in respect of each share by reference to the offer price of ₱500.00 per share on a 30/360 day basis for the six-month dividend period. Payment Date is on February 22, 2018.

#### Return on Average Equity (ROE)

Consolidated Return on Average Equity (ROE) registered at 23% as of end-December 2017, compared to 26% in 2016 using net income and based on average equity balances for the year ended. Using annualized core net income excluding the effects of non-recurring expenses, foreign exchange loss, one-time gains on net income, return on average equity for the year just ended was at 21% compared to 26% of 2016.

#### Earnings Per Share (EPS)

Consolidated basic earnings per common share were ₱109.22 and ₱115.45, while consolidated diluted earnings per common share were ₱109.01 and ₱115.27 as of end-December 2017 and 2016, respectively.

## Financial Risk Management

### FOREIGN EXCHANGE EXPOSURE

Foreign exchange risks are managed such that USD inflows from operations (transaction exposures) are balanced or offset by the net USD liability position of the company (translation exposures). Globe Group's objective is to maintain a position which results in, as close as possible, a neutral effect to the P&L relative to movements in the foreign exchange market.

#### Transaction exposures

Globe has natural net US\$ inflows arising from its operations. Consolidated foreign currency-linked revenues<sup>1</sup> were at 10% and 12% of total service revenues for the periods ended 31 December 2017 and 2016, respectively. In contrast, Globe's foreign-currency linked expenses were at 13% and 14% of total operating expenses for the same periods ended, respectively.

The US\$ flows are as follows:

|                               | <b>2017</b>    |
|-------------------------------|----------------|
| US\$ and US\$ Linked Revenues | ₱13.19 billion |
| US\$ Operating Expenses       | ₱ 8.00 billion |
| US\$ Net Interest Expense     | ₱ 0.32 billion |

Due to these net US\$ inflows, an appreciation of the Peso has a negative impact on Globe's Peso EBITDA. Globe occasionally enters into forward contracts to hedge against a peso appreciation.

There were no realized gains or losses from forward contracts in 2017.

There were no outstanding forward contracts as of December 2017.

#### Translation Exposures

Globe's foreign exchange translation exposures result primarily from movements of the Philippine Peso (Php) against the U.S. Dollars (USD) with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in Peso. In addition, 15% of debt as of December 31, 2017 are denominated in USD before taking into account any swaps and hedges.

Globe also has US\$ assets and liabilities which are revalued at market rates every period. These are as follows:

|                             | <b>December 2017</b> |
|-----------------------------|----------------------|
| US\$ Assets                 | US\$236 million      |
| US\$ Liabilities            | US\$866 million      |
| Net US\$ Liability Position | US\$630 million      |

As of end-December 2017, the Globe Group posted a total of ₱214 million net foreign exchange gain.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. Globe Telecom enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

As of end-December, Globe has US\$240 million in cross currency swap contracts which are hedges of the interest and foreign exchange risks of some of our US\$ loans maturing in April 2020, August 2024 and August 2027. The MTM of the outstanding swap contracts stood at a gain of ₱561 million as of end-December 2017.

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<sup>1</sup> Includes the following revenues:

(1) billed in foreign currency and settled in foreign currency, and  
(2) billed in Pesos at rates linked to a foreign currency tariff and settled in Pesos

As of end-December, Globe has US\$95.1 million in principal only swap contracts which are hedges of the foreign exchange risks of some of our US\$ loans maturing in April 2020, April 2022 and October 2022. The MTM of the swap contracts stood at a gain of ₱141 million as of end-December 2017.

### **INTEREST RATE EXPOSURE**

Interest rate exposures are managed via targeted levels of fixed versus floating rate debt that are meant to achieve a balance between cost and volatility. Globe's policy is to maintain between 44-88% of its peso debt in fixed rate, and between 31-62% of its US\$ debt in fixed rate.

As of end-December 2017, Globe has a total of US\$63 million in US\$ interest swaps and US\$240 million in cross currency swaps that were entered in to contracts to achieve these targets. The US\$ swaps fixed some of the Company's outstanding floating rate debts with semi-annual payment intervals up to April 2020, and quarterly payment intervals up to October 2022, August 2024, and August 2027.

As of end-December 2017, 83% (excluding short-term debt) of peso debt is fixed, while 41% of USD debt is fixed after swaps.

The MTM of the interest rate swap contracts (not including swap contracts) stood at a gain of ₱27 million as of end-December 2017.

### **CREDIT EXPOSURES FROM FINANCIAL INSTRUMENTS**

Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

For investments, the Globe Group does not have investments in foreign securities (bonds, collateralized debt obligations (CDO), collateralized mortgage obligations (CMO), or any instruments linked to the mortgage market in the US). Globe's excess cash is invested in short term bank deposits.

The Globe Group also does not have any investments or hedging transactions with investment banks. Derivative transactions as of the end of the period are with large foreign and local banks. Furthermore, the Globe Group does not have instruments in its portfolio which became inactive in the market nor does the company have any structured notes which require use of judgment for valuation purposes.

### **VALUATION OF DERIVATIVE TRANSACTIONS**

The Company uses valuation techniques that are commonly used by market participants and that have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Company uses readily observable market yield curves to discount future receipts and payments on the transactions. The net present value of receipts and payments are translated into Peso using the foreign exchange rate at time of valuation to arrive at the mark to market value. For derivative instruments with optionality, the Company relies on valuation reports of its counterparty banks, which are the Company's best estimates of the close-out value of the transactions.

Gains (losses) on derivative instruments represent the net mark-to-market (MTM) gains (losses) on derivative instruments. As of 31 December 2017, the MTM value of the derivatives of the Globe Group amounted to a gain of ₱735 million while net gain on derivative instruments arising from changes in MTM reflected in the consolidated income statements amounted to ₱128 million.

To measure riskiness, the Company provides a sensitivity analysis of its profit and loss from financial instruments resulting from movements in foreign exchange and interest rates. The interest rate sensitivity estimates the changes to the following P&L items, given an indicated movement in interest rates: (1) interest income, (2) interest expense, (3) mark-to-market of derivative instruments. The foreign exchange sensitivity estimates the P&L impact of a change in the USD/PHP rate as it specifically pertains to the revaluation of the net unhedged liability position of the company, and foreign exchange derivatives.

**2. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:**

Contingencies

- a. On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from ₱1.00 to ₱0.80 per text. Globe Telecom filed its answer maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

1. Reduce its regular SMS retail rate from ₱1.00 to not more than ₱0.80;
2. Refund/reimburse its subscribers the excess charge of ₱0.20; and
3. Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliant with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order against Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated.

Thereafter, the NTC and Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate, who, in the meantime, had intervened in the case, filed their respective motions for reconsideration, which motions were both denied by the CA.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated 15 September 2017. Globe awaits the SC's action on said petition.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On 04 January 2018, Globe received a copy of the SC's Resolution dated 06 Nov. 2017, requiring it to comment on said petition.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

- b. On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the CMTS whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2)

pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

Last January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. The case is now submitted for resolution.

- c. On 22 May 2006, Innove received a copy of the Complaint of Subic Telecom Company (Subictel), Inc., a subsidiary of PLDT, seeking an injunction to stop the Subic Bay Metropolitan Authority and Innove from taking any actions to implement the Certificate of Public Convenience and Necessity granted by SBMA to Innove. Subictel claimed that the grant of a CPCN allowing Innove to offer certain telecommunications services within the Subic Bay Freeport Zone would violate the Joint Venture Agreement (JVA) between PLDT and SBMA.

The Supreme Court ordered the reinstatement of the case and has forwarded it to the NTC Olongapo for trial. The case is now being tried before the Olongapo RTC.

On July 13, 2016, the Regional Trial Court (RTC) in Olongapo rendered its decision dismissing Subictel's complaint, as nothing in the JVA cited by Subictel supports its claim of exclusivity. Moreover, the Constitution clearly provides that no franchise or authorization for the operation of a public utility shall be exclusive in character. Subictel did not move for a reconsideration of the RTC's decision. On October 19, 2016, Innove received a copy of Subictel's Petition for Review to the Supreme Court dated September 13, 2016 assailing the trial court's decision.

In a Resolution dated April 25, 2017, received by Globe on July 3, 2017, the Supreme Court denied the petition for failure of the petitioner to sufficiently show that the RTC committed any reversible error in the challenged decision as to warrant the exercise of the Court's discretionary appellate jurisdiction.

- d. (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC.

On April 25, 2011, Innove Communications filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the Supreme Court.

(2) In a case filed by PLDT against the NTC in Branch 96 of the RTC of Quezon City (QC), where PLDT sought to obtain an injunction to prevent the NTC from hearing the case filed by Innove, the RTC denied the prayer for a preliminary injunction and the case has been set for further hearings. PLDT has filed a Motion for Reconsideration and Globe Telecom has intervened in this case. In a resolution dated October 28, 2008, the RTC QC denied BCC's motion for the issuance of a temporary restraining order (TRO) on the ground that the NTC has primary administrative jurisdiction over the case. On October 14, 2013, the RTC issued an order dismissing the case. On November 12, 2013, PLDT elevated the case to the CA. On July 25, 2016, the CA granted PLDT's petition, holding that the trial court had jurisdiction, since the issues raised by PLDT were supposedly purely legal in character. On August 17, 2016, the NTC through the Office of the Solicitor General (OSG) moved for a reconsideration of the CA's decision. On January 10, 2017, the CA issued a resolution denying NTC's motion for reconsideration.

On March 10, 2017, the NTC elevated the case to the SC via a Petition for Review on Certiorari dated March 6, 2017. PLDT subsequently filed its Comment thereon dated July 10, 2017. The NTC thereafter filed its Reply to said Comment dated December 05, 2017.

(3) In a case filed by BCC against FBDC, Globe Telecom, and Innove before the Regional Trial Court of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds.

The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

- e. In a letter dated June 7, 2016 issued by the Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC, and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issue and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. I6-002 (MC No. I6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from

reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12<sup>th</sup> Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the *sub judice* rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the Supreme Court docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the Supreme Court a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the Supreme Court did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the Supreme Court's en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the Supreme Court en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the Court of Appeals, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize

the same as deemed approved. PCC elevated the case to the Supreme Court via Petition for Review on Certiorari.

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

### 3. Causes of any material change from period to period: 2017 vs. 2016

#### Assets

##### **Current**

- A** Cash and cash equivalents – Higher cash balance for the year is due to more cash generated from operations and proceeds from borrowings versus cash used to fund capital expenditures, repayment of loans, and payment of dividends.
- B** Receivable – Slight decline of ₱238M is due to higher write-offs and the deconsolidation of Mynt and its respective receivables. This was offset by an increase in billing receivables due to higher revenues.
- C** Allowance for Doubtful Accounts – Increase of ₱907M is mostly due to higher provisions versus write-offs for broadband accounts, offset slightly by mobile accounts' higher write-offs versus provisions and the deconsolidation of Mynt.
- D** Traffic Settlement Receivable – Bulk of the ₱887M increase is due to higher inbound roaming traffic as well as local traffic.
- E** Other Receivables – Increase of ₱677M is mostly attributable to an unbilled handset recovery program launched within the year.
- F** Allowance for Doubtful Accounts (Traffic and others) – Slight increase is due to higher provisions for foreign traffics and for dealers.
- G** Prepayments and Other Current Assets – The ₱2.9B increase is largely due to advanced payments for network rollout and was offset by the reclassification of GGRP and BHI loans receivable from current to non-current (due to an extension of terms) and the deconsolidation of Mynt.
- H** Allowance for Doubtful Accounts (Non-Trade) – Slight change is due to the deconsolidation of Mynt.
- I** Inventories and Supplies – Decline of ₱1.4B is due to higher issuances of handsets, nomadic devices, and SIM cards relative to purchases made during the year.
- J** Allowance for Inventory Losses – Slight decline is due to reversals for obsolete handsets, devices, and SIM cards.

##### **Noncurrent**

- K** Fixed Assets – Increase of ₱20.4B is largely due to the addition and acquisition of various telecom equipment within the year to support the Globe network. Plant under construction assets also contributed to the increase due to additional projects launched in 2017 on top of other ongoing projects previous years.
- L** Intangible Assets – Slight ₱36M increase is attributable to the acquisition and settlement of charges for various projects affecting computer software accounts and telecom licenses, offset by the depreciation expenses of the same.
- M** Investment in Joint Venture and Associates – Bulk of the ₱1.4B is due to the deconsolidation of Mynt and its subsequent reclassification under Investments in JVA. Other causes for the increase include funding made to Vega and additional investments in other JVAs. This was offset by the share in net losses of Vega and other associates.
- N** Goodwill – Increase of ₱15M is due to the revised PPA allocation of Taodharma.

- O** Other Investments – Increase of ₱407M is mostly due to additional AFS investments of Kick funded by Globe.
- P** Deferred Tax Asset – Increase of ₱139M is mainly due to higher allowance for impairment losses offset by Bayan's NOLCO application.
- Q** Derivative Assets – ₱156M increase is attributable to higher MTM value gains offset by matured FX swaps.
- R** Misc. Deposits and Others – Bulk of the ₱897M increase is due to the reclassification of GGRP and BHI loans receivable from current to non-current (due to an extension of terms). Other contributors to the increase include additional notes receivables from various investments and higher rental deposits.

## **Liabilities**

### **Current**

- S** Trade Creditors- Increase of ₱1.2B is mainly driven by increased purchases from both foreign and local suppliers.
- T** Liabilities to Partner Establishments – Decrease of ₱687M is due to the deconsolidation of Mynt.
- U** Traffic Settlement Payable – Increase of ₱228M is mainly driven by local traffic settlements to Smart and Digitel, as well as Cherry and ABS CBN MVNOs.
- V** Other Creditors – Decrease of ₱6.1B is mostly due to the final contract price payment made to SMC.
- W** Taxes Payable – Increase of ₱515M is due to higher VAT and partially offset by lower withholding taxes and the deconsolidation of Mynt.
- X** Income Taxes Payable – ₱75M increase is mostly due to higher net provisions for 2017 versus 2016.
- Y** Provisions – Bulk of ₱6.4B decrease is largely driven by payments of assumed liabilities to Vega and the deconsolidation of Mynt, countered by real property taxes and national taxes.
- Z** Accrued Expenses – The ₱3.5B increase is attributable to higher accrual of professional fees, manpower expenses, corporate incentives, lease and maintenance charges, taxes and licenses fees.
- AA** Accrued Interest on Loans – Slight ₱186M increase is due to higher interest accruals from existing and new loans availed within the year versus payments.
- AB** Accrued project Cost – Increase of ₱4.3B is driven by accrual for various new projects initiated within the year.
- AC** Derivative Liabilities – Increase of ₱85M is due to increased MTM loss.
- AD** Unearned Revenues – Increase of ₱419M is attributable to higher call card sales and higher advanced MSF for postpaid accounts.
- AE** Dividends Payable – Pertains to dividends declared on December 2017 for preferred non - voting shares to be paid in January 2018.
- AF** Notes Payable – Bulk of the ₱4.5B decline pertains to loan repayments made throughout the year slightly offset by loan availments.

**AG** Current Portion of Long Term Debt (Bank) – Increase in bank debt was due to availment of loans from various banks in 2017.

***Noncurrent***

**AH** Net Deferred Tax Liability – Bulk of the increase is due to higher depreciation in 2017.

**AI** Long Term Debt (Bank) - Increase in bank debt was due to availment of loans from various banks in 2017.

**AJ** Other Long-term Liabilities – Decrease of ₱918M is attributable to adjustments for PAS19, and payments made for the pension accrual of retirement funds.

**5. Description of material commitments and general purpose of such commitments. Material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period.**

For details on material commitments and arrangements, see Notes 25 in the attached Notes to the Financial Statements.

**6. Seasonal Aspects that have a material effect on the FS**

No seasonal aspects that have a material effect on the financial statements.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 7. Directors and Key Officers

#### A. Board of Directors

##### As of December 31, 2018

| Name                         | Position                                                  |
|------------------------------|-----------------------------------------------------------|
| Jaime Augusto Zobel de Ayala | Chairman (NED)                                            |
| Fernando Zobel de Ayala      | Co-Vice Chairman (NED)                                    |
| Lang Tao Yih, Arthur         | Co-Vice Chairman (NED)                                    |
| Ernest L. Cu                 | Executive Director, President and Chief Executive Officer |
| Romeo L. Bernardo            | Director (NED)                                            |
| Delfin L. Lazaro             | Director (NED)                                            |
| Samba Natarajan              | Director (NED)                                            |
| Jose Teodoro K. Limcaoco     | Director (NED)                                            |
| Rex Ma. A. Mendoza           | Lead Independent Director (NED, ID)                       |
| Saw Phaik Hwa                | Independent Director (NED, ID)                            |
| Cirilo P. Noel               | Independent Director (NED, ID)                            |

*Note: Non-Executive Director (NED), Independent Director (ID)*

##### Nominees to the Board of Directors (2019-2020)

- Jaime Augusto Zobel de Ayala
- Fernando Zobel de Ayala
- Lang Tao Yih, Arthur
- Ernest L. Cu
- Romeo L. Bernardo
- Delfin L. Lazaro
- Samba Natarajan
- Jose Teodoro K. Limcaoco
- Rex Ma. A. Mendoza – Nominee for Independent Director
- Saw Phaik Hwa – Nominee for Independent Director
- Cirilo P. Noel – Nominee for Independent Director

##### **Jaime Augusto Zobel de Ayala**

Chairman, Non-Executive Director

##### **Committee Memberships:**

- *Executive Committee (Chairman)*

Filipino, 59, has been the Chairman of the Board since December 1996 and Director since March 1989. Among other current positions, he is also the Chairman and Chief Executive Officer (CEO) of Ayala Corporation and the Chairman of AC Education; Ayala Retirement Fund Holdings, Inc.; AC Industrial Technology Holdings, Inc.; AC Ventures Holding Corp.; AC Infrastructure Holdings Corporation; and Asiacom Philippines, Inc. He is Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc. He is also Director of Alabang Commercial Corporation; Ayala International Pte. Ltd.; AC Energy, Inc.; Ayala Healthcare Holdings, Inc.; Light Rail Manila Holdings, Inc.; and AG Holdings Limited.

##### **Skills and experience:**

Outside the Ayala group, he is a member of various business and socio-civic organizations in the Philippines and abroad, including the JP Morgan International Council, JP Morgan Asia Pacific Council, Mitsubishi Corporation International Advisory Council, and Council on Foreign Relations. He sits on the board of the Singapore Management University, the global advisory board of University of Tokyo, and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is also Chairman Emeritus of the Asia Business Council, Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships. He is also a member of Advisory Committee to National Economic Development Authority (NEDA) on Filipino 2040.

Mr. Zobel was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the

President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business.

He graduated with B.A. in Economics (cum laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

***Directorship in other publicly-listed companies:***

Ayala Corporation; Ayala Land, Inc.; Bank of the Philippine Islands; Integrated Micro-Electronics, Inc.; and Manila Water Company, Inc. All of which are listed on the Philippine Stock Exchange.

***Fernando Zobel de Ayala***

Co-Vice Chairman, Non-Executive Director

***Committee memberships:***

- *Compensation and Remuneration Committee*
- *Finance Committee*

Filipino, 58, has served as Director since October 1995. He has been the President and Chief Operating Officer (COO) of Ayala Corporation. He is the Chairman of AC International Finance Ltd.; Liontide Holdings, Inc.; AC Energy, Inc.; Ayala Healthcare Holdings, Inc.; Automobile Central Enterprise, Inc.; Alabang Commercial Corporation; Accendo Commercial Corp. and Hero Foundation, Inc. He is also Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc. He is Vice-Chairman of AC Industrial Technology Holdings, Inc.; ALI Eton Property Development Corporation, Aurora Properties Incorporated; Vesta Property Holdings, Inc.; Ceci Realty Inc.; Fort Bonifacio Development Corporation; Bonifacio Land Corporation; Emerging City Holdings, Inc.; Columbus Holdings, Inc.; Berkshires Holdings, Inc.; and Bonifacio Art Foundation, Inc. He is a Director of Livelt Investments, Ltd.; AG Holdings Ltd.; AC Infrastructure Holdings Corporation; Asiacom Philippines, Inc.; Ayala Retirement Fund Holdings, Inc.; AC Education, Inc.; and AC Venture Holdings Corp.; Honda Cars Philippines, Inc.; Isuzu Philippines Corporation; and Manila Peninsula.

***Skills and experience:***

Mr. Zobel holds a liberal arts degree from Harvard College and a CIM from INSEAD, France. He is also Chairman of Habitat for Humanity's Asia Pacific Capital Campaign Steering Committee and a Member of Philippine-Singapore Business Council, Tikehau International Advisory Board, INSEAD Board, Georgetown University Board, World Presidents' Organization, and Chief Executives Organization. He is a Member of the Board of Trustees of Caritas Manila.

***Directorship in other publicly-listed companies:***

Ayala Corporation; Ayala Land, Inc.; Bank of the Philippine Islands; Integrated Micro-Electronics, Inc.; Manila Water Company, Inc. and Pilipinas Shell Petroleum Corporation. All of which are listed on the Philippine Stock Exchange.

***Lang Tao Yih, Arthur***

Co-Vice Chairman, Non-Executive Director

***Committee memberships:***

- *Executive Committee*
- *Compensation and Remuneration Committee*

Singaporean, 46, has served as Director since April 2017. He is the CEO International of Singapore Telecommunications Limited. His main responsibilities are to oversee the growth of the Group's regional associates across India, Indonesia, the Philippines, Thailand and 14 countries in Africa, strengthen its relationship with overseas partners, and drive regional initiatives, such as the mobile financial services, video gaming businesses and eSports, for scale and synergies.

***Skills and experience:***

He was formerly the Group CFO of CapitaLand Limited, one of Asia's largest real estate companies. Prior to joining CapitaLand, he was at Morgan Stanley having been the co-head of the Southeast Asia investment banking division and the Chief Operating Officer for the Asia Pacific investment banking division. Mr. Lang is also a board member of Airtel Africa, NetLink NBN Trust, the Land Transport Authority of Singapore, the National Kidney Foundation Singapore, the Straits Times Pocket Money Fund, Bharti Infratel Limited, and the Advisory Board of the Lee Kong Chian School of Business, Singapore Management University.

Mr. Lang received the Best CFO of the Year Award, for listed companies with market capitalization of S\$1 billion and above, at the Singapore Corporate Awards in 2015.

Mr. Lang has a Master of Business Administration from the Harvard Business School and a BA in Economics (magna cum laude) from Harvard University.

***Directorship in other publicly-listed companies:***

Bharti Infratel Limited that is listed on the National Stock Exchange of India Ltd. and NetLink NBN Trust that is listed on the Singapore Stock Exchange.

***Ernest L. Cu***

Executive Director, President and Chief Executive Officer

***Committee memberships:***

- *Executive Committee*

Filipino, 58, has served as Director since April 2009. He is the President and Chief Executive Officer (CEO) of Globe Telecom, Inc. He joined Globe in October 2008 as Deputy CEO, and was officially appointed President and CEO on 2 April 2009. Since then, Mr. Cu has been passionately driving a sweeping transformation across the company, including modernizing its network and IT infrastructure, developing a strong collaborative and service-oriented culture, and creating product innovations in its core business segments. Globe has since outperformed industry growth, with the company breaking records across all key product groups, brands and market segments, catapulting Globe as the number 1 mobile brand in the country. In 2016, under Mr. Cu's visionary leadership, Globe embarked on a purpose-led transformation to create a more sustainable organization. With its renewed mission, vision, and core values, collectively embodied in the new Globe Purpose, the company is now setting its sights on serving as a catalyst in driving the nation forward.

***Skills and experience:***

Prior to Globe, he was President and CEO of SPi Technologies from 1997 to 2008. At the cusp of the new millennium, he spurred the beginning of the BPO business model for the Philippines, earning him the recognition as one of the founding fathers of BPO in the country. Lauding his pioneering spirit, Ernst & Young named him ICT Entrepreneur of the Year in 2003. In 2017, he was hailed as the Philippines' Best CEO by Finance Asia. A second for Cu, he first received the award in 2010. Also in 2017, for the fifth straight year, Cu was recognized as one of the 100 most influential telecom leaders worldwide by London-based Global-Telecoms Business Magazine Power 100. Frost & Sullivan Asia Pacific has also named him CEO of the Year twice, first in 2012, and again in 2017.

Mr. Cu has a Bachelor of Science Degree in Industrial Management Engineering from De La Salle University in Manila, and an M.B.A. from the J.L. Kellogg Graduate School of Management in Northwestern University.

***Mr. Cu is not a Director or an executive in any other publicly-listed company.***

***Romeo L. Bernardo***

Non-Executive Director

***Committee memberships:***

- *Audit and Related Party Transactions Committee*
- *Finance Committee*

Filipino, 64, has served as a Director since September 2001. He is also the Managing Director of Lazaro Bernardo Tiu and Associates (LBT), a financial advisory firm based in Manila. He is a GlobalSource economist in the Philippines. He is also the Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is likewise a Director in Philippine Investment Management (PHINMA), Inc., and BPI-Philam Life Assurance Corporation.

***Skills and experience:***

He is a member of the Philippine World Bank Advisory Group and a member of the Panel of Conciliators of the International Centre for Settlement of Investment Disputes.

He previously served as Undersecretary of Finance and as Alternate Executive Director of the Asian Development Bank. He was also an Advisor of the World Bank and the IMF (Washington D.C.).

Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (magna cum laude) and a Master's Degree in Development Economics at Williams College from Williams College in Williamstown, Massachusetts.

***Directorship in other publicly-listed companies:***

Aboitiz Power; Bank of the Philippine Islands; RFM Corporation; and National Reinsurance Corporation of the Philippines. All of which are listed on the Philippine Stock Exchange.

***Delfin L. Lazaro***

Non-Executive Director

***Committee memberships:***

- *Audit and Related Party Transactions Committee*
- *Finance Committee*

Filipino, 72, has served as Director since January 1997 and a member of the Finance Committee. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc.; Vice Chairman and President of Asiaticom Philippines, Inc.; Chairman and President of A.C.S.T. Business Holdings, Inc. and AYC Holdings, Inc.; AC International Finance Limited, Purefoods International, Ltd.; AC Industrial Technology Holdings, Inc. and Probe Productions, Inc.

***Skills and experience:***

He earned his Bachelor of Science in Metallurgical Engineering from the University of the Philippines in 1967, and his Masters of Business Administration (with distinction) from the Harvard Graduate School of Business in 1971.

***Directorship in other publicly-listed companies:***

Ayala Corporation; Ayala Land, Inc.; Integrated Micro-Electronics, Inc.; and Manila Water Company, Inc. All of which are listed on the Philippine Stock Exchange.

***Samba Natarajan***

Non-Executive Director

***Committee memberships:***

- *Executive Committee*
- *Finance Committee*

US citizen, 53, has served as Director since 7 April 2015, a member of the Finance and Executive Committee. He has been the CEO of Group Digital Life, Singtel since April 2015. Group Digital is the digital innovation business for the Singtel group and is currently focused on capturing opportunities in three main areas: Digital Marketing, Over-the-top Video and Data analytics while also managing the corporate venture fund, Innov8, that invests in cutting edge technologies. He joined Singtel in May 2014 as Managing Director of Digital Enterprise leading a team focused on identifying, executing, and operationalizing enterprise growth opportunities from emerging technology trends. He brings more than

25 years of corporate and consulting experience across a wide range of senior roles in the areas of strategy, business development and finance.

***Skills and experience:***

He worked for Citibank from 1988 to 1997 and McKinsey & Company from 1999 to 2014. In his last role with McKinsey, he was the Leader of Southeast Asia TMT practice, consulting with C-level executives in the areas of growth, transformation, corporate finance and commercial operations. Mr. Natarajan sits on the board of several digital subsidiaries of the Singtel group, including Amobee, HOOQ and Trustwave. He also sits on the advisory board of the McKinsey Digital Campus and on the Board of Governors of the Singapore American School.

He holds a Bachelor of Engineering degree in Electrical Engineering with distinction from the Birla Institute of Technology and Science in Pilani, India; a Post Graduate Diploma in Management from the Indian Institute of Management in Ahmedabad, India where he was an industrial scholar and an MBA from the Wharton School of the University of Pennsylvania, USA, where he was a Hope Fellow, Ford Fellow and Palmer Scholar. He was profiled in “Leaders for the Global Markets”, Wharton School, 1999–2000.

***Mr. Natarajan is not a Director in any other publicly-listed company.***

***Jose Teodoro K. Limcaoco***

Non-Executive Director

***Committee memberships:***

- *Executive Committee*

Filipino, 56, has served as Director since 13 April 2016. Mr. Limcaoco is also Chief Finance Officer (CFO), Chief Risk Officer (CRO), Chief Sustainability Officer and Finance Group Head of Ayala Corporation. He is the Chairman of Darong Agricultural and Development Corporation and Zapfam Inc. He is the President and CEO of AC Ventures Holdings, Inc. (formerly Water Capital Works, Inc.); AYC Finance Limited; Bestfull Holdings Limited and Purefoods International Limited. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc.; AC Energy, Inc.; Ayala Healthcare Holdings, Inc.; AC Infrastructure Holdings Corporation; Ayala Aviation Corporation; AC Education, Inc.; Asiacom Philippines, Inc.; AG Counselors Corporation; Michigan Holdings, Inc.; AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation); A.C.S.T. Business Holdings, Inc.; LICA Management Inc. and Just For Kids, Inc. He is also the Treasurer of Ayala Retirement Fund Holdings, Inc.

***Skills and experience:***

Mr. Limcaoco joined Ayala Corporation as Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015.

He was named as the ING-Finex CFO of the Year in 2018. He has held prior positions with JP Morgan & Co. and with BZW Asia.

He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

***Directorship in other publicly-listed companies:***

Integrated Micro-Electronics, Inc. and SSI Group, Inc. All of which are listed on the Philippine Stock Exchange.

**Rex Ma. A. Mendoza**

Non-Executive and Lead Independent Director

**Committee memberships:**

- *Nomination and Governance Committee (Chairman)*
- *Compensation and Remuneration Committee (Chairman)*
- *Audit and Related Party Transactions Committee*

Filipino, 56, has been Independent Director since April 2014. He is the President and CEO of Rampver Financials, a financial services firm and the leading non-bank mutual funds distributor in the country. He also sits as a Director of Esquire Financing, Inc.; the Cullinan Group; TechnoMarine Philippines; Seven Tall Trees Events Company, Inc.; and Mobile Group, Inc. He is the author of two books, "Trailblazing Success" and "Firing on All Cylinders", both certified national bestsellers.

**Skills and experience:**

Mr. Mendoza was previously the Senior Adviser to the AIA Group CEO for Marketing and Distribution. AIA Group Limited is the leading Pan-Asian insurance company and is the parent firm of the Philippine American Life and General Insurance Company (PhilamLife). Prior to this position, he was the President and CEO of Philam Life, Chairman of The Philam Foundation, Inc. and Vice Chairman of BPI Philam Life Assurance Company. Prior to rejoining Philam Life, he was Senior Vice President and Chief Marketing and Sales Officer of Ayala Land, Inc. He was also Chairman of Ayala Land International Sales, Inc., President of Ayala Land Sales, Inc. and Avida Sales Corporation

Mr. Mendoza was awarded Most Distinguished Alumnus of the University of the Philippines' Cesar E.A. Virata School of Business last December 2013. He is also a fellow with distinction at the Life Management Institute of Atlanta, Georgia, U.S.A., a Registered Financial Planner and a four-time member of the Million Dollar Round Table.

Mr. Mendoza was a professor of Marketing and Computational Finance at the De La Salle University Graduate School of Business. He taught strategic marketing, services marketing and services strategy. He has served as Chairman of the Marketing Department and was awarded as one of the University's most outstanding professors.

He earned his Master's Degree in Business Management with distinction from the Asian Institute of Management in 1986 and was one of the 10 Outstanding Graduates of his batch at the University of the Philippines where he obtained a BSBA degree with a double major in marketing and finance in 1983.

**Directorship in another publicly-listed company:**

Prime Orion Philippines, Inc. is listed on the Philippine Stock Exchange.

**Saw Phaik Hwa**

Non-Executive and Independent Director

**Committee memberships:**

- *Nomination and Governance Committee*
- *Compensation and Remuneration Committee*
- *Audit and Related Party Transactions Committee*

Singaporean, 65, has been an Independent Director since 7 April 2015. Ms. Saw was the Group CEO of Auric Pacific Group, listed on the Mainboard of the Singapore Exchange, which has diverse business interests ranging from distribution of fast moving consumer food, food manufacturing and retailing, management of restaurant and food court operations to other strategic investments including fund investment. The Group operates in various countries throughout Asia including Singapore, Malaysia, Indonesia, Hong Kong and China. Ms. Saw retired as its CEO on 1 May 2015.

**Skills and experience:**

Prior to this, Ms. Saw was the President and CEO of SMRT Corporation Ltd between December 2002 to January 2012, Singapore's first multi-modal public transport service provider. During her tenure, she enhanced the public travel experience in Singapore by introducing commuter-centric initiatives and adding lifestyle conveniences at stations to make public transport a choice mode of travel for all. She

was also instrumental in broadening SMRT's geographical footprint as well as establishing SMRT's presence overseas with the opening of offices in the Middle East and China which serve as springboards to opportunities in those regions. From 1984 to 2002, she was the Regional President in charge of businesses in Singapore, Indonesia, and Malaysia for DFS Venture Singapore.

Ms. Saw holds a Second Upper Class Honours in Biochemistry from the University of Singapore and attended the Advanced Management Programme at the University of Hawaii.

***Ms. Saw is not a Director in any other publicly-listed company.***

***Cirilo P. Noel***

Non-Executive and Independent Director

***Committee memberships:***

- *Nomination and Governance Committee*
- *Compensation and Remuneration Committee*
- *Audit and Related Party Transactions Committee (Chairman)*

Filipino, 62, has been an Independent Director since 17 April 2018. He also serves as a Board of Trustee/Director at St. Luke's Medical Center and St. Luke's Foundation and St. Luke's Medical Center College of Medicines. Mr. Noel continues to serve as a Trustee of the SGV Foundation. He is the audit committee chair and a trustee of the Makati Business Club. Mr. Noel sits in the Board of the following companies: LH Paragon Inc.; Cal-Comp Technology (Philippines), Inc.; and Amber Kinetics Holding Co. PTE LTD. He is also the Chairman of the Board of Palm Concepcion Power Corporation. He is a founding board member of the US-Philippines Society as well as a member of the ASEAN Business Club.

***Skills and experience:***

As a certified public accountant (CPA) and lawyer, Mr. Noel's areas of expertise include international tax for inbound and outbound investments, tax advisory and planning, tax advocacy, litigation, investment and trade laws. He was, for many years, the Head of SGV's Tax Division. He was also a Senior Advisor to the Ernst & Young Global Limited (EY) Global Delivery Services (GDS) Philippines.

In June 30, 2017, Mr. Noel retired as Chairman and Managing Partner of SyCip Gorres Velayo & Co. (SGV), the Philippine member firm of EY. When he assumed the post as Chairman and Managing Partner from February 1, 2010 to December 31, 2016 and Managing Partner from January 2009 to December 31, 2016, SGV became part of the EY Global Delivery Network (GDN), which offers Advisory Services including Performance Improvement, Risk, and Advisory Support capabilities to EY clients around the world. GDN Philippines also offers IT services, business and creative services focused on administrative support, creative design, as well as knowledge services. In 2010, the Asia-Pacific Talent Hub was established as a cross-border teaming resource. Within the global EY organization, he was a member of the EY Global Advisory Council and the EY Asia Pacific Advisory Council for two terms or six years. He was also the Presiding Partner of the EY Far East Asia Advisory Council and the EY ASEAN Partners Forum. He served as ASEAN Sub-Area Tax Head and the Far East Area Business Tax Services Leader. He is a former member of the Board of Trustees and the audit committee chair of the Philippine Business for Social Progress and a former governor of the Management Association of the Philippines. He also served as president of the Harvard Law Alumni Association of the Philippines and as a member of the Board of Trustees of the Harvard Club of the Philippines.

Mr. Noel graduated from the University of the East in Manila with a degree in Business Administration and holds a Bachelor of Laws degree from the Ateneo de Manila University Law School. He obtained his Master's degree in Law from Harvard Law School and is a fellow of the Harvard International Tax Program. He also attended the Management Development Program at the Asian Institute of Management.

***Directorship in another publicly-listed company:***

Security Bank Corporation; J.G. Summit Holdings, Inc.; PAL Holdings, Inc.; and San Miguel Food and Beverage Inc. All of which are listed on the Philippine Stock Exchange.

## **B. Key Officers as of 31 December 2018**

The key officers and consultants of the Company are appointed by the Board of Directors and their appointment as officers may be terminated at will by the Board of Directors. The table below shows the name and position of Globe Telecom's key officers as of 31 December 2018.

### **Key Officers – Globe**

| <b>Name</b>                | <b>Position</b>                                                                                           |
|----------------------------|-----------------------------------------------------------------------------------------------------------|
| Ernest L. Cu <sup>1</sup>  | President and Chief Executive Officer (CEO)                                                               |
| Alberto M. de Larrazabal   | Chief Commercial Officer (CCO)                                                                            |
| Gil B. Genio               | Chief Technology and Information Officer (CTIO) and Chief Strategy Officer (CSO)                          |
| Rosemarie Maniego-Eala     | Chief Finance Officer (CFO), Treasurer, and Chief Risk Officer (CRO)                                      |
| Vicente Froilan M. Castelo | General Counsel                                                                                           |
| Rebecca V. Eclipse         | Chief Customer Experience Officer (CCEO)                                                                  |
| Carmina J. Herbosa         | Chief Audit Executive (CAE)                                                                               |
| Renato M. Jiao             | Chief Human Resources Officer (CHRO)                                                                      |
| Maria Aurora Sy-Manalang   | Chief Information Officer (CIO)                                                                           |
| Marisalve Ciocson-Co       | Senior vice President for Law and Compliance, Chief Compliance Officer, and Assistant Corporate Secretary |
| Bernard P. Llamzon         | EVP for Channel Management                                                                                |
| Solomon M. Hermosura       | Corporate Secretary                                                                                       |

<sup>1</sup> Member, Board of Directors.

### **Alberto M. de Larrazabal**

Filipino, 63, Globe's Chief Commercial Officer (CCO). As CCO, Mr. de Larrazabal oversees the integration and execution of our strategies across all commercial units, including marketing, sales and channels, and product development for all segments of business. He joined Globe in June 2006 as Head of the Treasury Division. He became the company's Chief Finance Officer in April 2010. He had over two decades of extensive experience as a senior executive in Finance, Business Development, Treasury Operations, Joint Ventures, Mergers and Acquisitions, as well as Investment Banking and Investor Relations.

Prior to joining Globe, he held such positions as VP and CFO of Marsman Drysdale Corp., VP and Head of the Consumer Sector – JP Morgan, Hong Kong, and SVP and CFO of San Miguel Corporation.

He holds a Bachelor of Science degree in Industrial Management Engineering from De La Salle University.

### **Gil B. Genio**

Filipino, 59, Globe's Chief Technology and Information Officer (CTIO) since November 2015, and its Chief Strategy Officer (CSO) since 2010. As CTIO, he leads all product, network, technology and information organizations and drives the overall vision, development and execution of architecture and strategies, proactively responding to our business and market demands. As CSO, he leads corporate strategy and business development efforts. He also performs other legal entity functions for Globe such as CEO of Globe Capital Venture Holdings and Director at its strategic joint ventures Global Telehealth Inc. and Bell Tel, ETPI and others.

Among his previous jobs in Globe was Chief Financial Officer, followed by stints as Group Head for Fixed networks, Carrier Services and Business customers, and Chief Operating Officer for Business and International Markets. Mr. Genio is a Managing Director at Ayala Corporation. Before joining Globe and Ayala, he spent more than 11 years with Citibank in the Philippines, Singapore, Japan and Hong Kong, with stints in financial control, risk management, product development, audit and market risk management. His past industry affiliations have been Vice Chairman (2012-2014) then Chairman (2014-2016) of the GSM Association Asia Pacific (GSMA AP); member of the Advisory Board for Mobile World Capital Barcelona; and member, TM Forum Advisory Council for Asia Pacific; IBAP (2011-2013; 2015-2016).

He obtained a Master's Degree in Business Management, graduating with Distinction, from the Asian Institute of Management. He holds a Bachelor of Science degree in Physics, magna cum laude, from the University of the Philippines.

***Rosemarie Maniego-Eala***

Filipino, 48, Globe's Chief Finance Officer, Treasurer and Chief Risk Officer. She joined Globe in February 1998. Her previous positions in the company were Assistant Vice President for Financial Planning and Analysis, President of G-Xchange Inc. (mobile-commerce subsidiary), and Senior Vice President for International Business. She has had extensive experience in financial planning and analysis, capital markets fund raising, joint ventures, mergers and acquisitions, investor relations, strategic planning, business development, and setting up and managing start-ups. Prior to joining Globe, she was Deputy Research Head for Natwest Markets.

Ms. Maniego-Eala earned her Bachelor of Arts in Management Economics from the Ateneo de Manila University.

***Vicente Froilan M. Castelo***

Filipino, 54, Globe's General Counsel and Head of the Corporate and Legal Services Group (CLSG) since April 2011. He is a veteran in the practice of law, and is one of the pioneers in the practice of law in the telecommunications and information communication technology field. He joined Globe Telecom as the Head of Regulatory Affairs in July 1998.

He earned his Bachelor of Laws from San Beda College and is the President of the Philippine Chamber of Telecommunication Operators and President of the Telecommunications and Broadcast Attorneys of the Philippines.

***Rebecca V. Eclipse***

Filipino, 56, Globe's Chief Customer Experience Officer (CCEO) and Head of the Office of Strategy Management. She joined Globe in March 1995. Ms. Eclipse heralds over 25 years of experience in the telecommunications industry, holding key leadership roles in internal audit, financial and risk management, revenue assurance and fraud, covering areas that include strategy management, process and quality management and customer experience transformation.

She draws from her consulting, risk management, financial management and auditing experience from SGV & Co, as well as Oceanic Wireless Network, Inc. and Eastern Telecommunications, Inc. In 2016, she was cited by Global Telecoms Business as one of the Top 50 Women to Watch in the industry. Prior to this during the Stevie International Business Awards of 2014, she earned their Gold accolade as Customer Service Executive of the Year.

Ms. Eclipse graduated magna cum laude from the Central Colleges of the Philippines with a Bachelor's Degree in Business Administration. She is a Certified Public Accountant registered with the Professional Regulation Commission, and she is a member of the Philippine Institute of Certified Public Accountants (PICPA), Institute of Internal Auditors (IIA), and Information Systems and Control Auditors Association (ISACA).

***Carmina J. Herbosa***

Filipino, 52, Globe's Chief Audit Executive. She joined Globe in February 2012. Ms. Herbosa is a Certified Public Accountant, a Certified Internal Auditor (US CIA) and a Certified Control Self-Assessment Auditor (US CCSA).

Ms. Herbosa has more than 20 years of financial and audit experience having held management positions in Procter & Gamble in Asia, Europe, and the US. Prior to joining Globe, Ms. Herbosa was based in China as Senior Director for Internal Audit for Asia and EMEA of Whirlpool Corporation.

She earned her Bachelor of Science in Business Administration and Accountancy, cum laude, from the University of the Philippines, and her Master of Business Administration from the Kellogg School of Management in Northwestern University.

***Renato M. Jiao***

Filipino, 62, Globe's Chief Human Resources Officer (CHRO). He joined Globe in June 2010. Mr. Jiao has over 30 years of experience in general management and leveraging leading-edge technologies,

processes and human capital for competitive advantage. He is a seasoned HR Practitioner with 15 years of experience in multi-functional HR practice areas.

Mr. Jiao also held various significant positions in Procter & Gamble (Philippines), Inc. and Procter & Gamble Asia Pte Ltd. Prior to joining Globe, he was President of IBM Business Services, Inc.

He earned his Bachelor of Science degree in Mechanical Engineering from the University of the Philippines.

***Maria Aurora Sy-Manalang***

Filipino, 43, Globe's Chief Information Officer (CIO) since 2015, leading Globe's IT transformation initiatives at scale. She has been with the company for 16 years, and is instrumental in many of its successes including: the adoption of cloud first policy, making Globe one of the largest consumer of Amazon Web Services (AWS) in the region; the completion of key digitization initiatives; and the standardization of the product design and delivery process. In her previous role as Product Management head, the division evolved into an enterprise resource, driving improved organizational synergy. She has more than 20 years of experience in Information Technology and Telecommunications industry, with core expertise in change management, project management, platform management, as well as software and product development.

Prior to Globe, she led the software business of Sun Microsystems in the Philippines.

Ms. Sy-Manalang earned her Bachelor's degree in Computer Science with specialization in Information Technology from De La Salle University, and holds a Master of Business Administration degree from Ateneo Graduate School of Business.

***Marisalve Ciocson-Co***

Filipino, 49, appointed as Globe's Chief Compliance Officer and Senior Vice President for Law and Compliance of Globe CLSG in April 2017. She is also the Company's Assistant Corporate Secretary.

Ms. Ciocson-Co graduated cum laude with a degree in Bachelor of Arts in Political Science from the University of the Philippines-Diliman and received her Juris Doctor (Law) degree from Ateneo de Manila University College of Law.

***Bernard P. Llamzon***

Filipino, 58, Globe's Executive Vice President of Channel Management Group since April 2017. He joined Globe in October 2006 to handle Sales and Distribution for wireless products and has since then created a track record of operational excellence and effective execution.

Mr. Llamzon is a veteran in the field of Sales and Distribution with significant contributions in the beverage, tobacco and telecommunications industries. Deriving from 27 years of experience, he possesses broad and deeply-applied knowledge on all sales channel types, practices the disciplines of a global company, has a well-developed local network, and has tested leadership over a large sales organization.

He holds a Bachelor's degree in Commerce, major in Business Management from De La Salle University, and attended the Management Development Program of the Asian Institute of Management and INSEAD's World Class Business Manager Program.

***Solomon M. Hermosura***

Filipino, 56, Globe's Corporate Secretary since July 2010. Mr. Hermosura is a Managing Director of Ayala Corporation and a member of its Management Committee and the Ayala Group Management Committee. He is the Chief Legal Officer, Corporate Secretary, Compliance Officer and Data Protection Officer of Ayala Corporation, and the CEO of Ayala Group Legal. He also serves as Group General Counsel and Corporate Secretary of Ayala Land, Inc.; Corporate Secretary of Ayala Foundation, Inc. and a number of other companies in the Ayala Group; and as member of the Board of Directors of a number of companies in the Ayala Group. He also served as a Director of Bank of the Philippine Islands from April 18, 2013 to April 9, 2014.

Mr. Hermosura is also currently a member of the faculty of the College of Law of San Beda University.

He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examinations.

**C. Family Relationships**

The Chairman, Jaime Augusto Zobel de Ayala and a Director, Fernando Zobel de Ayala, are brothers.

There are no known family relationships between the current members of the Board of Directors and key officers other than the above.

**D. Significant Employee**

The Company considers all its employees to be significant partners and contributors to the business.

**E. Involvement in Certain Legal Proceedings**

(1) Directors, Officers - None of the directors, officers or members of the Company's senior management had during the last five years, been subject to any of the following:

- (a) any bankruptcy, petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to the time;
- (b) any conviction by final judgment of any offense in any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities; and
- (d) found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated.

**Item 8. Executive Compensation**

**A. Standard Arrangements**

***Directors***

Article II Section 6 of the Company's By-Laws provides:

"SECTION 6. COMPENSATION OF DIRECTORS - Directors as such may receive, pursuant to a resolution of the stockholders, fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors (As amended on April 12, 2011)."

The stockholders ratified a resolution at its meeting held on 8 April 2014 authorizing the increase in the compensation of Directors, except executive directors, from ₱100,000 to ₱200,000 for every Board meeting and Stockholder's meeting attended. The compensation of Directors will remain at ₱100,000 for every committee meeting attended or such meetings other than those mentioned above. Additionally, the Company's executive director does not receive per diem remuneration in addition to his role as an executive director.

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

The following non-executive directors of the Board received gross per diem remuneration for attending Board and Committee meetings in 2018:

| Director                        | Gross Per diem Remuneration (in Php) |
|---------------------------------|--------------------------------------|
| Jaime Augusto Zobel de Ayala    | 1,900,000.00                         |
| Lang Tao Yih, Arthur            | 2,300,000.00                         |
| Fernando Zobel de Ayala         | 2,000,000.00                         |
| Delfin L. Lazaro                | 1,800,000.00                         |
| Samba Natarajan                 | 2,600,000.00                         |
| Jose Teodoro K. Limcaoco        | 2,000,000.00                         |
| Romeo L. Bernardo               | 2,400,000.00                         |
| Rex Ma, A. Mendoza <sup>1</sup> | 2,300,000.00                         |
| Cirilo P. Noel <sup>2</sup>     | 1,400,000.00                         |
| Saw Phaik Hwa                   | 2,300,000.00                         |
| Manuel A. Pacis <sup>1</sup>    | 700,000.00                           |
| <b>TOTAL</b>                    | <b>21,700,000.00</b>                 |

<sup>1</sup> Mr. Mendoza was elected as the Lead Independent Director, replacing Mr. Pacis, on 17 April 2018.

<sup>2</sup> Mr. Noel was elected as Director on 17 April 2018.

### Key Officers

The total annual compensation (salary and other variable pay) of the CEO and other senior officers of the Company (excluding its subsidiaries) amounted to ₱238 million in 2018 and ₱204 million in 2017. The projected total annual compensation for 2019 is ₱263 million.

The total annual compensation paid to all senior personnel (Executives) of the Company (excluding its subsidiaries) amounted to ₱2,661 million in 2018 and ₱2,224 million in 2017. The projected total annual compensation for 2019 is ₱2,824 million.

The total annual compensation for key officers and managers of the Company includes basic salaries, guaranteed bonuses and variable pay (performance-based annual incentive) are shown below.

| Name and Principal Position                                              | Year           | Salary<br>(in ₱<br>Millions) | Bonus<br>(in ₱ Millions) | Other Annual<br>Compensation<br>(in ₱ Millions) |
|--------------------------------------------------------------------------|----------------|------------------------------|--------------------------|-------------------------------------------------|
| Ernest L. Cu <sup>1</sup><br>President & Chief Executive<br>Officer      |                |                              |                          |                                                 |
| Alberto M. de Larrazabal <sup>1</sup><br>Chief Commercial Officer        |                |                              |                          |                                                 |
| Rebecca V. Eclipse <sup>1</sup><br>Chief Customer Experience<br>Officer  |                |                              |                          |                                                 |
| Gil B. Genio <sup>1</sup><br>Chief Technology and<br>Information Officer |                |                              |                          |                                                 |
| Renato M. Jiao <sup>1</sup><br>Chief Human Resource Officer              |                |                              |                          |                                                 |
| CEO & Most Highly<br>Compensated Executive<br>Officers                   | Actual 2017    | 107                          | 97                       | 0                                               |
|                                                                          | Actual 2018    | 117                          | 121                      | 0                                               |
|                                                                          | Projected 2019 | 127                          | 136                      | 0                                               |
| All other officers <sup>2</sup> as a group<br>unnamed                    | Actual 2017    | 1,360                        | 884                      | 0                                               |
|                                                                          | Actual 2018    | 1,498                        | 1,163                    | 0                                               |
|                                                                          | Projected 2019 | 1,564                        | 1,260                    | 0                                               |

<sup>1</sup> CEO & Most Highly Compensated Executive Officers

<sup>2</sup> All Other Executives

## **B. Other Arrangements**

The Globe Group also has stock-based compensation, pension and benefit plans.

### **Stock Option Plans**

The Globe Group has Executive Stock Option Plan (ESOP) and Long-Term Incentive Plan (LTIP). The number of shares allocated under these plans shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

#### **1. Executive Stock Option Plan (ESOP)**

The Company offered the Executive Stock Option Plan (ESOP) to its directors and officers, including key officers of its subsidiaries, in April 2003 until October 2009. The last exercise date is September 2019 (See Note 26.1.1 in the attached Notes to the Financial Statements). The Company did not have any ESOP transaction in the last financial year.

The Company has not adjusted nor amended the exercise price of the options previously awarded to the above named officers.

#### **2. Long-Term Incentive Plan (LTIP)**

In November 2014, Globe obtained approval from the Board to implement another Long-Term Incentive Plan (LTIP) also called a Performance Share Plan (PSP). Eligible to this plan are key executives and senior management. Under the PSP, the grantees are awarded a specific number of shares at the start of the performance period and gets vested over a specified performance period and contingent upon the achievement of specified long-term goals.

See Note 26.1.2 in the attached Notes to the Financial Statements for the stock grants to key executives and senior management personnel of the Company under the Long-Term Incentive Plan (LTIP).

## Item 9. Security Ownership of Certain Record, Beneficial Owners & Management

### A. Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of 31 December 2018

| Title of Class       | Name, address of Record Owner and Relationship with Issuer                                               | Name of Beneficial Owner & Relationship with Record Owner                  | Citizenship          | No. of Shares Held | % of total o/s shares <sup>6</sup> |
|----------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------|--------------------|------------------------------------|
| Voting Preferred     | Asiacom Philippines, Inc. <sup>1</sup><br>34/F Tower 1 Bldg., Ayala Ave., Makati City                    | Asiacom Philippines, Inc. (hereafter, "Asiacom")                           | Filipino             | 158,515,016        | 50.88%                             |
| Common               | Singapore Telecom Int'l. Pte. Ltd. (STI) <sup>2</sup><br>31 Exeter Road, Comcentre, Singapore            | Singapore Telecom Int'l. Pte. Ltd.                                         | Singaporean          | 62,646,487         | 20.11%                             |
| Common               | Ayala Corporation <sup>3</sup><br>34/F Tower 1 Bldg., Ayala Ave., Makati City                            | Ayala Corporation ("AC")                                                   | Filipino             | 41,157,276         | 13.21%                             |
| Non-Voting Preferred | PCD Nominee Corp. (Filipino) <sup>4</sup><br>G/F Makati Stock Exch. Bldg., Ayala Avenue, Makati City     | PCD Participants acting for themselves or for their customers <sup>5</sup> | Various Filipino     | 19,737,020         | 6.33%                              |
| Common               |                                                                                                          |                                                                            |                      | 10,560,670         | 3.39%                              |
| Common               |                                                                                                          |                                                                            |                      | 17,738,921         | 5.69%                              |
| Non-Voting Preferred | PCD Nominee Corp. (Non-Filipino) <sup>4</sup><br>G/F Makati Stock Exch. Bldg., Ayala Avenue, Makati City | PCD Participants acting for themselves or for their customers <sup>5</sup> | Various Non-Filipino | 78,990             | 0.03%                              |

<sup>1</sup> Asiacom Philippines, Inc. is a significant shareholder of the Company. As per the Asiacom By-laws and the Corporation Code, the Board of Directors of Asiacom has the power to decide how the Asiacom shares in Globe are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

<sup>2</sup> STI, a wholly-owned subsidiary of Singtel (Singapore Telecom), is a significant shareholder of the Company. As per its By-laws, STI, through its appointed corporate representatives, has the power to decide how the STI shares in Globe are to be voted. Mr. Arthur Lang and Mr. Samba Natarajan have been appointed by Singtel as the Authorized Corporate Representatives of the company to exercise all powers on behalf of the company at all General Meetings of Globe Telecom, Inc.

<sup>3</sup> Ayala Corporation is a significant shareholder of the Company. As per the AC By-laws & the Corporation Code, the Board of Directors of AC has the power to decide how AC shares in Globe are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

<sup>4</sup> The PCD Nominee Corporation is a wholly-owned subsidiary of Philippine Central Depository, Inc. and is not related to the Company. It is the registered owner in the Company's books and holds shares on behalf of PCD participants and their clients.

<sup>5</sup> Each beneficial owner of shares through a PCD participant will be the beneficial owner to the extent of the number of shares in his account with the PCD participant. None of the 28,299,591 common shares and 19,816,010 non-voting preferred shares registered in the name of PCD Nominee Corporation beneficially owns more than 5% of the Company's common shares.

<sup>6</sup> Total outstanding shares includes common, voting preferred and non-voting preferred shares.

### B. Security Ownership of Directors and Key Officers as of 31 December 2018

| Title of Class and Nature of Beneficial Ownership | Name of Beneficial Owner     | Amount | Citizenship | % of Total Voting Shares | % of Total Outstanding Shares |
|---------------------------------------------------|------------------------------|--------|-------------|--------------------------|-------------------------------|
| <b>Directors</b>                                  |                              |        |             |                          |                               |
| Common (direct)                                   | Jaime Augusto Zobel de Ayala | 2      | Filipino    | 0.00%                    | 0.00%                         |
| Common (indirect)                                 |                              | 1      |             | 0.00%                    | 0.00%                         |
| Common (direct)                                   | Lang Tao Yih, Arthur         | 2      | Singaporean | 0.00%                    | 0.00%                         |
| Common (direct)                                   | Delfin L. Lazaro             | 1      | Filipino    | 0.00%                    | 0.00%                         |
| Non-voting Preferred (indirect)                   |                              | 2,800  |             | 0.00%                    | 0.00%                         |
| Common (indirect)                                 | Fernando Zobel de Ayala      | 1      | Filipino    | 0.00%                    | 0.00%                         |
| Common (direct)                                   | Jose Teodoro K. Limcaoco     | 1      | Filipino    | 0.00%                    | 0.00%                         |
| Common (direct)                                   | Romeo L. Bernardo            | 1,799  | Filipino    | 0.00%                    | 0.00%                         |
| Common (indirect)                                 |                              | 500    |             | 0.00%                    | 0.00%                         |
| Voting Preferred (indirect)                       |                              | 1      |             | 0.00%                    | 0.00%                         |
| Voting Preferred (direct)                         | Saw Phaik Hwa                | 1      | Singaporean | 0.00%                    | 0.00%                         |
| Common (direct)                                   | Samba Natarajan              | 2      | US Citizen  | 0.00%                    | 0.00%                         |

|                                                              |                             |         |          |       |       |
|--------------------------------------------------------------|-----------------------------|---------|----------|-------|-------|
| Voting Preferred (direct)                                    | Cirilo P. Noel              | 1       | Filipino | 0.00% | 0.00% |
| Voting Preferred (direct)                                    | Rex Ma. A. Mendoza          | 1       | Filipino | 0.00% | 0.00% |
| Common (direct)                                              | Ernest L. Cu                | 106,853 | Filipino | 0.04% | 0.03% |
| Common (indirect)                                            |                             | 4,000   |          | 0.00% | 0.00% |
| Voting Preferred (direct)                                    |                             | 1       |          | 0.00% | 0.00% |
| Non-voting Preferred (indirect)                              |                             | 16,700  |          | -     | 0.01% |
| <b>Officers</b>                                              |                             |         |          |       |       |
| Common (direct)                                              | Ernest L. Cu                | 106,853 | Filipino | 0.04% | 0.03% |
| Common (indirect)                                            |                             | 4,000   |          | 0.00% | 0.00% |
| Voting Preferred (direct)                                    |                             | 1       |          | 0.00% | 0.00% |
| Non-voting Preferred (indirect)                              |                             | 16,700  |          | -     | 0.01% |
| Common (direct)                                              | Rebecca V. Eclipse          | 9,405   | Filipino | 0.00% | 0.00% |
| Common (indirect)                                            |                             | 18,915  |          | 0.01% | 0.01% |
| Non-voting Preferred (direct)                                |                             | 4,000   |          | -     | 0.00% |
| Common (direct)                                              | Gil B. Genio                | 18,302  | Filipino | 0.01% | 0.01% |
| Common (indirect)                                            |                             | 58,638  |          | 0.02% | 0.02% |
| Common (direct)                                              | Alberto M. de Larrazabal    | 14,532  | Filipino | 0.00% | 0.00% |
| Common (indirect)                                            |                             | 3,000   |          | 0.00% | 0.00% |
| Non-Voting Preferred (direct)                                |                             | 2,000   |          | -     | 0.00% |
| Common (direct)                                              | Marisalve Ciocson-Co        | 4,089   | Filipino | 0.00% | 0.00% |
| Common (direct)                                              | Vicente Froilan M. Castelo  | 4,419   | Filipino | 0.00% | 0.00% |
| Common (direct)                                              | Bernard P. Llamzon          | 7,065   | Filipino | 0.00% | 0.00% |
| Common (direct)                                              | Renato M. Jiao              | 9,535   | Filipino | 0.00% | 0.00% |
| Common (indirect)                                            |                             | 285     |          | 0.00% | 0.00% |
| Common (direct)                                              | Carmina J. Herbosa          | 4,495   | Filipino | 0.00% | 0.00% |
| Common (indirect)                                            |                             | 1,300   |          | 0.00% | 0.00% |
| Non-voting Preferred (direct)                                |                             | 2,000   |          | -     | 0.00% |
| Common (direct)                                              | Maria Aurora L. Sy-Manalang | 3,104   | Filipino | 0.00% | 0.00% |
| Common (direct)                                              | Rosemarie Maniego-Eala      | 4,374   | Filipino | 0.00% | 0.00% |
| Common (indirect)                                            |                             | 4,964   |          | 0.00% | 0.00% |
| Common (direct)                                              | Solomon M. Hermosura        | 20      | Filipino | 0.00% | 0.00% |
| All Directors and Officers as a group (Common)               |                             | 279,604 |          | 0.10% | 0.09% |
| All Directors and Officers as a group (Voting Preferred)     |                             | 5       |          | 0.00% | 0.00% |
| All Directors and Officers as a group (Non-Voting Preferred) |                             | 27,500  |          | -     | 0.01% |

None of the members of the Company's directors and management own 2% or more of the outstanding capital stock of the Company.

#### Item 10. Certain Relationships and Related Transactions

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures 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 Singtel

- Globe Telecom has interconnection agreements with Singtel. The related net traffic settlements receivable (included in “Trade 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)   | 2018            | 2017    | 2016    |
|-----------------------|-----------------|---------|---------|
| Receivables – net     | <b>₱255,535</b> | ₱92,732 | ₱70,141 |
| Service revenues      | <b>639,399</b>  | 695,985 | 755,514 |
| Interconnection costs | <b>61,423</b>   | 67,867  | 85,148  |

- Globe Telecom and Singtel have a technical assistance agreement whereby Singtel will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom’s networks and communication, 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 Singtel.
- 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)                                      | 2018            | 2017     | 2016     |
|----------------------------------------------------------|-----------------|----------|----------|
| Maintenance and restoration costs and other transactions | <b>₱83,497</b>  | ₱150,521 | ₱126,148 |
| Technical assistance fee                                 | <b>158,117</b>  | 174,285  | 89,400   |
| Software development, supply, license and support        | <b>45,799</b>   | 65,735   | 28,342   |
|                                                          | <b>₱287,413</b> | ₱390,541 | ₱243,890 |

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

| (In Thousand Pesos)                                      | 2018            | 2017     | 2016     |
|----------------------------------------------------------|-----------------|----------|----------|
| Technical assistance fee                                 | <b>₱53,759</b>  | ₱65,035  | ₱63,510  |
| Maintenance and restoration costs and other transactions | <b>14,156</b>   | 23,559   | 22,695   |
| Software development, supply, license and support        | <b>55,603</b>   | 43,725   | 17,974   |
|                                                          | <b>₱123,518</b> | ₱132,319 | ₱104,179 |

- Globe Telecom, Innove, and BTI earn subscriber revenues from AC. The outstanding subscribers receivable from AC (included in “Trade 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)    | 2018           | 2017    | 2016    |
|------------------------|----------------|---------|---------|
| Subscriber receivables | <b>₱15,515</b> | ₱15,786 | ₱11,463 |
| Service revenues       | <b>31,363</b>  | 25,580  | 24,112  |

- Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities (included in “Trade payables and accrued expenses” account in the consolidated statements 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)                          | 2018           | 2017    | 2016    |
|----------------------------------------------|----------------|---------|---------|
| General, selling and administrative expenses | <b>₱86,604</b> | ₱37,353 | ₱95,717 |
| Accounts payable and accrued expenses        | <b>85</b>      | 85      | 24,653  |

## Joint Ventures in which the Globe Group is a Venturer

### *BMPL*

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 ₱0.35 million and ₱0.32 million as of December 31, 2018 and 2017, respectively. Balances related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱20.70 million, ₱20.71 million and ₱19.42 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

### *GFI/Mynt*

The Globe Group renders certain management support services to GXI. The management services also includes the use of the Globe Group's network and facilities to conduct GXI's operations.

The Globe Group has a VAS sharing agreement with GXI. Under the agreement, GXI shall perform the following services and shall be entitled to a certain percentage of data revenues arising from GCash transactions:

- (1) provide an e-commerce system (the application that drives the service) through which mobile wallets get updated for each cash in and cash out transaction;
- (2) provide cash in and cash out distribution channels for the remittance business through its partners (which may include Globe Stores); and
- (3) provide customer support.

GXI is also entitled to a certain percentage share for the airtime load purchased by the Globe Group's subscribers and Application Processing Interface (API) fees for the usage of GCash system in continuing service of the various products and services of the Globe Group.

## Transactions with the Globe Group Retirement Plan (GGRP)

The Globe Group granted various loans to the GGRP at an interest rate of 5% which matured on September 11, 2017. Upon maturity, the loan was extended until September 11, 2020 with the interest rate increased to 5.50% per annum. Interest income amounted to ₱36.37 million, ₱38.24 million and ₱44.33 million in 2018, 2017 and 2016, respectively (*see Note 20 of the attached consolidated financial statement*). As of December 31, 2018 and 2017, the outstanding balance of loan receivable from GGRP amounted to ₱598.00 million and ₱718.00 million, respectively. (*see Note 13 of the attached consolidated financial statement*).

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.

The Globe Group granted loans amounting to ₱250.00 million and ₱45.00 million to BHI at 5% interest which matured on August 14, 2017. 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. Upon maturity, the loan was extended until August 14, 2020 with the interest rate increased to 5.75% per annum.

As of December 31, 2018 and 2017, the outstanding balance of loan receivable from BHI amounted to ₱128.62 million. Interest income amounted to ₱7.50 million, ₱7.84 million, and ₱8.06 million in 2018, 2017 and 2016, respectively (*see Note 20 of the attached consolidated financial statement*).

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. The Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱190.00 million annually in 2018, 2017 and 2016.

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 ₱55.00 million in 2018 and 2017 and ₱32.49 million in 2016.

#### Transactions with Yondu

The Globe Group has a VAS sharing agreement with Yondu. Under the agreement, Yondu is entitled to a 30% share on revenue for providing mobile contents to Globe and TM subscribers. The Globe Group's payout to Yondu on mobile content transactions in 2018, 2017 and 2016 amounted to ₱46.34 million, ₱45.33 million and ₱264.30 million, respectively.

Yondu also provides various enterprise solutions-based services to the Globe Group for network, platform and applications development under its Business Process Outsourcing Unit (BPO) and mobile content. The Globe Group's related expenses in 2018, 2017 and 2016 amounted to ₱482.21 million, ₱441.54 million and ₱240.21 million, out of which ₱90.84 million, ₱74.36 million and ₱102.32 million were capitalized under "Asset Under Construction", respectively).

#### Transactions with other related parties

The Globe Group earns service revenues, maintains money market placements and cash in bank balances, acquires transportation equipment and incurs general, selling and administrative expenses such as rentals, utilities and customer contract services, from entities which are either controlled, jointly 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)          | 2018            | 2017            |
|------------------------------|-----------------|-----------------|
| Short-term employee benefits | <b>₱238,500</b> | ₱204,000        |
| Share-based payments         | <b>120,200</b>  | 159,500         |
| Post-employment benefits     | <b>16,500</b>   | 15,300          |
|                              | <b>₱375,200</b> | <b>₱378,800</b> |

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.

For a summary of balances arising from related party transactions for the relevant financial year, please refer to Note 18 of the 2018 Notes to the Audited Financial Statements.

## PART IV – CORPORATE GOVERNANCE

In compliance with SEC Memorandum Circular No. 15, Series of 2017 and PSE Circular No. 2017-0079 on the Integrated Annual Corporate Governance Report (i-ACGR), Globe Telecom's i-ACGR will be submitted to the Commission separately on or before May 30, 2019 using SEC Form i-ACGR. The i-ACGR replaces the CG section of the Company's SEC Form 17-A, the previous SEC Form ACGR and PSE's CGR-1. The i-ACGR will also be available on the company website upon completion of submission to pertinent regulatory agencies.

Globe Telecom also continues to adopt the Integrated Reporting in accordance with the International Integrated Reporting Framework advocated by the International Integrated Reporting Council (IIRC). It is also in reference to the Global Reporting Initiative (GRI), the United Nations' Sustainable Development Goals, the ASEAN Corporate Governance Scorecard (ACGS) Principles and the SEC i-ACGR. The Report undergoes external party assurance, which was conducted by DNV-GL for 2018. It highlights the Company's shift to sustainable value creation, containing information about the Company's strategies, governance and performance in the context of its external environment and how these create value over the short, medium and long terms. The Report also aims to enhance appreciation among Globe's stakeholders of how the Company contributes to addressing the major challenges and key issues in today's society, linking Globe's sustainability performance to its business results. The Report also highlights the Company's strategy in line with its market vision, anticipating a shift towards the digital lifestyle of every Filipino. As done in previous years, the Report will also be available on the company website on or before the Company's Annual Stockholders' Meeting (ASM), which will be held on April 23, 2019. The Company encourages stakeholders to refer to the Integrated Report for a more in-depth and detailed presentation and discussion not only of Globe Telecom's annual financial results, CG initiatives and sustainability campaign, but also of the Company's strategies, governance and performance in the context of its external environment and how these create value.

Globe Telecom fully understands the character and needs of its customers and stakeholders considering the changes and progress in digital lifestyle. Because of this, the Company regularly maintains its website as an accessible channel of information for all its stakeholders, and in accordance with the CG principles of full disclosure and transparency, accountability and integrity. Among other information, the company website ([www.globe.com.ph](http://www.globe.com.ph)) contains the Company's corporate announcements, reports and disclosures. Apart from the Sustainability page (<https://www.globe.com.ph/about-us/sustainability.html>), dedicated pages in the website were created for the posting of reports and corporate documents for the easy reference of all customers and all stakeholders. These pages include, but are not limited to, the following:

- i. IR page (<https://www.globe.com.ph/about-us/investor-relations.html>)
  - a. Various SEC and PSE Disclosures including the Annual Report (SEC Form 17-A), Annual Audited Financial Statements, Annual Information Statement (SEC Form 20-IS) and the General Information Sheet (GIS) under the Investor Relations Page, among others: <http://investor-relations.globe.com.ph/sec-filings/annual-report-17a.html>
  - b. Dividend Policy and Historical Dividends: <https://www.globe.com.ph/about-us/investor-relations/stock-information/dividend-policy.html>
- ii. CG page (<https://www.globe.com.ph/about-us/corporate-governance.html>)
  - a. Annual Corporate Governance Report (ACGR): <https://www.globe.com.ph/about-us/corporate-governance/annual-corporate-governance-report.html>
  - b. Annual and Sustainability Reports (ASRs): <https://www.globe.com.ph/about-us/sustainability.html>
  - c. ASEAN Corporate Governance Scorecard (ACGS): <https://www.globe.com.ph/about-us/corporate-governance/asean-corporate-governance-scorecard.html>
  - d. Annual Stockholders' Meetings (ASMs): <https://www.globe.com.ph/about-us/corporate-governance/annual-stockholders-meetings.html>
  - e. Certificates of Compliance: <https://www.globe.com.ph/about-us/corporate-governance/certificate-of-compliance.html>

- f. Related Party Transactions (RPTs):  
<https://www.globe.com.ph/about-us/corporate-governance/related-party-transactions.html>
- g. Company Policies:  
<https://www.globe.com.ph/about-us/corporate-governance/company-policies.html>
- h. Board of Directors:  
<https://www.globe.com.ph/about-us/corporate-governance/board-of-directors.html>
- i. Conglomerate Map  
<https://www.globe.com.ph/about-us/corporate-governance/conglomerate-map.html>
- j. Enterprise Risk Management  
<https://www.globe.com.ph/about-us/corporate-governance/enterprise-risk-management.html>

As strong advocates of fairness, accountability, transparency, integrity and sustainability in all aspects of the business, the Board of Directors, the Management, the officers, and all employees commit to the principles and best practices of CG in the attainment of corporate goals aligned with Globe Telecom's strategic direction. Globe Telecom recognizes the importance of good governance in realizing its vision, carrying out its mission, and living out its values to create sustainable value for all its stakeholders. The impact of global conditions and challenges further underscores the need to uphold the Company's high standards of CG to strengthen its structures and processes. The Board of Directors, together with management, fully understand that the CG proactive culture begins with the leaders of the Company.

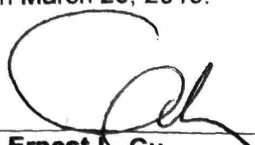
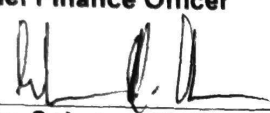
The thrust for a CG proactive business culture emanates from the top. The Board, as part of its functions and responsibilities, leads, develops and reviews the Company's strategic direction and business strategies regularly. The committees created to support Board functions serve as venues to discuss business strategies, CG responsibilities, and the Company's strategic direction, among other business matters, in relation to the specific responsibilities of each committee. Currently, the Board has five committees namely the Executive Committee, Nomination and Governance Committee, Compensation and Remuneration Committee, Audit and Related Party Transactions (RPT) Committee, and Finance Committee. Appointments of the eleven elected directors to their respective Committees are done at the organizational meeting following the ASM. Management is entrusted with implementation and close monitoring of Board-approved business strategies, and is likewise tasked to conduct the Company's business with the highest corporate governance standards and conduct.

The Board values inputs and suggestions that feedback mechanisms provide to assist them as they reflect on their performance as individual directors and as a governing body. Apart from compliance with internal policies and procedures, the Board of Directors performs an annual self-assessment exercise through a self-assessment questionnaire. The assessment is comprised of appraisal of the Board, of individual directors, of the different Board Committees, the Management including the President and CEO, and of the Chairman of the Board. The self-assessment questionnaire and criteria are posted on the company website. The Board, together with the key officers, also actively attends training programs annually to keep abreast of updates in CG and relevant discussions to support their leadership roles in the Company. Attendance of the Board and the key officers to the CG training programs are disclosed through the i-ACGR and posted on the company website.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig on March 29, 2019.

By:

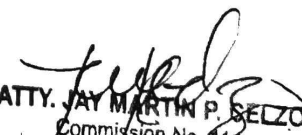
1.   
**Ernest L. Cu**  
**President and Chief Executive Officer**
Date: 29 March 2019
2.   
**Rosemarie Maniego-Eala**  
**Chief Finance Officer**
Date: 29 March 2019
3.   
**Atty. Solomon M. Hermosura**  
**Corporate Secretary**
Date: 29 March 2019

APR 02 2019

**SUBSCRIBED AND SWORN** to before me this 02 day of April 2019, affiants who are personally known to me or identified through competent evidence of identity, to wit

| Name                   | Passport or ID No.                                                                  | Date of Issue                                                                        | Expiry Date                                                                           |
|------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Ernest L. Cu           |  |  |  |
| Rosemarie Maniego-Eala |  |  |  |
| Solomon M. Hermosura   |  |  |  |

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 Book No. 1  
 Series 2019

  
**ATTY. JAY MARTIN P. BELZO**  
 Commission No. 444  
 Notary Public for Taguig City  
 8th Floor, W Global Center, 9th Avenue cor. 30th St.  
 Bonifacio Global City, Taguig, Philippines  
 Roll of Attorney's No. 71830  
 IBP No. 42768; 5-16-18; Rizal  
 PTR No. A-4410208, 3-27-2019, Taguig City  
 TIN No. 298-449-431-000  
 MCLE Compliance no. VI - 0016141

## PART V – EXHIBITS AND SCHEDULES

- A. Exhibits** – Please see accompanying Index to Exhibits in the following pages
- B. Reports on SEC Form 17-C** - The Company regularly files various reports on SEC Form 17-C relative to various company disclosures. Of these, the more significant ones are as follows:

| Date               | Title                                                                                                            |
|--------------------|------------------------------------------------------------------------------------------------------------------|
| January 9, 2018    | Advisement Letter on Attendance of Board of Directors for 2017                                                   |
| February 8, 2018   | Press Release: Globe in Talks with 3 <sup>rd</sup> Parties for Creation of independent Tower Company             |
| February 28, 2018  | Amended Explanation of Agenda Items for the 2018 Annual Stockholders' Meeting                                    |
| March 12, 2018     | Press Release: Globe Closes Term Loans with Mizuho Bank, Ltd.                                                    |
| April 10, 2018     | Change in Number of Issued and Outstanding Shares                                                                |
| April 17, 2018     | Results of the Annual Stockholders' Meeting and Organizational Meeting                                           |
| April 24, 2018     | Advisement Letter on Update to a Director's Profile                                                              |
| May 29, 2018       | Advisement Letter on Update to a Director's Profile                                                              |
| June 1, 2018       | Advisement Letter on Update to a Director's Profile                                                              |
| June 8, 2018       | Advisement Letter on Participation of Director in a CG Orientation Program                                       |
| July 5, 2018       | Board Approves Creation of Separate Tower Company                                                                |
| July 13, 2018      | Change in Number of Issued/Outstanding Shares                                                                    |
| July 16, 2018      | Press Release: ABS-CBN Convergence & Globe Explore New Product Synergies as Network Sharing Agreement Winds Down |
| August 10, 2018    | Change in Number of Issued/Outstanding Shares                                                                    |
| August 20, 2018    | Incorporation of GTowers Inc.                                                                                    |
| September 14, 2018 | Consent Solicitation Exercise                                                                                    |
| September 17, 2018 | Consent Solicitation Statement (2019)                                                                            |
| September 17, 2018 | Consent Solicitation Statement (2020 & 2023)                                                                     |
| September 17, 2018 | Change in Number of Issued/Outstanding Shares                                                                    |
| October 5, 2018    | Corporate Disclosure on Termination of Consent Solicitation                                                      |
| December 6, 2018   | Notice and Agenda with Explanation of Agenda Items of the ASM                                                    |
| December 7, 2018   | Press Release: Globe Telecom closes Term Loan with Bank of the Philippine Islands                                |
| December 7, 2018   | Amended Agenda with Explanation of Agenda Items of the ASM                                                       |
| December 18, 2018  | Press Release: Globe Telecom Closes Term Loan with China Banking Corporation                                     |

## INDEX TO EXHIBITS

| Description of Exhibit                                                                                                               | Remarks/Attachment |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Statement of Management's Responsibility                                                                                             | ✓                  |
| Report of Auditors and Consolidated Financial Statements and Notes to Consolidated Financial Statements                              | ✓                  |
| Independent Auditors' Report on the Supplementary Schedules                                                                          | ✓                  |
| Schedule of all the effective standards and interpretations under The Philippine Financial Reporting Standards (PFRS)                | ✓                  |
| Financial Soundness Indicators                                                                                                       | ✓                  |
| Reconciliation of Retained Earnings available for dividend declaration as of December 31, 2018                                       | ✓                  |
| Map of the relationship of the companies within the group                                                                            | ✓                  |
| Schedule of preferred shares offering proceeds                                                                                       | *                  |
| Short Term Investments                                                                                                               | *                  |
| Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)      | ✓                  |
| Long-Term Investments in Securities (Non-current Marketable Securities, Other Long Term Investments in Stocks and Other Investments) | *                  |
| Deferred Charges and Others                                                                                                          | *                  |
| Long Term Debt                                                                                                                       | ✓                  |
| Indebtedness to Related Parties (Other Long term Liabilities)                                                                        | *                  |
| Capital Stock (Specimen of stock certificate)                                                                                        | ✓                  |
| Plan of Acquisition, Reorganization, Arrangements, Liquidation or Succession                                                         | *                  |
| Instruments Defining the Rights of Security Holders, Including Indentures                                                            | *                  |
| Voting Trust Agreement                                                                                                               | *                  |
| Material Contracts                                                                                                                   | *                  |
| Annual Report to Security Holders                                                                                                    | ✓                  |
| Letter re: Director Resignation                                                                                                      | *                  |
| Report Furnished to Security Holders                                                                                                 | *                  |
| Subsidiaries to Registrant                                                                                                           | ✓                  |
| Published Report Regarding Matters Submitted to a Vote of Security Holders                                                           | *                  |
| Consent of Experts and Independent Counsel                                                                                           | *                  |
| Power of Attorney                                                                                                                    | *                  |
| Financial Assets                                                                                                                     | *                  |
| Trade & other receivables eliminated during consolidation                                                                            | ✓                  |
| Intangible Assets-Other Assets                                                                                                       | ✓                  |
| Indebtedness to Related Parties                                                                                                      | *                  |
| Guarantees of Securities of Other Issuers                                                                                            | *                  |
| Capital Stock                                                                                                                        | ✓                  |

*Note: \* The exhibits are either Not Applicable to the Company or require No Answer.*

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

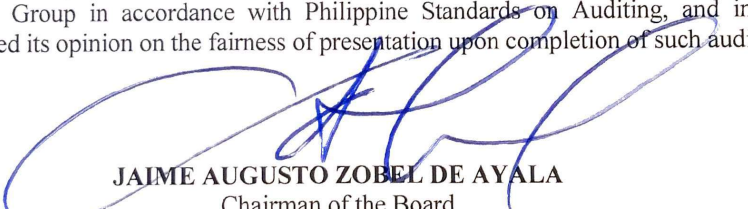
The management of Globe Telecom, Inc. and Subsidiaries ("Globe Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2018, and 2017 and for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

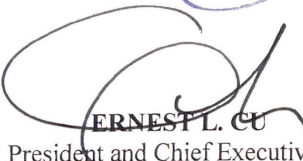
In preparing the consolidated financial statements, management is responsible for assessing the Globe Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Globe Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Globe Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

Navarro Amper & Co., the independent auditors appointed by the stockholders has audited the consolidated financial statements of the Globe Group 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.

  
**JAIME AUGUSTO ZOBEL DE AYALA**  
 Chairman of the Board

  
**ERNEST L. CU**  
 President and Chief Executive Officer

  
**ROSEMARIE MANIEGO-EALA**  
 Chief Finance Officer and Treasurer

Signed this 11th day of February 2019

SUBSCRIBED AND SWORN to before me this FEB 11 2019 at \_\_\_\_\_ City, affiants who are personally known to me or identified through competent evidence of identity, to wit:

| Name                         | Passport or ID No. | Date of Issue | Expiry Date |
|------------------------------|--------------------|---------------|-------------|
| Jaime Augusto Zobel De Ayala |                    |               |             |
| Ernest L. Cu                 |                    |               |             |
| Rosemarie Maniego-Eala       |                    |               |             |

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 Page No. ; 33  
 Book No. ; 1  
 Series of 2019.

  
**JAY MARTIN P. CELZO**  
 Commission No. 114  
 Notary Public for Taguig City  
 8th Floor, W Global Center, 9th Avenue cor. 30th St.  
 Bonifacio Global City, Taguig, Philippines  
 Roll of Attorney's No. 71830  
 IBP No. 42768; 5-16-18; Rizal  
 PTR No. 7640657, 12 September 2018, Marikina City  
 TIN No. 298-449-431-000  
 MCLE Compliance Exempted, pursuant to MCLE  
 Governing Board Order No. 1, s. 2008

# GLOBE TELECOM, INC. AND SUBSIDIARIES

Consolidated Financial Statements  
December 31, 2018, 2017 and 2016



Globe

## SUPPLEMENTAL WRITTEN STATEMENT OF AUDITORS

The Stockholders and the Board of Directors

**GLOBE TELECOM, INC.**

The Globe Tower, 32<sup>nd</sup> Street corner 7<sup>th</sup> Avenue  
Bonifacio Global City, Taguig City

Gentlemen:

In connection with our audit of the consolidated statement of financial position of Globe Telecom, Inc. and Subsidiaries as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended December 31, 2018, we wish to state that the Company is listed with the Philippine Stock Exchange.

Navarro Amper & Co.

BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021

SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A  
TIN 005299331

By:



Oliver C. Bucao

Partner

CPA License No. 0086699

SEC A.N. 1623-A, issued on March 23, 2017; effective until March 22, 2020, Group A

TIN 129433612

BIR A.N. 08-002552-47-2017, issued on June 8, 2017; effective until June 8, 2020

PTR No. A-4255727, issued on January 10, 2019, Taguig City

Taguig City, Philippines

February 11, 2019



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
**GLOBE TELECOM, INC.**  
The Globe Tower, 32<sup>nd</sup> Street corner 7<sup>th</sup> Avenue  
Bonifacio Global City, Taguig City

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries (the "Globe Group") which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Globe Group as at December 31, 2018 and 2017, and its financial performance, and cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

#### *Basis for Opinion*

We conducted our audits in accordance with Philippines Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Globe Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:



## **Revenue Recognition**

Revenue recognition has been identified as a key audit matter primarily due to the significant volume of transactions, the complexity of the operation of billing systems used, determination of the accounting of new products introduced during the year and the implementation of the PFRS 15 "*Revenue from Contract with Customers*" effective 1 January 2018 which provided a single, principle based five-step model to be applied to all contracts with customers.

The Globe Group's disclosures on the accounting for revenue recognition are discussed in Note 2.15 to the consolidated financial statements.

## **How the matter was addressed in our audit**

Our audit approach includes:

- We obtained thorough understanding of the revenue recognition policy and business process under the new standard including the key assumptions and judgments used by Management.
- We have tested the completeness and accuracy of the PFRS 15 transition adjustments and the completeness and proper presentation of disclosures.
- We involved our IT specialists in the evaluation of design and operating effectiveness of the automated controls over the capture, rating and recording of revenue transactions.
- We evaluated the business process controls in place over the initiation and authorization of rate changes, the introduction of new plans and input of this information into the billing systems.
- We performed test on the accuracy of customer bills on a sample basis for existing products as well as for new products introduced in the year.
- As part of the substantive tests, we tested key reconciliation used by management to assess the completeness and accuracy of revenue from business support systems to the general ledger
- We evaluated the business process controls in place over the authorization and initiation of rate changes, the introduction of new plans and promos and input of this information into the billing systems.
- We performed analytical review over prepaid and postpaid revenues based on underlying data and certain relationships as well as testing, on a sample basis, the accuracy of adjustments on revenues earned including those from carriers and content providers as a result of negotiations.
- We profiled the manual journal entries posted to revenue accounts and tested supporting evidence to identify any unusual items.

## **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover this other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with PFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Globe Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Globe Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Globe Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Globe Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Globe Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Globe Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Globe Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Oliver C. Bucao.

**Navarro Amper & Co.**

BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021

SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A  
TIN 005299331

By:



Oliver C. Bucao  
Partner

CPA License No. 0086699

SEC A.N. 1623-A, issued on March 23, 2017; effective until March 22, 2020, Group A  
TIN 129433612

BIR A.N. 08-002552-47-2017, issued on June 8, 2017; effective until June 8, 2020

PTR No. A-3745354, issued on January 5, 2018, Taguig City

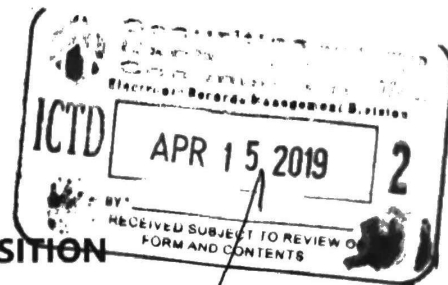
Taguig City, Philippines  
February 11, 2019





Globe

**GLOBE TELECOM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**



|                                                      | Notes     | December 31<br>2018 | 2017                |
|------------------------------------------------------|-----------|---------------------|---------------------|
| <i>(In Thousand Pesos)</i>                           |           |                     |                     |
| <b>ASSETS</b>                                        |           |                     |                     |
| <b>Current Assets</b>                                |           |                     |                     |
| Cash and cash equivalents                            | 29.10, 31 | <b>₱23,226,386</b>  | <b>₱11,222,220</b>  |
| Trade receivables – net                              | 5, 29.10  | <b>21,112,561</b>   | <b>27,304,288</b>   |
| Contract assets and deferred contract costs – net    | 6         | <b>8,471,550</b>    | <b>-</b>            |
| Inventories and supplies – net                       | 7         | <b>4,854,939</b>    | <b>3,242,689</b>    |
| Derivative assets – current                          | 29.3      | <b>63,180</b>       | <b>15,043</b>       |
| Prepayments and other current assets                 | 8         | <b>15,794,767</b>   | <b>15,730,897</b>   |
|                                                      |           | <b>73,523,383</b>   | <b>57,515,137</b>   |
| <b>Noncurrent Assets</b>                             |           |                     |                     |
| Property and equipment – net                         | 9         | <b>169,393,768</b>  | <b>162,602,646</b>  |
| Intangible assets and goodwill – net                 | 10        | <b>13,698,269</b>   | <b>14,883,706</b>   |
| Investments in associates and joint ventures         | 12        | <b>34,426,776</b>   | <b>35,602,999</b>   |
| Deferred income tax assets – net                     | 27        | <b>2,075,065</b>    | <b>2,761,626</b>    |
| Derivative assets – net of current portion           | 29.3      | <b>2,300,186</b>    | <b>911,358</b>      |
| Deferred contract costs – net of current portion     | 6         | <b>315,673</b>      | <b>-</b>            |
| Other noncurrent assets                              | 13        | <b>3,764,989</b>    | <b>3,488,816</b>    |
|                                                      |           | <b>225,974,726</b>  | <b>220,251,151</b>  |
| <b>TOTAL ASSETS</b>                                  |           | <b>₱299,498,109</b> | <b>₱277,766,288</b> |
| <b>LIABILITIES AND EQUITY</b>                        |           |                     |                     |
| <b>Current Liabilities</b>                           |           |                     |                     |
| Trade payables and accrued expenses                  | 14        | <b>₱56,219,366</b>  | <b>₱62,232,862</b>  |
| Contract liabilities and deferred revenues – current | 6         | <b>8,044,308</b>    | <b>5,509,773</b>    |
| Loans payable – current                              | 16        | <b>16,758,196</b>   | <b>8,278,222</b>    |
| Derivative liabilities – current                     | 29.3      | <b>285,751</b>      | <b>191,060</b>      |
| Provisions                                           | 15        | <b>2,549,387</b>    | <b>1,890,415</b>    |
| Income tax payable                                   | 27        | <b>1,608,646</b>    | <b>1,180,753</b>    |
|                                                      |           | <b>85,465,654</b>   | <b>79,283,085</b>   |
| <b>Noncurrent Liabilities</b>                        |           |                     |                     |
| Loans payable – net of current portion               | 16        | <b>131,523,701</b>  | <b>123,250,483</b>  |
| Contract liabilities – net of current portion        | 6         | <b>53,642</b>       | <b>-</b>            |
| Deferred income tax liabilities – net                | 27        | <b>3,918,493</b>    | <b>2,748,826</b>    |
| Derivative liabilities – net of current portion      | 29.3      | <b>25,903</b>       | <b>-</b>            |
| Other long-term liabilities                          | 17        | <b>5,367,209</b>    | <b>5,926,157</b>    |
|                                                      |           | <b>140,888,948</b>  | <b>131,925,466</b>  |
| <b>Total Liabilities</b>                             |           | <b>226,354,602</b>  | <b>211,208,551</b>  |
| <b>Equity</b>                                        |           |                     |                     |
| Paid-up capital                                      | 19        | <b>44,973,489</b>   | <b>44,757,853</b>   |
| Cost of share-based payments                         | 26        | <b>417,345</b>      | <b>401,543</b>      |
| Other reserves                                       | 19.6      | <b>561,103</b>      | <b>(352,375)</b>    |
| Retained earnings                                    | 19.5      | <b>27,167,398</b>   | <b>21,708,003</b>   |
| Equity attributable to equity holders of the Parent  |           | <b>73,119,335</b>   | <b>66,515,024</b>   |
| Non-controlling interest                             |           | <b>24,172</b>       | <b>42,713</b>       |
| <b>Total Equity</b>                                  |           | <b>73,143,507</b>   | <b>66,557,737</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                  |           | <b>₱299,498,109</b> | <b>₱277,766,288</b> |

See accompanying Notes to Consolidated Financial Statements.

**CREATE WONDERFUL.**



# GLOBE TELECOM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|                                                                                            |            | For the Years Ended December 31 |              |              |
|--------------------------------------------------------------------------------------------|------------|---------------------------------|--------------|--------------|
|                                                                                            | Notes      | 2018                            | 2017         | 2016         |
| <i>(In Thousand Pesos, Except Per Share Figures)</i>                                       |            |                                 |              |              |
| <b>REVENUES</b>                                                                            |            |                                 |              |              |
| Service revenues                                                                           |            | <b>P132,875,310</b>             | P127,905,853 | P120,588,003 |
| Nonservice revenues                                                                        |            | <b>18,297,496</b>               | 7,374,878    | 6,193,657    |
|                                                                                            | 30         | <b>151,172,806</b>              | 135,280,731  | 126,781,660  |
| <b>INCOME (LOSSES)</b>                                                                     |            |                                 |              |              |
| Equity in net losses of associates and joint ventures                                      | 12         | <b>(1,249,603)</b>              | (846,177)    | (855,198)    |
| Interest income                                                                            | 20         | <b>391,030</b>                  | 139,581      | 151,589      |
| Gain on disposal of property and equipment – net                                           |            | <b>73,088</b>                   | 38,455       | 101,232      |
| Gain on fair value of retained interest                                                    | 12.4       | -                               | 1,889,901    | -            |
| Other income – net                                                                         | 21         | <b>1,595,835</b>                | 701,653      | 983,186      |
|                                                                                            |            | <b>810,350</b>                  | 1,923,413    | 380,809      |
| <b>COSTS AND EXPENSES</b>                                                                  |            |                                 |              |              |
| General, selling and administrative expenses                                               | 22,        | <b>57,742,131</b>               | 56,608,922   | 52,471,053   |
| Depreciation and amortization                                                              | 23         | <b>30,421,721</b>               | 27,512,689   | 23,848,646   |
| Cost of sales                                                                              | 7, 30      | <b>18,645,314</b>               | 13,013,437   | 11,914,114   |
| Interconnect costs                                                                         | 30         | <b>5,677,375</b>                | 7,852,336    | 9,623,127    |
| Financing costs                                                                            | 24         | <b>7,095,655</b>                | 5,251,692    | 4,096,826    |
| Impairment and other losses                                                                | 25         | <b>4,787,644</b>                | 5,423,366    | 3,271,301    |
|                                                                                            |            | <b>124,369,840</b>              | 115,662,442  | 105,225,067  |
| <b>INCOME BEFORE INCOME TAX</b>                                                            |            | <b>27,613,316</b>               | 21,541,702   | 21,937,402   |
| <b>PROVISIONS FOR INCOME TAX</b>                                                           |            |                                 |              |              |
| Current                                                                                    | 27         | <b>7,259,985</b>                | 6,005,420    | 5,556,965    |
| Deferred                                                                                   | 27         | <b>1,727,388</b>                | 452,069      | 491,938      |
|                                                                                            |            | <b>8,987,373</b>                | 6,457,489    | 6,048,903    |
| <b>NET INCOME</b>                                                                          |            | <b>18,625,943</b>               | 15,084,213   | 15,888,499   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                                   |            |                                 |              |              |
| <b>Items that will be reclassified into profit or loss in subsequent periods:</b>          |            |                                 |              |              |
| Transactions on cash flow hedges – net                                                     | 19.6       | <b>863,715</b>                  | 139,412      | (95,565)     |
| Exchange differences arising from translations of foreign investments                      | 19.6       | <b>28,524</b>                   | (23,140)     | 23,205       |
| Changes in fair value of available-for-sale investment in equity securities                | 19.6       | -                               | 26,000       | 13,440       |
|                                                                                            |            | <b>892,239</b>                  | 142,272      | (58,920)     |
| <b>Item that will not be reclassified into profit or loss in subsequent periods:</b>       |            |                                 |              |              |
| Changes in fair value of financial assets at fair value through other comprehensive income | 19.6       | <b>151,974</b>                  | -            | -            |
| Remeasurement gain on defined benefit plan                                                 | 19.6, 26.2 | <b>49,709</b>                   | 399,993      | 197,508      |
|                                                                                            |            | <b>201,683</b>                  | 399,993      | 197,508      |
| <b>TOTAL OTHER COMPREHENSIVE INCOME</b>                                                    |            | <b>1,093,922</b>                | 542,265      | 138,588      |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                          |            | <b>P19,719,865</b>              | P15,626,478  | P16,027,087  |

(Forward)



# GLOBE TELECOM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|                                               |       | For the Years Ended December 31 |             |             |
|-----------------------------------------------|-------|---------------------------------|-------------|-------------|
|                                               | Notes | 2018                            | 2017        | 2016        |
| (In Thousand Pesos, Except Per Share Figures) |       |                                 |             |             |
| Total net income attributable to:             |       |                                 |             |             |
| Equity holders of the Parent                  |       | ₱18,640,740                     | ₱15,065,779 | ₱15,878,415 |
| Non-controlling interest                      |       | (14,797)                        | 18,434      | 10,084      |
|                                               |       | 18,625,943                      | 15,084,213  | 15,888,499  |
| Total comprehensive income attributable to:   |       |                                 |             |             |
| Equity holders of the Parent                  |       | 19,734,662                      | 15,608,044  | 16,017,003  |
| Non-controlling interest                      |       | (14,797)                        | 18,434      | 10,084      |
|                                               |       | ₱19,719,865                     | ₱15,626,478 | ₱16,027,087 |
| Earnings Per Share                            |       |                                 |             |             |
| Basic                                         | 28    | ₱135.91                         | ₱109.22     | ₱115.45     |
| Diluted                                       | 28    | ₱135.40                         | ₱109.01     | ₱115.27     |
| Cash dividends declared per common share      | 19.3  | ₱91.00                          | ₱91.00      | ₱88.00      |

See accompanying Notes to Consolidated Financial Statements.



## GLOBE TELECOM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the Year Ended December 31, 2018                                   |                            |                            |                              |                             |                    |                                     |                          |                    |
|------------------------------------------------------------------------|----------------------------|----------------------------|------------------------------|-----------------------------|--------------------|-------------------------------------|--------------------------|--------------------|
| Notes                                                                  | Capital Stock<br>(Note 19) | Additional Paid-in Capital | Cost of Share-Based Payments | Other Reserves<br>(Note 19) | Retained Earnings  | Total Equity Attributable to Parent | Non-controlling Interest | Total              |
| <i>(In Thousand Pesos)</i>                                             |                            |                            |                              |                             |                    |                                     |                          |                    |
| As of January 1, 2018, as previously stated                            | <b>P8,438,404</b>          | <b>P36,319,449</b>         | <b>P401,543</b>              | <b>(P352,375)</b>           | <b>P21,708,003</b> | <b>P66,515,024</b>                  | <b>P42,713</b>           | <b>P66,557,737</b> |
| Adjustment on initial application of PFRS 15, net of tax               | 3                          | -                          | -                            | -                           | 4,880,805          | 4,880,805                           | 954                      | 4,881,759          |
| Adjustment on initial application of PFRS 9, net of tax                | 3                          | -                          | -                            | -                           | (5,581,683)        | (5,581,683)                         | (4,843)                  | (5,586,526)        |
| As of January 1, 2018, as restated                                     | <b>8,438,404</b>           | <b>36,319,449</b>          | <b>401,543</b>               | <b>(352,375)</b>            | <b>21,007,125</b>  | <b>65,814,146</b>                   | <b>38,824</b>            | <b>65,852,970</b>  |
| Total comprehensive income for the year                                |                            | -                          | -                            | 1,093,922                   | 18,640,740         | 19,734,662                          | (14,797)                 | 19,719,865         |
| Dividends on:                                                          | 19.3                       |                            |                              |                             |                    |                                     |                          |                    |
| Common Stock                                                           |                            | -                          | -                            | -                           | (12,104,579)       | (12,104,579)                        |                          | (12,104,579)       |
| Preferred Stock – voting                                               |                            | -                          | -                            | -                           | (41,752)           | (41,752)                            |                          | (41,752)           |
| Preferred Stock – non-voting                                           |                            | -                          | -                            | -                           | (520,060)          | (520,060)                           |                          | (520,060)          |
| Cost of share-based payments                                           | 26                         | -                          | -                            | 236,714                     | -                  | 236,714                             | -                        | 236,714            |
| Issue of shares under share-based compensation plan                    | 19.2                       | 6,463                      | 202,629                      | (208,221)                   | -                  | 871                                 | -                        | 871                |
| Exercise of stock options                                              | 19.2                       | 371                        | 6,173                        | (4,862)                     | -                  | 1,682                               | -                        | 1,682              |
| Forfeiture of stock options                                            |                            | -                          | -                            | (7,829)                     | 5,480              | (2,349)                             | -                        | (2,349)            |
| Reclassification remeasurement gains (losses) on defined benefit plans |                            | -                          | -                            | -                           | (180,444)          | 180,444                             | -                        | -                  |
| Non-controlling interest arising from business combination             |                            | -                          | -                            | -                           | -                  | -                                   | 145                      | 145                |
| As of December 31, 2018                                                | <b>P8,445,238</b>          | <b>P36,528,251</b>         | <b>P417,345</b>              | <b>P561,103</b>             | <b>P27,167,398</b> | <b>P73,119,335</b>                  | <b>P24,172</b>           | <b>P73,143,507</b> |

(Forward)

CREATE.WONDERFUL.



## GLOBE TELECOM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the Year Ended December 31, 2017                                   |                            |                            |                              |                             |                   |                                     |                          |              |
|------------------------------------------------------------------------|----------------------------|----------------------------|------------------------------|-----------------------------|-------------------|-------------------------------------|--------------------------|--------------|
| Notes                                                                  | Capital Stock<br>(Note 19) | Additional Paid-in Capital | Cost of Share-Based Payments | Other Reserves<br>(Note 19) | Retained Earnings | Total Equity Attributable to Parent | Non-controlling Interest | Total        |
| <i>(In Thousand Pesos)</i>                                             |                            |                            |                              |                             |                   |                                     |                          |              |
| As of January 1, 2017                                                  | ₱8,430,504                 | ₱36,075,199                | ₱584,586                     | (₱1,072,925)                | ₱19,422,402       | ₱63,439,766                         | ₱36,536                  | ₱63,476,302  |
| Total comprehensive income for the year                                | -                          | -                          | -                            | 542,265                     | 15,065,779        | 15,608,044                          | 18,434                   | 15,626,478   |
| Dividends on:                                                          | 19.3                       |                            |                              |                             |                   |                                     |                          |              |
| Common Stock                                                           | -                          | -                          | -                            | -                           | (12,091,736)      | (12,091,736)                        | -                        | (12,091,736) |
| Preferred Stock – voting                                               | -                          | -                          | -                            | -                           | (33,731)          | (33,731)                            | -                        | (33,731)     |
| Preferred Stock – non-voting                                           | -                          | -                          | -                            | -                           | (520,060)         | (520,060)                           | -                        | (520,060)    |
| Cost of share-based payments                                           | 26                         | -                          | 104,828                      | -                           | -                 | 104,828                             | -                        | 104,828      |
| Issue of shares under share-based compensation plan                    | 19.2                       | 7,000                      | 224,298                      | (231,298)                   | -                 | -                                   | -                        | -            |
| Exercise of stock options                                              | 19.2                       | 900                        | 19,952                       | (12,939)                    | -                 | 7,913                               | -                        | 7,913        |
| Forfeiture of stock options                                            | -                          | -                          | (43,634)                     | -                           | 43,634            | -                                   | -                        | -            |
| Reclassification remeasurement gains (losses) on defined benefit plans | -                          | -                          | -                            | 178,285                     | (178,285)         | -                                   | -                        | -            |
| Non-controlling interest adjustment arising from subscription          | -                          | -                          | -                            | -                           | -                 | -                                   | (223)                    | (223)        |
| Non-controlling interest arising from business combination             | -                          | -                          | -                            | -                           | -                 | -                                   | (12,034)                 | (12,034)     |
| As of December 31, 2017                                                | ₱8,438,404                 | ₱36,319,449                | ₱401,543                     | (₱352,375)                  | ₱21,708,003       | ₱66,515,024                         | ₱42,713                  | ₱66,557,737  |

(Forward)

CREATE.WONDERFUL.



## **GLOBE TELECOM, INC. AND SUBSIDIARIES** **CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

|                                                            |       | For the Year Ended December 31, 2016 |                                  |                                    |                                |                      |                                           |                             |
|------------------------------------------------------------|-------|--------------------------------------|----------------------------------|------------------------------------|--------------------------------|----------------------|-------------------------------------------|-----------------------------|
|                                                            | Notes | Capital<br>Stock<br>(Note 19)        | Additional<br>Paid-in<br>Capital | Cost of<br>Share-Based<br>Payments | Other<br>Reserves<br>(Note 19) | Retained<br>Earnings | Total Equity<br>Attributable<br>to Parent | Non-controlling<br>Interest |
| <i>(In Thousand Pesos)</i>                                 |       |                                      |                                  |                                    |                                |                      |                                           |                             |
| As of January 1, 2016                                      |       | ₱8,429,713                           | ₱36,057,263                      | ₱338,008                           | (₱1,211,513)                   | ₱15,778,557          | ₱59,392,028                               | ₱5,754                      |
| Total comprehensive income for the year                    |       | -                                    | -                                | -                                  | 138,588                        | 15,878,415           | 16,017,003                                | 10,084                      |
| Dividends on:                                              | 19.3  |                                      |                                  |                                    |                                |                      |                                           |                             |
| Common Stock                                               |       | -                                    | -                                | -                                  | -                              | (11,682,483)         | (11,682,483)                              | -                           |
| Preferred Stock – voting                                   |       | -                                    | -                                | -                                  | -                              | (32,027)             | (32,027)                                  | -                           |
| Preferred Stock – non-voting                               |       | -                                    | -                                | -                                  | -                              | (520,060)            | (520,060)                                 | -                           |
| Cost of share-based payments                               | 26    | -                                    | -                                | 260,269                            | -                              | -                    | 260,269                                   | -                           |
| Exercise of stock options                                  | 19.2  | 791                                  | 17,936                           | (13,691)                           | -                              | -                    | 5,036                                     | -                           |
| Non-controlling interest arising from business combination |       | -                                    | -                                | -                                  | -                              | -                    | -                                         | 20,698                      |
| As of December 31, 2016                                    |       | ₱8,430,504                           | ₱36,075,199                      | ₱584,586                           | (₱1,072,925)                   | ₱19,422,402          | ₱63,439,766                               | ₱36,536                     |

See accompanying Notes to Consolidated Financial Statements.



## GLOBE TELECOM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                       |           | For the Years Ended December 31 |                    |                    |
|-----------------------------------------------------------------------|-----------|---------------------------------|--------------------|--------------------|
|                                                                       | Notes     | 2018                            | 2017               | 2016               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |           | <i>(In Thousand Pesos)</i>      |                    |                    |
| Income before income tax                                              |           | <b>₱27,613,316</b>              | <b>₱21,541,702</b> | <b>₱21,937,402</b> |
| Adjustments for:                                                      |           |                                 |                    |                    |
| Depreciation and amortization                                         | 23        | <b>30,421,721</b>               | 27,512,689         | 23,848,646         |
| Impairment and other losses                                           | 25        | <b>4,787,644</b>                | 5,423,366          | 3,271,301          |
| Interest expense – net                                                | 24        | <b>5,975,164</b>                | 5,042,952          | 3,408,899          |
| Equity in net losses of associates and joint ventures                 | 12        | <b>1,249,603</b>                | 846,177            | 855,198            |
| Foreign exchange losses (gains) – net                                 | 24        | <b>900,430</b>                  | (214,191)          | 525,024            |
| Pension expense                                                       | 26        | <b>593,326</b>                  | 621,316            | 594,557            |
| Interest income                                                       | 20        | <b>(391,030)</b>                | (139,581)          | (151,589)          |
| Cost of share-based payments                                          | 26        | <b>236,714</b>                  | 104,828            | 260,269            |
| Unrealized (gain) loss on derivative instruments                      | 21        | <b>(82,491)</b>                 | 181,340            | 116,960            |
| Gain on disposal of property and equipment                            |           | <b>(73,088)</b>                 | (38,455)           | (101,232)          |
| (Gain) loss on settlement and remeasurement of ARO                    | 17, 21    | <b>(27,894)</b>                 | 4,371              | 1,495              |
| Gain on fair value of retained interest                               | 12.4      | -                               | (1,889,901)        | -                  |
| Loss on previously held equity interest                               |           | -                               | 9,103              | 30,186             |
| Loss on disposal of associate                                         |           | -                               | -                  | 16,054             |
| Operating income before working capital changes                       |           | <b>71,203,415</b>               | 59,005,716         | 54,613,170         |
| Changes in operating assets and liabilities:                          |           |                                 |                    |                    |
| Decrease (Increase) in:                                               |           |                                 |                    |                    |
| Trade Receivables                                                     |           | <b>(5,791,841)</b>              | (4,865,124)        | (8,210,048)        |
| Inventories and supplies                                              |           | <b>(1,990,025)</b>              | 914,923            | (410,495)          |
| Contract Assets                                                       |           | <b>(784,314)</b>                | -                  | -                  |
| Prepayments and other current assets                                  |           | <b>(2,327,349)</b>              | (3,386,918)        | (4,786,592)        |
| Other noncurrent assets                                               |           | <b>(147,569)</b>                | (1,177,991)        | 754,355            |
| Increase (Decrease) in:                                               |           |                                 |                    |                    |
| Trade payables and accrued expenses                                   |           | <b>1,390,935</b>                | 6,711,102          | 478,914            |
| Other long-term liabilities                                           |           | <b>(1,127,092)</b>              | (1,717,582)        | 448,385            |
| Contract Liabilities and deferred revenues                            |           | <b>2,199,814</b>                | 419,351            | 152,189            |
| Cash generated from operations                                        |           | <b>62,625,974</b>               | 55,903,477         | 43,039,878         |
| Income tax paid                                                       |           | <b>(4,775,445)</b>              | (5,599,215)        | (5,577,281)        |
| Net cash flows from operating activities                              |           | <b>57,850,529</b>               | 50,304,262         | 37,462,597         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |           |                                 |                    |                    |
| Additions to:                                                         |           |                                 |                    |                    |
| Property and equipment                                                | 9, 31, 17 | <b>(42,768,194)</b>             | (42,121,307)       | (36,609,815)       |
| Investment in joint ventures                                          | 12        | <b>(111,200)</b>                | (12,234,212)       | (21,562,555)       |
| Intangible assets                                                     | 10        | <b>(490,569)</b>                | (419,920)          | (135,273)          |
| Proceeds from loans receivable                                        |           | <b>180,000</b>                  | 243,780            | 180,000            |
| Proceeds from sale of property and equipment                          |           | <b>171,638</b>                  | 118,117            | 170,116            |
| Interest received                                                     |           | <b>352,302</b>                  | 145,234            | 155,672            |
| Dividends received                                                    |           | <b>13,852</b>                   | 93,258             | 115,257            |
| Proceeds from disposal of an investment in equity securities at FVOCI |           | <b>418</b>                      | -                  | -                  |
| Net cash outflow from deconsolidation                                 |           | -                               | (1,246,965)        | -                  |
| Proceeds from disposal of an investment in associate                  |           | -                               | -                  | 16,120             |
| Net cash inflow from acquisition of subsidiaries, net cash acquired   | 11        | -                               | -                  | 13,671             |
| Net cash outflow from sale of controlling interest in subsidiary      |           | -                               | -                  | (4,780)            |
| Net cash flows used in investing activities                           |           | <b>(42,651,753)</b>             | (55,422,015)       | (57,661,587)       |

(Forward)



## GLOBE TELECOM, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                     |           | For the Years Ended December 31 |              |              |
|---------------------------------------------------------------------|-----------|---------------------------------|--------------|--------------|
|                                                                     | Notes     | 2018                            | 2017         | 2016         |
| <i>(In Thousand Pesos)</i>                                          |           |                                 |              |              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |           |                                 |              |              |
| Proceeds from borrowings:                                           |           |                                 |              |              |
| Long-term                                                           |           | <b>₱24,156,000</b>              | ₱36,430,730  | ₱36,500,000  |
| Short-term                                                          |           | -                               | 4,600,000    | 21,600,000   |
| Repayments of borrowings:                                           |           |                                 |              |              |
| Long-term                                                           |           | <b>(8,319,604)</b>              | (5,953,717)  | (7,993,304)  |
| Short-term                                                          |           | -                               | (9,100,000)  | (17,100,000) |
| Payments of dividends to stockholders:                              | 19.3      |                                 |              |              |
| Common                                                              |           | <b>(12,104,579)</b>             | (12,091,736) | (11,682,483) |
| Preferred                                                           |           | <b>(561,812)</b>                | (553,791)    | (552,087)    |
| Exercise of stock options                                           |           | <b>2,553</b>                    | 7,913        | 5,036        |
| Interest paid                                                       |           | <b>(6,607,604)</b>              | (5,525,049)  | (3,812,532)  |
| Net cash provided by (used in) financing activities                 |           | <b>(3,435,046)</b>              | 7,814,350    | 16,964,630   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>         |           | <b>11,763,730</b>               | 2,696,597    | (3,234,360)  |
| <b>NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS</b> |           | <b>240,436</b>                  | (107,229)    | 52,833       |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>           |           | <b>11,222,220</b>               | 8,632,852    | 11,814,379   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>                 | 29.10, 31 | <b>₱23,226,386</b>              | ₱11,222,220  | ₱8,632,852   |

See accompanying Notes to Consolidated Financial Statements.



## **GLOBE TELECOM, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **1 Corporate Information**

##### *1.1 Globe Telecom, Inc.*

Globe Telecom, Inc. (hereafter referred to as "Globe Telecom" or "The Parent Company") is a stock corporation organized under the laws of the Philippines on January 16, 1935, and enfranchised under Republic Act (RA) No. 7229 and its related laws to render any and all types of domestic and international telecommunications services. Globe Telecom is one of the leading providers of digital wireless communications services in the Philippines under the Globe Postpaid and Prepaid, and Touch Mobile (TM) using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom's head office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig, Metropolitan Manila, Philippines. Globe Telecom is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since September 17, 2001. Major stockholders of Globe Telecom include Ayala Corporation (AC), Singapore Telecom International Pte Ltd. (Singtel) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

##### *1.2 Innove Communications, Inc. (Innove)*

Globe Telecom owns 100% of Innove, a stock corporation organized under the laws of the Philippines and enfranchised under RA No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. Innove holds a license to provide digital wireless communication services in the Philippines. Innove also has a license to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services.

On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151 entitled "*Act Renewing For Another Twenty Five (25) Years the Franchise Granted to Isla Communications Company, Inc. Presently Known as Innove Communications, Inc., Amending for the Purpose Republic Act No. 7372 entitled "An Act Granting the Isla Communications Co. a Franchise to Install, Operate and Maintain Telecommunications Services Within the Territory of the Republic of the Philippines and International Points and for Other Purposes"*". RA No. 11151 shall take effect 15 days after its publication in the Official Gazette or a newspaper of general circulation. RA No. 11151 was published in the Official Gazette and in a newspaper of general circulation on January 14, 2019.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.



### *1.3 GTI and Subsidiaries*

Globe Telecom owns 100% of GTI. GTI was incorporated and registered under the laws of the Philippines, on November 25, 2008, as a holding company.

In July 2009, GTI incorporated a wholly owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the United States of America, State of Delaware as a wireless and data communication services provider.

In December 2011, GTI incorporated a wholly owned subsidiary, Globe Telecom HK Limited (GTHK), a limited company organized under the Companies Ordinance of Hong Kong as a marketing and distribution company. On March 17, 2015, Globe Telecom HK Limited (GTHK) applied for a services-based operator license (SBO) with the Office of the Communications Authority in Hong Kong (OFCA) which was subsequently approved on May 7, 2015. GTHK is licensed to provide a public telecommunications service and establish and maintain a telecommunications system.

On May 10, 2013, GTI incorporated a wholly owned subsidiary, Globetel European Limited (GTEU) as holding company for the operating companies of Globe Group located in the United Kingdom, Spain and Italy.

In 2013, GTEU incorporated its wholly owned subsidiaries, UK Globetel Limited (UKGT), Globe Mobilé Italy S.r.l. (GMI), and Globetel Internacional European España, S.L. (GIEE), for the purpose of establishing operations in Europe by marketing and selling mobile telecommunications services to Filipino individuals and businesses located in the United Kingdom, Spain and Italy

On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT and GMI completed the liquidation process in 2018. The completion of the regulatory requirements on the liquidation of GIEE is still in process as of December 31, 2018.

On November 12, 2014, GTI incorporated Globetel Singapore Pte. Ltd. (GTSG), a wholly owned subsidiary, to provide international cable services that will help strengthen connectivity between Singapore and the Philippines, and for the purpose of offering full range of international data services in Singapore.

On November 25, 2014, GTSG applied for a facilities-based operations license (FBO) with Infocommunications Development Authority (IDA) in Singapore which was subsequently granted on January 7, 2015.

### *1.4 Kickstart and a Subsidiary*

On March 28, 2012, Globe Telecom incorporated Kickstart, a stock corporation organized under the laws of the Philippines and formed for the purpose of investing in individual, corporate, or start-up businesses, and to do research, technology development and commercializing of new business ventures.

In February 2014, Kickstart acquired 40% equity interest in Flipside Publishing Services, Inc. (FPSI). Since Kickstart was able to demonstrate control over FPSI despite of less than 50% ownership interest, FPSI was assessed to be a subsidiary of Kickstart and is included in the consolidation of Globe Group. FPSI is engaged primarily to acquire publishing rights, produce, publish, market, and sell printed and electronic books (e-books) and other electronic documents and content for international and domestic sales. FPSI has ceased operations in July 2016. As of reporting date, completion of regulatory requirements on the liquidation of FPSI is still in process.



### *1.5 Asticom Technology, Inc. (Asticom)*

On June 3, 2014, Globe Telecom signed an agreement with Azalea Technology Investments Inc. (ASTI) and SCS Computer Systems, Pte. Ltd. acquiring 100% ownership stake in Asticom. Asticom is primarily engaged in providing manpower, business process and shared service support.

### *1.6 Globe Capital Venture Holdings Inc. (GCVHI)*

On June 29, 2015, Globe Telecom incorporated its wholly owned subsidiary, GCVHI. On July 8 and October 13, 2015, GCVHI incorporated its wholly owned subsidiaries, GFI and Adspark Holdings, Inc. (AHI), respectively. GCVHI, GFI and AHI (collectively referred here as "GCVHI Group") are holding companies for Globe Telecom's non-core businesses.

On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company.

On February 7, 2017, the ownership of GXI was transferred from Globe Telecom to Globe Fintech Innovations Inc. (GFI) /Mynt, a wholly owned subsidiary of GCVHI. (see [Note 1.10](#))

On September 27, 2017, GFI/Mynt received the capital infusion from Alipay and Ayala in exchange for GFI/Mynt's common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions (see [Note 12.4](#))

### *1.7 Bayan Telecommunications Inc. (BTI)*

On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group"). On April 8, 2016, RCPI sold its 100% interest in Alarmnet Inc. to a third party amounting to ₱0.5 million. A Deed of Assignment was executed on March 31, 2016, assigning the receivables of RCPI from Alarmnet Inc. to the buyer amounting to ₱42.31 million.

In July 2016, BTI - UK ceased its operations. The formal notice on the final dissolution of BTI-UK effective March 14, 2017 was received from Companies House in UK. On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NDTN Land, Inc.

### *1.8 TaoDharma Inc. (Tao)*

In March 2013, Globe Telecom entered into a Shareholders' Agreement with four other entities to incorporate Tao. Globe Telecom subscribed to 25% preferred shares of Tao. Tao was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets and accessories.



On November 4, 2016, Globe Telecom increased its ownership interest on Tao from 25% to 67% controlling interest for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary.

#### *1.9 GTowers Inc (GTowers)*

On August 17, 2018 GTowers was incorporated as a wholly owned subsidiary of Globe Telecom. As of December 31, 2018, GTowers is still under pre-operating stage.

#### *1.10 G-Xchange, Inc. (GXl)*

On August 23, 2004, Globe Telecom incorporated GXl, a wholly owned subsidiary. GXl is a stock corporation organized under the laws of the Philippines and formed for the purpose of developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes. GXl is registered with the Bangko Sentral ng Pilipinas (BSP) as a remittance agent and electronic money issuer. GXl handles the mobile payment and remittance service using Globe Telecom's network as transport channel under the GCash brand.

On February 7, 2017, pursuant to the approval of the Board of Directors (BOD) through its Executive Committee, the ownership of GXl was transferred from Globe Telecom to Globe Fintech Innovations Inc. (GFI) /Mynt, a wholly owned subsidiary of GCVHI.

On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and Globe Capital Venture Holdings Inc. (GCVHI) entered into an investment agreement with Alipay Singapore Holdings PTE. LTD. (Alipay) and Ayala Corporation (Ayala) for Alipay and Ayala to invest in the unissued common shares of GFI, subject to the fulfillment of certain conditions. On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513.00 million common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions (see [Note 12.4](#)).

## **2 Summary of Significant Accounting Policies**

### *2.1 Basis of Preparation and Presentation*

The consolidated financial statements of Globe Telecom, Inc. and its subsidiaries, collectively referred to as the “Globe Group”, have been prepared under the historical cost convention method, except for:

- certain financial instruments carried at fair value
- certain financial instruments carried at amortized cost;
- inventories carried at net realizable value;
- investments in associates and joint ventures in which equity method of accounting is applied;
- retirement benefit obligation measured at the present value of the defined benefit obligation net of the fair value of the plan assets

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), which is Globe Telecom’s functional currency, and rounded to the nearest thousands, except when otherwise indicated.

On February 11, 2019, the BOD approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and its subsidiaries as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018.

### *2.2 Statement of Compliance*

The consolidated financial statements of the Globe Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy, and adopted by the Securities and Exchange Commission (SEC).

### 2.3 Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Globe Telecom and the following subsidiaries:

| Name of Subsidiary          | Place of Incorporation | Principal Activity                             | Parent Company's Percentage of Ownership |      |
|-----------------------------|------------------------|------------------------------------------------|------------------------------------------|------|
|                             |                        |                                                | 2018                                     | 2017 |
| Innove                      | Philippines            | Wireline voice and data communication services | <b>100%</b>                              | 100% |
| GTI                         | Philippines            | Holding company                                | <b>100%</b>                              | 100% |
| GTIC                        | United States          | Wireless and data communication services       | <b>100%</b>                              | 100% |
| GTHK                        | Hong Kong              | Marketing and distributing company             | <b>100%</b>                              | 100% |
| GTSg                        | Singapore              | Wireless and data communication services       | <b>100%</b>                              | 100% |
| GTEU                        | United Kingdom         | Holding company                                | <b>100%</b>                              | 100% |
| UKGT <sup>3</sup>           | United Kingdom         | Wireless and data communication services       | -                                        | 100% |
| GMI <sup>3</sup>            | Italy                  | Wireless and data communication services       | <b>100%</b>                              | 100% |
| GIEE <sup>1</sup>           | Spain                  | Wireless and data communication services       | <b>100%</b>                              | 100% |
| KVI                         | Philippines            | Venture capital company                        | <b>100%</b>                              | 100% |
| FPSI <sup>1</sup>           | Philippines            | E-book solutions                               | <b>40%</b>                               | 40%  |
| Asticom                     | Philippines            | Support and shared services provider           | <b>100%</b>                              | 100% |
| GCVHI                       | Philippines            | Holding Company                                | <b>100%</b>                              | 100% |
| GFI <sup>4</sup>            | Philippines            | Holding company                                | <b>45%</b>                               | 45%  |
| Fuse <sup>4</sup>           | Philippines            | Lending company                                | <b>45%</b>                               | 45%  |
| GXI <sup>4</sup>            | Philippines            | Fintech Company                                | <b>45%</b>                               | 45%  |
| AHI                         | Philippines            | Holding company                                | <b>100%</b>                              | 100% |
| AI                          | Philippines            | Advertising company                            | <b>100%</b>                              | 100% |
| Socialytics                 | Philippines            | Advertising company                            | <b>70%</b>                               | 70%  |
| BTI                         | Philippines            | Wireline voice and data communication services | <b>99%</b>                               | 99%  |
| RCPI                        | Philippines            | Wireline communication services                | <b>91%</b>                               | 91%  |
| Telciphil <sup>1</sup>      | Philippines            | Telco equipment administration and maintenance | <b>58%</b>                               | 58%  |
| Sky Internet                | Philippines            | Data communication services                    | <b>100%</b>                              | 100% |
| GlobeTel Japan              | Japan                  | Wireless and data communication services       | <b>100%</b>                              | 100% |
| BTI – UK <sup>2</sup>       | United Kingdom         | Wireless and data communication services       | -                                        | -    |
| NLI                         | Philippines            | Land holding company                           | <b>70%</b>                               | 70%  |
| Tao                         | Philippines            | Distributing company                           | <b>67%</b>                               | 67%  |
| G Towers, Inc. <sup>5</sup> | Philippines            | Tower company                                  | <b>100%</b>                              | -    |

<sup>1</sup> Ceased operations

<sup>2</sup> Liquidated in 2017

<sup>3</sup> Liquidated in 2018

<sup>4</sup> Deconsolidated in 2017 due to loss of control

<sup>5</sup> Incorporated in 2018

### 2.4 Business Combination and Goodwill

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Globe Group, liabilities incurred by the Globe Group to the former owners of the acquiree and the equity interest issued by the Globe Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS 12, Income Taxes and PAS 19, Employee Benefits, respectively;
- liabilities and equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangement of the Globe Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2, Share-based Payment, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with PFRS 5 Non-current assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the consolidated profit or loss as bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another PFRS.

When the consideration transferred by the Globe Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with PFRS 9, Financial Instruments, or PAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Globe Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amount arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.



If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Globe Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### *2.4.1 Consolidation procedures*

The assets, liabilities, income and expense of subsidiaries are consolidated from the date on which control is transferred to the Parent Company and ceases to be consolidated from the date on which control is transferred out of Parent Company.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company as well as accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Globe Group's accounting policies.

All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated in full during consolidation.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Globe Group's foreign operations are translated into Philippine Peso using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the translation, if any, are recognized in other comprehensive income and accumulated in equity reserves.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity reserves in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### *2.4.2 Determination of control*

The Parent Company controls an investee if and only if the Parent Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

The Globe Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

### *2.4.3 Non-controlling interest*

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Globe Group. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented in the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the equity attributable to the Parent.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance.

### *2.4.4 Changes in ownership without loss of control*

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the Globe Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent.

### *2.4.5 Changes in ownership with loss of control*

If the Globe Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

## *2.5 Financial Instruments*

### *2.5.1 Initial Recognition*

Financial instruments are recognized in the Globe Group's consolidated statements of financial position when the Globe Group becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Globe Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of the Group's financial assets, except for financial instruments classified at fair value through profit or loss (FVPL).

### *2.5.2 Classification and Subsequent Measurement of Financial Assets*

The Globe Group classifies its financial assets into the following categories: financial assets at FVPL, financial assets at amortized cost and financial assets at fair value through other comprehensive income.

#### 2.5.2.1 *Financial assets at FVPL*

The Globe Group classifies the following investments as financial assets at FVPL:

- investments in equity securities unless irrevocably elected at initial recognition to be measured at FVOCI;
- investments in debt instruments held within a business model whose objective is to sell prior to maturity or has contractual terms that does not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless designated as effective hedging instruments under a cash flow hedge;
- investments that contain embedded derivatives; and
- investment in debt instruments designated as financial assets at FVPL at initial recognition;

Financial assets at FVPL are carried at fair value at the end of each reporting period with any resultant gain or loss recognized in profit or loss.

Financial assets classified under this category are disclosed in [Note 29](#).

#### 2.5.2.2 *Financial assets at amortized cost*

Investments in debt instrument, trade and other receivables that are held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are classified as financial assets at amortized cost, unless the asset is designated at fair value through profit or loss (FVPL) under the fair value option.

Subsequent to initial recognition, financial assets classified under this category are measured at amortized cost using effective interest method, less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is not material.

Financial assets classified under this category are disclosed in [Note 29](#).

#### 2.5.3 *Impairment of Financial Assets at amortized cost*

The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

The Globe Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Globe Group applies the simplified ECL approach and always recognizes lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the characteristics of the product and payment behavior of the subscriber at the reporting date.



For all other financial instruments, the Globe Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Globe Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Globe Group measures ECL on an individual basis, or on a collective basis for portfolios of receivables that share similar economic risk characteristics.

#### *Significant increase in credit risk*

In assessing whether the credit risk on non-trade receivables has increased significantly since initial recognition, the Globe Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Globe Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Globe Group presumes that the credit risk on non-trade receivables has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Globe Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Globe Group assumes that the credit risk on non-trade receivables has not increased significantly since initial recognition if the instrument is determined to have low credit risk at the reporting date. The Globe Group considers a financial asset to have low credit risk when the counterparty has a strong financial position and there is no past due amounts. An instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.



The Globe Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

For subscribers receivable and contract assets, the Globe Group considers that default has occurred when the subscriber has been permanently disconnected.

For all other receivables, The Globe Group considers the following as constituting an event of default as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Globe Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Globe Group considers that default has occurred when a financial asset is more than 90 days past due unless the Globe Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the Group has effectively exhausted all collection efforts). Financial assets written off may still be subject to enforcement activities under the Globe Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

### *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Globe Group in accordance with the contract and all the cash flows that the Globe Group expects to receive, discounted at the original effective interest rate.

If the Globe Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Globe Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets such as trade receivables and contract assets for which simplified approach was used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *2.5.3.1 Financial assets at fair value through other comprehensive income*

The Globe Group classifies the following investments as financial assets at FVOCI:

- Investments in debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless the asset is designated at FVPL under the fair value option;
- Investments in equity securities irrevocably elected to be measured at FVOCI; and
- Derivative designated as effective hedging instruments under cash flow hedges.

Financial assets at FVOCI are carried at fair value at the end of each reporting period. Changes in the carrying amount financial assets at FVOCI arising from movements in fair value are recognized in other comprehensive income and accumulated in other equity reserves. When the investment is disposed of, the cumulative gain or loss previously accumulated in equity reserves is reclassified directly to retained earnings.

Financial assets classified under this category are disclosed in [Notes 29](#).

#### *2.5.4 Classification of financial liabilities and equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

##### *2.5.4.1 Classification and Subsequent Measurement of Financial liabilities*

The Globe Group further classifies its financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the nature and purpose of the financial liability and is determined at the time of initial recognition.

#### *2.5.4.1.1 Financial Liabilities at FVPL*

This category consists of financial liabilities that were designated by management as FVPL on initial recognition and derivative financial liabilities not designated as effective hedging instruments under cash flow hedges.

Financial liabilities at FVPL are carried in the consolidated statements of financial position at fair value, with changes in fair value recognized in profit or loss.

Financial liabilities classified under this category are disclosed in [Note 29](#).

#### *2.5.4.1.2 Financial Liabilities at Amortized Cost*

Loans, trade and other payables which are not designated as financial liabilities at FVPL are classified as financial liabilities at amortized cost. Financial liabilities classified under this category are subsequently measured at amortized cost using the effective rate method (See [Note 2.5.2.2](#)). Financial liabilities classified under this category is disclosed in [Note 29](#).

#### *2.5.4.1.3 Equity instruments*

##### *Capital Stock*

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from additional paid-in capital, net of related income tax benefits.

##### *Additional Paid-in Capital*

Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

##### *Retained Earnings*

Retained earnings represent accumulated profit attributable to equity holders of the Parent Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### *2.5.5 Derivative Instruments*

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated profit or loss. To qualify for hedge accounting, the hedging relationship must comply with requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment (both prospective and retrospective bases) and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.



Upon inception of the hedge, the Globe Group documents the relationship between the hedging instrument and the hedged item, its risk management objective and strategy for undertaking various hedge transactions, and the details of the hedging instrument and the hedged item. The Globe Group also documents its hedge effectiveness assessment methodology, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is likewise measured, with any ineffectiveness being reported immediately in the consolidated profit or loss.

#### *2.5.5.1 Types of Hedges*

The Globe Group designates derivatives which qualify as accounting hedges as either:

- a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or
- a hedge of the cash flow variability of recognized floating rate asset and liability or forecasted sales transaction (cash flow hedge).

#### *Fair Value Hedges*

Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets, liabilities or unrecognized firm commitments. The gain or loss on a derivative instrument designated as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the consolidated profit or loss in the same accounting period. Hedge effectiveness is determined based on the hedge ratio of the fair value changes of the hedging instrument and the underlying hedged item. When the hedge ceases to be highly effective, hedge accounting is discontinued.

#### *Cash Flow Hedges*

A cash flow hedge is a hedge of the exposure to variability in future cash flows related to a recognized asset, liability or a forecasted sales transaction. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and accumulated in equity reserves. Any hedge ineffectiveness is immediately recognized in the consolidated profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized in other comprehensive income are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred to consolidated profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect earnings.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been recognized in OCI is retained in equity reserves until the hedged transaction impacts consolidated profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in equity reserves is immediately reclassified in the consolidated profit or loss.

#### *2.5.6 Other Derivative Instruments Not Accounted for as Accounting Hedges*

Certain freestanding derivative instruments that provide economic hedges under the Globe Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated profit or loss.

#### *2.5.7 Offsetting*

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.

#### *2.5.8 Derecognition of Financial Instruments*

##### *2.5.8.1 Financial Asset*

The Globe Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when the Globe Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Globe Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Globe Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Globe Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Globe Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable are recognized in profit or loss.

##### *2.5.8.2 Financial Liability*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. On derecognition of financial liabilities, the difference between the carrying amount of the financial liability derecognized and the sum of consideration paid and payable is recognized in profit or loss.

#### *2.6 Inventories*

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the moving average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

When the net realizable value of the inventories is lower than the cost, the Globe Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the consolidated profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

## 2.7 *Prepayments*

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statement of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year. Otherwise, prepayments are classified as non-current assets.

## 2.8 *Value Added Tax (VAT)*

Input VAT is recognized when the Globe Group purchases goods or services from a VAT registered supplier or vendor. This account is offset against any output VAT previously recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as "Deferred input VAT" presented under "Prepayments and Other Current Assets".

## 2.9 *Property and Equipment*

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Major spare parts and stand-by equipment qualify as property and equipment when the Globe Group expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property and equipment, they are accounted for as property and equipment.

At the end of each reporting period, items of property and equipment are carried at cost less any subsequent accumulated depreciation and impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Globe Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.



Depreciation is computed on the straight-line method based on the estimated useful lives (EUL) of the assets as follows:

|                                                     | Years |
|-----------------------------------------------------|-------|
| Telecommunications equipment:                       |       |
| Tower                                               | 20    |
| Switch                                              | 7-10  |
| Outside plant, cellsite structures and improvements | 10-20 |
| Distribution dropwires and other wireline asset     | 2-10  |
| Cellular equipment and others                       | 3-10  |
| Buildings                                           | 20    |
| Cable systems                                       | 5-20  |
| Office equipment                                    | 3-7   |
| Transportation equipment                            | 3-5   |

Leasehold improvements are amortized over the shorter of their EUL of 5 years or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization of expected future technological developments and market behavior.

Assets in the course of construction are carried at cost, less any recognized impairment loss. These are transferred to the related property and equipment account when the construction or installation and the related activities necessary to prepare the property and equipment for their intended use are complete, and the property and equipment are ready for service. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

## *2.10 Intangible Assets*

### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are initially recognized at cost. Subsequent to initial recognition, Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### *Internally-generated intangible assets*

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following conditions have been demonstrated:

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognized separately from goodwill are recognized initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization of intangible asset is computed based on the EUL of the assets below:

|                        | Years |
|------------------------|-------|
| Software               | 3-10  |
| Spectrum and franchise | 10    |
| Customer contracts     | 4     |

### *Derecognition of Intangible assets*

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

### *2.11 Investments in Associate and Joint Venture*

An associate is an entity over which the Globe Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.



A joint venture (JV) is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associate or JV are measured initially at cost. Subsequent to initial recognition, the Globe Group's investments in its associate and JV are accounted for using the equity method. Under the equity method, the investments in an associate and JV are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Globe Group's share in net assets of the associate and JV, less any allowance for impairment losses. The profit or loss includes the Globe Group's share in the results of operations of its associate or JV. Any change in OCI of those investees is presented as part of the Globe Group's OCI. In addition, where there has been a change recognized directly in the equity of the associate or JV, the Globe Group recognizes its share of any changes and discloses this, when applicable, directly in equity.

When the share of losses recognized under the equity method has reduced the investment to zero, the Globe Group shall discontinue recognizing its share of further losses and apply it to other interests that, in substance, form part of the Globe Group's net investment in the associate or JV. If the associate or JV subsequently reports profits, the Globe Group will resume recognizing its share of those profits only after its share of the profits equal the share in losses not recognized.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Globe Group.

Upon loss of significant influence over the associate or joint control over the joint venture, the Globe Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated profit or loss.

### *2.12 Impairment of Nonfinancial Assets*

At the end of each reporting period, the Globe Group assesses whether there is any indication that any of its tangible and intangible assets with definite life may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income. Impairment losses relating to goodwill cannot be reversed in future periods.

### *2.13 Provisions*

Provisions are recognized when the Globe Group has a present obligation, either legal or constructive, as a result of a past event and it is probable that the Globe Group will be required to settle the obligation through an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

#### *2.13.1 Asset Retirement Obligation (ARO)*

The net present value of legal obligations associated with the retirement of an item of property and equipment that resulted from the acquisition, construction or development and the normal operation of property and equipment is recognized in the period in which it is incurred. The retirement obligation is initially measured at the present value of the estimated future dismantlement or restoration cost using current market borrowing rates. Subsequently, the discount is amortized as interest expense.

### *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, are accounted as follows;

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period, except that the amount deducted from the cost of the asset must not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the entity should consider whether this may indicate that the new carrying amount of the asset may not be fully recoverable. If so, the asset should be tested for impairment.

### *2.14 Contingent liabilities and contingent assets*

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Globe Group.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only if an inflow of economic benefits is probable.

### *2.15 Revenue Recognition*

Revenue is measured based on the consideration specified in an arrangement with the customer, net of any amounts collected on behalf of third parties. The Globe Group recognizes revenue upon transfer of control of a product or service to a customer.

In arrangements where another party is involved in providing the services, the Globe Group assesses whether the nature of its promise in the arrangement is to provide the specified services itself or arrange for those services to be provided by the other party. If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration, with the amount remitted to the other party being recognized as expense. However, if the promise is to simply arrange for those services to be provided by the other party, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

The Globe Group recognizes revenues from the following sources:

- Mobile services provided to subscribers at prepaid or postpaid arrangements such as Short Messaging Services (SMS), voice, data communication, and other value added services ([Note 2.15.1](#));
- Wireline services provided to subscribers under subscription arrangements such as, voice, corporate communication, and home broadband internet ([Note 2.15.1](#));
- Inbound traffic originating from other telecommunications providers that terminates at Globe Group's network ([Note 2.15.2](#));
- Inbound roaming due from foreign carriers ([Note 2.15.3](#));
- Postpaid wireless communication services bundled with sale of handsets and other devices ([Note 2.15.4](#));
- Postpaid wireline communication services bundled with equipment installation services ([Note 2.15.5](#));
- Leases, interests and dividends ([Note 2.15.7](#)).



#### *2.15.1 Mobile and wireline services*

Monthly service fees from mobile and wireline services under postpaid subscriptions are recognized as service revenues throughout the subscription period.

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as deferred revenues. These are eventually charged as service revenues upon actual usage of load value. Any unused remaining load value after the prescribed validity period are immediately recognized as service revenue.

Subscription to promotional offer of SMS, voice, data communication, broadband internet, and other services, are recognized as service revenue over the promotional period.

#### *2.15.2 Inbound traffic*

Inbound traffic originating from other telecommunications providers that terminates at the Globe Group's network are recognized as service revenues in the period the inbound traffic occurred based on agreed rates with the other telecommunication providers.

#### *2.15.3 Inbound roaming services*

Service revenues from foreign carriers for inbound roaming transactions at the Globe Group's network are recognized in the period the inbound roaming connection is provided.

#### *2.15.4 Postpaid mobile services and sale of mobile handsets and other devices*

The Globe Group provides postpaid wireless communication services which are bundled with sale of mobile handsets and other devices. The postpaid wireless communication services and the sale of devices are considered two separate performance obligations which are capable of being distinct and separately identifiable. The Globe Group allocates the contract consideration between the two performance obligations based on their corresponding relative stand-alone selling prices. The stand-alone selling prices are determined based on the expected cost plus margin approach. The amount allocated to the postpaid wireless communication service is recognized as service revenue over the period of subscription. Any amount allocated to the sale of device is immediately recognized as non-service revenue upon delivery of the item. Contract assets are recognized for the unbilled portion of the consideration allocated to the sale of devices which are subsequently amortized on a straight-line basis over the contract period.

The Globe Group does not make any adjustments for the significant financing component on contract assets since it expects that the period between the delivery of the handset up to the date of its full settlement will not exceed one year from the contract inception

#### *2.15.5 Postpaid subscription to wireline services and equipment installation services*

The Globe Group provides equipment installation services which are bundled with postpaid wireline services. The promise to install the equipment is not considered as a distinct service from the postpaid wireline service since the subscriber may not be able to benefit from the installation services without the availability of the postpaid wireline services. Accordingly, the two services are deemed as one performance obligation.

Service revenues from the equipment installation and postpaid wireline services are recognized over time throughout the period of subscription. Outright payments received from the installation services are initially recognized as contract liabilities and subsequently charged as service revenues over the period of subscription.



#### *2.15.6 Globe Rewards*

The Globe Group operates Globe Rewards Program through which subscribers accumulate points upon purchase of certain products and services. The Globe Rewards points may be redeemed in the form of mobile promos, bill rebates, gadgets and gift certificates, or use the earned points as cash at partner stores. The promise to provide free products and rebates to the subscribers give rise to a performance obligation that is distinct and separately identifiable. Accordingly, the Globe Group allocates a portion of the transaction price from its service revenues to Globe Rewards points awarded to subscribers based on its relative stand-alone selling price. The stand-alone selling price per point is estimated based on the discount or free products to be given when the points are redeemed by the subscriber. Amounts allocated to Globe Rewards points are initially recognized as deferred revenues and subsequently charged as service revenues either upon redemption of points or upon expiration.

#### *2.15.7 Other income*

##### *2.15.7.1 Interest*

Interest income is recognized as it accrues using the effective interest rate method

##### *2.15.7.2 Lease*

Lease income from operating lease is recognized on a straight-line basis over the lease term.

In a finance lease arrangement, the present value of the aggregate of the minimum lease receivable and any unguaranteed residual value accruing to the Globe Group are immediately recognized as income.

##### *2.15.7.3 Dividend*

Dividend income is recognized when the Globe Group's right to receive payment is established.

#### *2.15.8 Deferred contract costs*

Costs to obtain contracts with customers that would not have been incurred if the contracts were not obtained are recognized as deferred contract costs. Deferred contract costs are subsequently recognized as expense on a straight-line basis over the contract period.

Costs to obtain contracts with customers that would have been incurred irrespective of whether the contract were obtained are immediately recognized as expense.

Costs incurred to fulfill a contract are capitalized as deferred contract costs if all of the following conditions are met;

- The costs relate directly to a contract or to an anticipated contract that the Globe Group can specifically identify;
- The costs generate or enhance resources of the Globe Group that will be used in satisfying performance obligation in the future; and
- The costs are expected to be recovered.

## *2.16 Expense recognition*

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the consolidated profit or loss on the basis of: (i) a direct association between the costs incurred and the earning of specific items of income; (ii) systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the nature of expense method.

## *2.17 Staff Costs*

### *2.17.1 Short-term benefits*

The Globe Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Globe Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

### *2.17.2 Post Employee benefits*

The Globe Group has a funded non-contributory defined benefit retirement plan. For the defined benefit retirement plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income
- Remeasurement

The Globe Group presents service cost and interest in the consolidated profit or loss in the line item pension costs and finance cost, respectively. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets.

Plan assets are assets held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Globe Group, nor can they be paid directly to the Globe Group. Fair value of plan assets is based on market price information.

## *2.18 Share-based Payment Transactions*

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest.

The cost of equity-settled transactions is recognized in the consolidated profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the management of the Globe Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest. Costs of exercised awards plus the corresponding strike amount are reclassified to the appropriate capital accounts.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, 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. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (EPS).

## *2.19 Borrowing Costs*

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

Other borrowing costs are recognized as expense in the period in which these are incurred.

## *2.20 Leases*

### *2.20.1 Globe Group as Lessee*

Finance leases, which transfer to the Globe Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property and equipment" account with the corresponding liability to the lessor included in



the “Other long-term liabilities” account in the consolidated statements of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as “Interest expense” in the consolidated profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated profit or loss on a straight-line basis over the lease term.

#### *2.21 Foreign Currency Transactions*

Transactions in currencies other than functional currency of the entities included in the Globe Group are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities in the Globe Group are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on retranslation are included in the consolidated profit or loss for the year. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

#### *2.22 Income Tax*

Income tax expense represents the sum of the current tax expense and deferred tax.

##### *2.22.1 Current Income Tax*

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

##### *2.22.2 Deferred Income Tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred tax for the year are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

### *2.23 Earnings per share (EPS)*

Basic EPS is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

### *2.24 Fair Value Measurement*

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 measurement 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 absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Globe Group.

The fair value of an asset or a 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.



A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Globe 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 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 (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Globe Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### *2.25 Operating Segment*

The Globe Group's major operating business units are the basis upon which the Globe Group reports its primary segment information. The Globe Group's business segments consist of:

- (1) mobile communication services; and
- (2) wireline communication services.

All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.

#### *2.26 Events after the Reporting Period*

Any post period-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Globe Group's position at the end of reporting period (adjusting event) is reflected in the consolidated financial statements. Any post period-end event that is not an adjusting event is disclosed in the consolidated financial statements when material.

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

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and issued by the FRSC in the Philippines were adopted by the Globe Group effective on January 1, 2018:

#### 3.1 PFRS 15, Revenue from Contracts with Customers and PFRS 9, Financial Instruments

The following table shows the individual line items affected by the adjustments from the adoption of PFRS 15 and 9. Accounts not affected by the new standards are excluded in the presentation.

|                                             | December 31,<br>2017 | Effect of<br>PFRS 9        | Effect of<br>PFRS 15 | January 1,<br>2018 |
|---------------------------------------------|----------------------|----------------------------|----------------------|--------------------|
| <b>ASSETS</b>                               |                      | <i>(In Thousand Pesos)</i> |                      |                    |
| Trade receivables – net                     | ₱27,304,288          | (₱7,980,751)               | (₱640,605)           | ₱18,682,932        |
| Contract assets and deferred contract costs | -                    | -                          | 8,002,909            | 8,002,909          |
| Deferred income tax assets – net            | 2,761,626            | 390,432                    | (276,284)            | 2,875,774          |
| <b>LIABILITIES AND EQUITY</b>               |                      |                            |                      |                    |
| <b>Liabilities</b>                          |                      |                            |                      |                    |
| Unearned revenues                           | 5,509,773            | -                          | (5,509,773)          | -                  |
| Contract liabilities and deferred revenues  | -                    | -                          | 5,898,136            | 5,898,136          |
| Deferred income tax liabilities – net       | 2,748,826            | (2,003,793)                | 1,815,898            | 2,560,931          |
| <b>Equity</b>                               |                      |                            |                      |                    |
| Retained earnings                           | 21,708,003           | (5,581,683)                | 4,880,805            | 21,007,125         |
| Non-controlling interest                    | 42,713               | (4,843)                    | 954                  | 38,824             |

In adopting PFRS 15 and PFRS 9, the Globe Group used the modified retrospective approach wherein the cumulative effect of the initial application of the standards were recognized at January 1, 2018, and the comparative periods were not restated.

#### 3.1.1 Impact of Adoption of PFRS 15

##### PFRS 15, Revenue from Contracts with Customers

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standards. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

### *Amendments to PFRS 15 - Clarifications to PFRS 15*

The amendments in the standard addresses three topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- Added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.
- Clarification on how to assess control in determining whether a party providing goods or services is a principal or an agent
- Clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

#### *3.1.1.1 Contract Assets*

Globe Group provides wireless communication services to subscribers which are bundled with handset sales. Prior to adoption of PFRS 15, the Globe Group recognizes revenues from the bundled products based on billed amounts.

Under PFRS 15, the Globe Group assessed that the performance obligations from the wireless communication services and the sale of handsets are both capable of being distinct and separately identifiable. In compliance with the transaction price allocation requirements of PFRS 15, the Globe Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of each performance obligation ([Note 2.15.4](#)). This resulted a decrease in the amount of revenues previously allocated to wireless communication services and increase in the amount of revenues previously allocated to handset sales. Accordingly, the Globe Group recognized contract assets, which represent the unbilled portion of the consideration that was re-allocated to the handset sales, amounting to ₱6,389.04 million with a corresponding net of tax adjustments to retained earnings amounting to ₱4,023.90 million.

As a practical expedient provided by PFRS 15, the Globe Group did not make any adjustments for the significant financing component on contract assets since it expects that the period between the delivery of the handset up to the date of its full settlement will not exceed one year from the contract inception.

#### *3.1.1.2 Deferred Contract Costs*

In providing service revenues, the Globe Group incurs commissions and installation costs. Prior to the adoption of PFRS 15, these costs were recognized immediately as expense.

Under PFRS 15, the Globe Group assessed and concluded that certain commissions and installation costs are incremental costs incurred in obtaining and fulfilling its contracts with subscribers and should be capitalized and deferred over the contract period. Accordingly, the Globe Group recognized deferred contract costs of ₱1,613.87 million with corresponding adjustments to retained earnings and non-controlling interests amounting to ₱1,128.22 million, and ₱0.73 million, respectively. The deferred contract costs are subsequently recognized as expense on a straight-line basis over the period when the related performance obligations are satisfied.

### 3.1.1.3 Contract Liabilities and Deferred Revenues

The Globe Group provides equipment installation services bundled together with wireline communication services. Prior to adoption of PFRS 15, the Globe Group accounts for these transactions as two separate revenue streams. Revenues from equipment installation services are recognized upon completion of the installation work while revenue from wireline communication services are recognized over time as services are rendered over the period of subscription.

Upon adoption of PFRS 15, the Globe Group assessed that the installation services is not distinct from the wireline communication services and thus deemed as one performance obligation and that revenues from the installation and wireline communication services shall be recognized over time throughout the period of the subscription contract ([Note 2.15.5](#)). Accordingly, Globe Group recognized contract liabilities representing payments received for the installation services amounting to ₱388.36 million with corresponding reduction to retained earnings and non-controlling interests amounting to ₱271.62 million and ₱0.23 million, respectively. The contract liability is recognized as revenue on a straight-line basis over the term of the subscription contract.

The adoption of PFRS 15 had no impact on unearned revenues from the prepaid segment already recognized prior to the date of initial application.

The contract liabilities from wireline services and unearned revenues from wireless subscribers under prepaid arrangements, advance monthly service fees and unredeemed customer award credit under customer loyalty program were presented together as a single item in the statements of financial position under contract liabilities and other deferred revenues account.

### 3.1.2 Impact of Adoption of PFRS 9

#### *PFRS 9, Financial Instruments*

This standard consists of the following three phases:

#### Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under this standard, all recognized financial assets that are currently within the scope of PAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVPL) under the fair value option.
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVOCI, unless the asset is designated at FVPL under the fair value option.
- All other debt instruments must be measured at FVPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVOCI, with dividend income recognized in profit or loss.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. Under this standard, changes in the fairvalue of a financial liability designated at FVPL attributable to changes in the credit risk shall be presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

#### Phase 2: Impairment methodology

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

#### Phase 3: Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

##### *3.1.2.1 Impairment Model*

Prior to the adoption of PFRS 9, the Globe Group recognizes impairment loss on receivables from subscribers only after an objective evidence of impairment has occurred.

Under PFRS 9, the Globe Group measures impairment loss at an amount equal to lifetime expected credit losses (ECL). Lifetime ECL are credit losses that result from all possible default events over the life of the receivable. ECL is a probability-weighted estimate of the credit loss. The Globe Group measures ECL as the difference between the cash flows due from subscribers and the cash flows that Globe Group expects to receive arising from the weighting of multiple scenarios which were formed based on historical experience and credit assessments including forward looking information that is available.

The adoption of the new impairment model resulted in the recognition of additional impairment losses on subscriber receivables amounting to ₱7,980.75 million with corresponding net of tax of adjustments to retained earnings and non-controlling interests amounting to ₱5,581.68 million and ₱4.84 million, respectively.

##### *3.1.2.2 Classification and Measurement of Financial Instruments and Hedge Accounting*

The adoption of the new requirements for hedge accounting, and classification and measurement of financial instruments did not result in any adjustments to the Globe Group's profit or loss and equity in the prior periods.

The assessment of the Globe Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows from financial assets are solely for payments of principal and interests are based on the facts and circumstances as at the initial recognition of the assets.

### *3.1.3 Amendments to PAS 40 – Transfers of Investment Property*

The amendments to PAS 40 clarified that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterize the list of circumstances previously contained in the standards. This list was previously characterized as a definitive list of circumstances where it would be considered that there has been a change in use of a property. The amendments reposition the list as a non-exhaustive list of examples of evidence that a change in use has occurred. The amendments to the standards also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

### *3.1.4 Amendments to PFRS 2 - Share-based Payment Transactions*

The amendments introduced following changes to the classification and measurement of share-based payment transactions:

- The amendments clarified that the vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction should be accounted for consistently with equity-settled share-based payments in PFRS 2. This means that the fair value of cash-settled awards shall be measured by ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions.
- Some share-based payments schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature). The amendment adds guidance to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety.
- In cases when there is a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled, the share-based payment transaction shall be measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognized in respect of the original cashsettled share-based payment shall be derecognized upon the modification, and the equity-settled share-based payment is recognized (in equity) to the extent that the services have been rendered up to the modification date; and
- the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

### *3.1.5 IFRIC 22 Foreign Currency Transactions and Advance Consideration*

IFRIC 22 clarified that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

### *3.2 Future Adoption of New Standards and Amendments to Standards*

The Globe Group will adopt the following new standards when these become effective:

#### *3.2.1 PFRS 16 - Leases*

This standard specifies how an entity will recognize, measure, present and disclose leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is not permitted, until PFRS 15, Revenue from Contracts with Customers, is adopted.

The management is still evaluating the impact of PFRS 16 on the Globe Group's consolidated financial liabilities as of the reporting period.

#### *3.2.2 PFRS 9 - Prepayment Features with Negative Compensation*

The amendments to PFRS 9 clarified that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of PFRS 9.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.3 PAS 28 - Long-term Interests in Associates and Joint Ventures*

The amendment clarifies that PFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying PFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by PAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of PFRS 9.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.4 PAS 19 - Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

The amendment is effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.5 PFRS 3 - Business Combinations*

The amendments to PFRS 3 clarified that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.6 Amendments to PFRS 11 —Joint Arrangements*

The amendments to PFRS 11 clarified that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.7 PAS 12 - Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarified that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

#### *3.2.8 PAS 23 - Borrowing Costs Eligible for Capitalization*

The amendments clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments are effective for annual periods beginning on or after January 1, 2019.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

### *3.2.9 IFRIC 23 - Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The application of the interpretation in the future will not have an impact on the Globe Group's consolidated financial statements.

## **4 Management's Significant Accounting Judgments and Use of Estimates and Assumptions**

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such judgments, estimates and assumptions.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### *4.1 Critical Accounting Judgments*

#### *4.1.1 Allocation of Goodwill and Investments in Joint Ventures to Cash-Generating Units*

For the purpose of performing annual impairment review, the Globe Group allocates the carrying amount of goodwill from acquisition of BTI and investment in VTI, BAHG and BHC to cash-generating unit (CGU) of mobile communications services or wireless segment. The Globe Group believes that CGUs represent the lowest level within the Globe Group at which the goodwill is monitored for internal management reporting purposes; and not larger than an operating segment determined in accordance with PFRS 8.

#### *4.1.2 Contact Assets on Bundled Products*

The Globe Group provides wireless communication services to subscribers which are bundled with handset sales. Based on the Globe Group's assessment, the performance obligations from the wireless communication services and the sale of handsets are both capable of being distinct and separately identifiable. Accordingly, the Globe Group allocates the total contract consideration to the two performance obligations based on their corresponding relative stand-alone selling prices. Contract asset is recognized for any unbilled amount allocated to the revenue from handset sales.

#### *4.1.3 Contract Liabilities on Installation Services*

The Globe Group provides equipment installation services bundled together with wireline communication services. Based on the Globe Group's assessment, the installation services is not distinct from the wireline communication services and thus deemed as one performance obligation. Accordingly, revenues from the installation and wireline communication services are recognized over time throughout the period of the subscription contract.

#### *4.1.4 Deferred Contract Costs*

The Globe Group incurs certain commissions and installation costs in relation to the service provided to its subscribers. Based on the Globe Group's assessment, these costs are incremental in obtaining and fulfilling its performance obligations. Accordingly, the Globe Group recognizes deferred contracts costs which are amortized as expense throughout the period of the subscription contract.

#### *4.1.5 Determination of SSP in arrangements with multiple performance obligations*

In revenue arrangements involving multiple performance obligations, the transaction price are allocated to each separate performance obligation based on the relative standalone selling prices (SSP) of the goods or services being provided to the customer. The best evidence of SSP is the price an entity charges for that good or service when the entity sells it separately in similar circumstances to similar customers. However, goods or services are not always sold separately. In such case, the SSP need to be estimated or derived by other means.

The Globe Group maximized the use of all available observable inputs and applied the expected cost plus margin approach as the estimation method in determining the SSP of the goods and services in arrangements with multiple performance obligations.

#### *4.1.6 Determination of Whether the Globe Group is Acting as a Principal or an Agent*

The Globe Group's VAS offers a full range of downloadable content covering multiple topics including news, information, and entertainment wherein another party is involved in providing such services. In such case, the Globe Group assesses each arrangement and determines whether the nature of its promise is to provide the specified services itself or arrange for those services to be provided by the other party.

If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration. Otherwise, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

#### *4.1.7 Financial Asset Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Globe Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

Except for the derivative instruments, the Globe Group classified all of its financial assets as financial assets at amortized cost in accordance with the SPPI and business model test requirements of PFRS 9.

#### *4.1.8 Finance Lease arrangements*

The Globe Group has entered into finance lease agreements related to hardware infrastructure and information technology equipment. Management has determined based on the evaluation of the terms and conditions of the arrangements, that the Globe Group bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases (see [Note 32.1.2](#)).

#### *4.1.9 Provisions and Contingencies*

The Globe Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the Globe Group's defense in these matters and is based upon an analysis of potential results. The Globe Group currently does not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see [Notes 15 and 33](#)).

In 2016, The Globe Group is involved in discussions with creditor suppliers of VTI, BAHG and BHC in relation to the liabilities of the said entities discussed in [Note 12.3](#). Management has assessed that such action has created a valid expectation from these creditor suppliers that the Globe Group will settle the liabilities or provide funds for the settlement of these liabilities considering that these entities do not have sufficient funds to date to settle these liabilities on their own. As such, the Globe Group concluded that it incurred a constructive obligation and met the requirements for recognizing a provision/liability as of December 31, 2016 (see [Note 12.3](#)).

#### *4.2 Key Estimation Uncertainties*

##### *4.2.1 Deferred Revenues on Globe Rewards*

The Globe Group allocates a portion of the transaction price of its service revenues to Globe Rewards points and recognizes the corresponding deferred revenues. The allocation is based on its relative stand-alone selling price per point which is determined based on the expected discount or free products that will be availed when the points are redeemed by the subscriber. The Globe Group uses historical data and trends in estimating the SSP of rewards points. The amounts and timing of recording revenues would be affected by changes in circumstances and trends. An increase in the estimated stand-alone selling price per point would increase the recognized deferred revenues and decrease the revenues for the period.

As of December 31, 2018 and 2017, the estimated liability for unredeemed points included in deferred revenues in the consolidated statements of financial position amounted to ₱1,542.58 million and ₱232.37 million, respectively. (See [Note 6.2](#))

#### *4.2.2 ECL Impairment on Subscribers Receivables and Contract Assets*

When measuring ECL the Globe Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

An increase in ECL rates on subscribers receivables and contract assets would increase the loss allowance recognized in the consolidated profit or loss.

Impairment loss recognized in 2018 on subscribers receivables and contract assets using ECL method amounted to ₱3,430 million and ₱457.66 million, respectively,.

#### *4.2.3 Inventory Obsolescence and Market Decline*

The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided for nonmoving items after a certain period. The Globe Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Globe Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different estimates were utilized. An increase in allowance for inventory obsolescence and market decline would decrease the profit for the period, and decrease current assets.

Inventory obsolescence and market decline in 2018, 2017 and 2016 amounted to ₱377.78 million, ₱403.04 million, ₱341.76 million, respectively (see [Note 7](#) and [25](#)).

Inventories and supplies, net of allowances, amounted to ₱4,854.94 million and ₱3,242.69 million as of December 31, 2018 and 2017, respectively (see [Note 7](#)).

#### *4.2.4 ARO*

The Globe Group recognizes ARO in relation to its obligations to bear the costs of dismantling the constructed assets in leased properties and to restore such properties to the original condition at the end of the lease period. The recognition of ARO requires the Globe Group to estimate the future restoration and dismantling costs and determine the appropriate discount rate to be applied in the present value calculation. The amount and timing of recorded expenses for any period would differ if different inputs in the estimates were utilized. An increase in ARO would increase recorded expenses and increase noncurrent liabilities.

As of December 31, 2018 and 2017, ARO amounted to ₱2,523.94 million and ₱2,420.22 million, respectively (see [Note 17](#)).

#### 4.2.5 *EUL of Property and Equipment and Intangible Assets*

The useful life of each of the item of property and equipment and intangible assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets and expected asset utilization based on future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment and intangible assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The carrying amounts of property and equipment with finite useful lives amounted to ₱169,393.77 million and ₱162,602.65 million, as of December 31, 2018 and 2017, respectively (see [Note 9](#)).

The carrying amounts of intangible assets with finite useful lives amounted to ₱12,558.02 million and ₱13,600.67 million, as of December 31, 2018 and 2017, respectively (see [Note 10](#)).

#### 4.2.6 *Impairment of Nonfinancial Assets Other Than Goodwill*

The Globe Group performs an impairment review when certain impairment indicators are present.

Determining the recoverable amounts of property and equipment, intangible asset, and investments in associates and joint ventures requires the Globe Group to make estimates and assumptions on the cash flows expected to be generated from those assets. While the Globe Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to impairment charges. Any resulting impairment loss could have a material adverse impact on the financial position and results of operations.

The aggregate carrying value of property and equipment, intangible assets (excluding goodwill) and investments amounted to ₱216,378.57 million and ₱211,806.31 million as of December 31, 2018 and 2017, respectively (see [Notes 9, 10 and 12](#)).

Impairment loss recognized on property and equipment amounted to ₱61.74 million, ₱28.32 million and ₱9.42 million in 2018, 2017 and 2016, respectively (see [Note 25](#)).

Impairment loss recognized on investment in associate amounted to nil, ₱286.04 million and nil in 2018, 2017 and 2016, respectively ([Note 25](#)).

#### 4.2.7 *Impairment of Goodwill*

The Globe Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows of the CGU are derived from the business plan for the next five years and do not include restructuring activities that the Globe Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2018 and 2017, the carrying value of goodwill amounted to ₱1,140.25 million and ₱1,283.04 million, respectively (see [Note 10](#)).

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see [Notes 10 and 25](#)). No impairment loss on goodwill was recognized in 2017.

#### *4.2.8 Deferred Income Tax Assets*

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2018 and 2017, the combined net deferred tax assets of the Globe Group amounted to ₱2,075.07 million and ₱2,761.63 million, respectively (see [Note 27](#)).

#### *4.2.9 Pension Benefits*

The determination of the retirement obligation cost and retirement benefits is dependent on the selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions include among others, discount rates and rates of compensation increase. Actual results that differ from the assumptions are charged to other comprehensive income and therefore, generally affect the equity and recorded obligation. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The net pension liability as of December 31, 2018 and 2017 amounted to ₱1,459.46 million and ₱2,101.31 million, respectively. Further details are provided in [Note 26.2](#).

#### *4.2.10 Share-based compensation*

The Globe Group also determines the cost of equity-settled transactions using assumptions on the appropriate pricing model. Significant assumptions for the cost of share-based payments include, among others, share price, exercise price, option life, expected dividend and expected volatility rate. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the assumptions may materially affect the recognized expense and equity.

Cost of share-based payments in 2018, 2017 and 2016 amounted to ₱236.71 million, ₱104.83 million, and ₱260.27 million, respectively (see [Notes 26](#)).

#### *4.2.11 Fair Values of Identifiable Assets and Liabilities in a Business Combination*

When a business combination occurs, the fair values of the identifiable assets and liabilities assumed, including intangible assets, are recognized in the consolidated statement of financial position.

The determination of the fair values of acquired assets and liabilities is based, to a considerable extent, on management's judgment and estimates. The Globe Group selects the most appropriate valuation methodologies which may include the net present value techniques, comparison to similar assets for which market observable prices exist and other relevant valuation models. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognized as goodwill. If the purchase price consideration is lower than the fair value of the assets acquired then a gain is recognized in the consolidated profit or loss.

The final fair values of the net liabilities of Vega Telecom Inc. (VTI), Bow Arken Holdings Company Inc. (BAHC), and Brightshare Holdings Corporation (BHC) at the time of acquisition amounted to ₱7,243.22 million (see [Note 12.3](#)).

The final fair values of the net assets of Tao at the time of acquisition amounted to ₱27,680 million (see [Note 11.2](#)).

The final fair values of the net assets of Socialytics at the time of acquisition amounted to ₱879 million (see Note 11.1).

#### 4.2.12 Fair Values of Unquoted Equity Securities

When the fair value of an investment in equity security is required to be measured at fair value and the fair value cannot be derived from active markets, the Globe Group uses valuation techniques including the discounted cash flow analysis and other relevant valuation models to determine the fair value of the instrument. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the instrument and may also affect the consolidated profit or loss.

At the date the Globe Group lost its control over Mynt, the fair value of the Globe Group's retained interest in Mynt amounted to ₱2,278.30 million (Note 12.4)

The fair value of the Globe Group's investments in unquoted equity instruments classified as financial assets at FVOCI amounted to ₱1,442.94 million (Note 13)

## 5 Trade receivables - net

This account consists of receivables from:

|                                       | Notes         | 2018               | 2017        |
|---------------------------------------|---------------|--------------------|-------------|
| <i>(In Thousand Pesos)</i>            |               |                    |             |
| Subscribers                           |               | <b>₱27,798,284</b> | ₱30,422,075 |
| Traffic settlements - net             | 29.11         | <b>2,868,396</b>   | 2,818,856   |
| Dealers                               |               | <b>1,527,340</b>   | 1,053,473   |
| Others                                |               | <b>1,441,428</b>   | 2,141,495   |
|                                       |               | <b>₱33,635,448</b> | 36,435,899  |
| Less allowance for impairment losses: |               |                    |             |
| Subscribers                           |               | <b>11,918,899</b>  | 8,504,349   |
| Traffic settlements and others        |               | <b>603,988</b>     | 627,262     |
|                                       |               | <b>12,522,887</b>  | 9,131,611   |
|                                       | 29.2.2, 29.10 | <b>₱21,112,561</b> | ₱27,304,288 |

Trade receivables are noninterest-bearing and are generally due within twelve months.

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided by the Globe Group under postpaid arrangements.

Traffic settlement receivables are presented net of traffic settlement payables from the same carrier (see Notes 29.11 and 32.2).

The following is a reconciliation of the changes in the allowance for impairment losses for trade receivables as of December 31 (see [Note 25](#)):

|                                                    | Consumer           | Key Corporate Accounts | Other Corporations and SME | Traffic Settlements and Others | Total              |
|----------------------------------------------------|--------------------|------------------------|----------------------------|--------------------------------|--------------------|
| <i>(In Thousand Pesos)</i>                         |                    |                        |                            |                                |                    |
| <b>2018</b>                                        |                    |                        |                            |                                |                    |
| December 31, 2017                                  | <b>₱6,890,074</b>  | <b>₱1,252,265</b>      | <b>₱362,010</b>            | <b>₱627,262</b>                | <b>₱9,131,611</b>  |
| Transition adjustment ( <a href="#">Note 3.1</a> ) | <b>6,085,336</b>   | <b>990,360</b>         | <b>905,055</b>             | <b>-</b>                       | <b>7,980,751</b>   |
| January 1, 2018                                    | <b>12,975,410</b>  | <b>2,242,625</b>       | <b>1,267,065</b>           | <b>627,262</b>                 | <b>17,112,362</b>  |
| Charges for the period ( <a href="#">Note 25</a> ) | <b>2,244,503</b>   | <b>458,421</b>         | <b>252,343</b>             | <b>17,078</b>                  | <b>2,972,345</b>   |
| Reversals /write-offs/ adjustments                 | <b>(6,512,932)</b> | <b>(121,898)</b>       | <b>(886,638)</b>           | <b>(40,352)</b>                | <b>(7,561,820)</b> |
| At end of year                                     | <b>8,706,981</b>   | <b>2,579,148</b>       | <b>632,770</b>             | <b>603,988</b>                 | <b>12,522,887</b>  |
| <b>2017</b>                                        |                    |                        |                            |                                |                    |
| December 31, 2016                                  | <b>₱6,128,757</b>  | <b>₱1,062,078</b>      | <b>₱406,313</b>            | <b>₱568,454</b>                | <b>₱8,165,602</b>  |
| Charges for the period( <a href="#">Note 25</a> )  | <b>3,465,499</b>   | <b>287,024</b>         | <b>283,687</b>             | <b>5,300</b>                   | <b>4,041,510</b>   |
| Reversals/ write-offs/ adjustments                 | <b>(2,704,182)</b> | <b>(96,837)</b>        | <b>(327,990)</b>           | <b>53,508</b>                  | <b>(3,075,501)</b> |
| December 31, 2017                                  | <b>₱6,890,074</b>  | <b>₱1,252,265</b>      | <b>₱362,010</b>            | <b>₱627,262</b>                | <b>₱9,131,611</b>  |

## 6 Contracts with Customers

### 6.1 Contract Assets and Deferred Contract Costs – net

The following table provides the components of contract assets and deferred contract costs as of December 31, 2018:

|                                                 | 2018              |
|-------------------------------------------------|-------------------|
| Contract assets                                 | <b>₱7,124,332</b> |
| Deferred contract costs                         | <b>1,662,891</b>  |
|                                                 | <b>8,787,223</b>  |
| Less current portion of deferred contract costs | <b>8,471,550</b>  |
| Noncurrent portion                              | <b>₱315,673</b>   |

### 6.1.1 Contract Assets

The following table provides information about contract assets with customers:

|                                      | Note | 2018              |
|--------------------------------------|------|-------------------|
| <i>(In Thousand Pesos)</i>           |      |                   |
| <b>Contract assets</b>               |      |                   |
| Transition adjustment                | 3.1  | ₱7,479,169        |
| Additions during the year            |      | 9,273,004         |
| Charges during the year              |      | (8,080,052)       |
| Balance at end of year               |      | 8,672,121         |
| <b>Allowance for impairment loss</b> |      |                   |
| Transition adjustment                | 3.1  | (1,090,132)       |
| Impairment loss                      | 25   | (457,657)         |
| Balance at end of year               |      | (1,547,789)       |
| <b>Contract assets - net</b>         |      | <b>₱7,124,332</b> |

The Globe Group provides wireless communication services to subscribers which are bundled with sale of handsets and other devices. The Globe Group allocates the revenue based on the stand-alone selling price of each performance obligation. Contract assets are recognized for the unbilled portion of revenue allocated to the sale of handset and other devices which will be reduced as the monthly service fees are billed to the subscribers.

### 6.1.2 Deferred Contract Costs

Deferred contract costs pertain to incremental costs incurred in the effort to obtain and fulfill the contract with subscribers. Details are as follows:

|                                                 | 2018              |
|-------------------------------------------------|-------------------|
| <i>(In Thousand Pesos)</i>                      |                   |
| <b>Cost to obtain contracts with customers:</b> |                   |
| Commissions                                     | ₱1,140,838        |
| <b>Cost to fulfill contracts with customers</b> |                   |
| Installation costs                              | 522,053           |
|                                                 | <b>₱1,662,891</b> |

Deferred contract costs are capitalized and subsequently amortized on a straight-line basis over the term of the subscription contract. Movements in the deferred contract costs for the period are as follows:

|                                       | Note | 2018              |
|---------------------------------------|------|-------------------|
| <i>(In Thousand Pesos)</i>            |      |                   |
| Transition adjustment                 | 3.1  | ₱1,613,872        |
| Amounts capitalized during the period |      | 2,088,422         |
| Amounts recognized as expense         |      | (2,039,403)       |
|                                       |      | <b>₱1,662,891</b> |

## 6.2 Contract Liabilities and Other Deferred Revenues

The following table provides information about the contract liabilities and other deferred revenues:

|                                                                       | 2018              | 2017       |
|-----------------------------------------------------------------------|-------------------|------------|
| <b>Current</b>                                                        |                   |            |
| Deferred revenue from wireless subscribers under prepaid arrangements | <b>₱3,280,864</b> | ₱2,617,189 |
| Advance monthly service fees                                          | <b>2,903,529</b>  | 2,562,874  |
| Deferred revenue rewards                                              | <b>1,542,584</b>  | 232,371    |
| Contract liability from wireline services                             | <b>307,101</b>    | -          |
| Others                                                                | <b>10,230</b>     | 97,339     |
|                                                                       | <b>8,044,308</b>  | 5,509,773  |
| <b>Noncurrent</b>                                                     |                   |            |
| Contract liability from wireline services                             | <b>53,642</b>     | -          |
|                                                                       | <b>₱8,097,950</b> | ₱5,509,773 |

The following table shows the roll forward analysis of contract liabilities:

|                             | Note | 2018             |
|-----------------------------|------|------------------|
| <i>(In Thousand Pesos)</i>  |      |                  |
| <b>Contract liabilities</b> |      |                  |
| Transition adjustment       | 3.1  | <b>₱388,363</b>  |
| Additions during the year   |      | <b>563,016</b>   |
| Charges during the year     |      | <b>(590,636)</b> |
| Balance at end of year      |      | <b>₱360,743</b>  |

Deferred revenues from wireless subscribers under prepaid arrangements are recognized as revenues upon actual usage of airtime value, consumption of prepaid subscription fees or upon expiration of the unused load value prepaid credit.

Advance monthly service fees represent advance collections from postpaid subscribers.

Deferred revenue rewards represent unredeemed customer award credit under customer loyalty program.

Contract liability from wireline services represents collected upfront fees for equipment installation for which revenues are recognized over time.

## 7 Inventories and Supplies - net

This account consists of:

|                                   | 2018                       | 2017       |
|-----------------------------------|----------------------------|------------|
|                                   | <i>(In Thousand Pesos)</i> |            |
| Handsets, devices and accessories | <b>₱2,977,904</b>          | ₱1,931,997 |
| Modem and accessories             | <b>972,523</b>             | 533,947    |
| Spare parts and supplies          | <b>357,161</b>             | 287,714    |
| Nomadic broadband device          | <b>371,976</b>             | 270,571    |
| SIM cards and SIM packs           | <b>156,940</b>             | 203,241    |
| Call cards and others             | <b>18,435</b>              | 15,219     |
|                                   | <b>₱4,854,939</b>          | ₱3,242,689 |

Breakdown of cost of inventories recognized as expense are as follows:

|                        | Note | 2018                       | 2017        | 2016        |
|------------------------|------|----------------------------|-------------|-------------|
|                        |      | <i>(In Thousand Pesos)</i> |             |             |
| Cost of sales          |      | <b>₱18,645,314</b>         | ₱13,013,437 | ₱11,914,114 |
| Inventory obsolescence | 25   | <b>377,775</b>             | 403,037     | 341,759     |
|                        |      | <b>₱19,023,089</b>         | ₱13,416,474 | ₱12,255,873 |

Cost of sales incurred consists of:

|                                   | 2018                       | 2017        | 2016        |
|-----------------------------------|----------------------------|-------------|-------------|
|                                   | <i>(In Thousand Pesos)</i> |             |             |
| Handsets, devices and accessories | <b>₱16,132,844</b>         | ₱10,752,145 | ₱9,542,528  |
| Nomadic broadband device          | <b>1,686,459</b>           | 1,289,983   | 1,603,905   |
| SIM cards and SIM packs           | <b>651,342</b>             | 623,013     | 632,870     |
| Call cards and others             | <b>141,956</b>             | 162,897     | 116,892     |
| Modems and accessories            | <b>20,637</b>              | 13,787      | 14,362      |
| Spare parts and supplies          | <b>6,765</b>               | 4,858       | 3,557       |
| Others                            | <b>5,311</b>               | 166,754     | -           |
|                                   | <b>₱18,645,314</b>         | ₱13,013,437 | ₱11,914,114 |

## 8 Prepayment and Other Current Assets

This account consists of:

|                                               | Notes | 2018                       | 2017        |
|-----------------------------------------------|-------|----------------------------|-------------|
|                                               |       | <i>(In Thousand Pesos)</i> |             |
| Advance payments to suppliers and contractors | 32.3  | <b>₱9,459,239</b>          | ₱11,666,998 |
| Prepayments                                   |       | <b>2,209,300</b>           | 1,887,080   |
| Non-trade receivables – net                   |       | <b>1,325,152</b>           | 868,913     |
| Deferred input VAT                            |       | <b>937,233</b>             | 233,484     |
| Creditable withholding tax                    |       | <b>888,971</b>             | 879,003     |
| Input VAT – net                               |       | <b>517,810</b>             | 33,133      |
| Others                                        |       | <b>457,062</b>             | 162,286     |
|                                               |       | <b>₱15,794,767</b>         | ₱15,730,897 |

The “Prepayments” account includes prepaid insurance, rent, maintenance, and licenses fee among others.

Non trade receivable are net of allowance for impairment loss amounting to ₱131.08 million and ₱131.32 million as of December 31, 2018 and 2017, respectively. Impairment loss related to non – trade receivable amounted to nil and ₱37.47 million, ₱74.07 million in 2018, 2017 and 2016, respectively (see [Note 25](#)).

Deferred input VAT pertains to various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to the existing VAT rules and regulations. Deferred input VAT can be applied against future output VAT liabilities. Details are as follows:

|                                  | Note | 2018              | 2017     |
|----------------------------------|------|-------------------|----------|
| <i>(In Thousand Pesos)</i>       |      |                   |          |
| Due for credits within 12 months |      | <b>₱937,233</b>   | ₱233,484 |
| Due for credits beyond 12 months | 13   | <b>247,543</b>    | 212,567  |
|                                  |      | <b>₱1,184,776</b> | ₱446,051 |



## 9 Property and Equipment – net

The rollforward analysis of this account follows:

### 2018

|                                                      | Telecommunication<br>Equipment | Buildings and<br>Leasehold<br>Improvement | Cable<br>System    | Office<br>Equipment | Transportation<br>Equipment | Land              | Assets Under<br>Construction | Total               |
|------------------------------------------------------|--------------------------------|-------------------------------------------|--------------------|---------------------|-----------------------------|-------------------|------------------------------|---------------------|
| <i>(In Thousand Pesos)</i>                           |                                |                                           |                    |                     |                             |                   |                              |                     |
| <b>Cost</b>                                          |                                |                                           |                    |                     |                             |                   |                              |                     |
| At January 1                                         | P246,755,268                   | P53,507,948                               | P26,526,807        | P15,042,407         | P2,916,558                  | P2,278,343        | P23,842,575                  | P370,869,906        |
| Additions                                            | 967,774                        | 14,230                                    | 4,465              | 192,462             | 434,795                     | 108               | 34,210,384                   | 35,824,218          |
| Retirements/disposals                                | (405,081)                      | (13,078)                                  | (25,305)           | (1,136,701)         | (378,226)                   | (1,742)           | -                            | (1,960,133)         |
| Reclassifications/adjustments                        | 24,378,811                     | 3,914,128                                 | 176,250            | 1,656,403           | 2,360                       | -                 | (34,065,254)                 | (3,937,302)         |
| At December 31                                       | 271,696,772                    | 57,423,228                                | 26,682,217         | 15,754,571          | 2,975,487                   | 2,276,709         | 23,987,705                   | 400,796,689         |
| <b>Accumulated Depreciation<br/>and Amortization</b> |                                |                                           |                    |                     |                             |                   |                              |                     |
| At January 1                                         | 152,241,256                    | 24,775,778                                | 15,177,625         | 12,319,650          | 1,965,727                   | -                 | -                            | 206,480,036         |
| Depreciation and amortization<br>(Note 23)           | 18,979,929                     | 2,671,290                                 | 1,112,247          | 1,762,866           | 369,117                     | -                 | -                            | 24,895,449          |
| Retirements/disposals                                | (364,430)                      | (784)                                     | (5,923)            | (1,135,459)         | (359,376)                   | -                 | -                            | (1,865,972)         |
| Reclassifications/adjustments                        | (25,037)                       | 20,819                                    | -                  | 55,218              | -                           | -                 | -                            | 51,000              |
| At December 31                                       | 170,831,718                    | 27,467,103                                | 16,283,949         | 13,002,275          | 1,975,468                   | -                 | -                            | 229,560,513         |
| <b>Impairment Losses</b>                             |                                |                                           |                    |                     |                             |                   |                              |                     |
| At January 1                                         | 1,219,011                      | 23,252                                    | -                  | -                   | 9,860                       | -                 | 535,101                      | 1,787,224           |
| Additions (Note 25)                                  | -                              | -                                         | -                  | -                   | -                           | 1,921             | 59,818                       | 61,739              |
| Write-off/adjustments                                | -                              | -                                         | -                  | -                   | -                           | -                 | (6,555)                      | (6,555)             |
| At December 31                                       | 1,219,011                      | 23,252                                    | -                  | -                   | 9,860                       | 1,921             | 588,364                      | 1,842,408           |
| <b>Carrying amount at<br/>December 31</b>            | <b>P99,646,043</b>             | <b>P29,932,873</b>                        | <b>P10,398,268</b> | <b>P2,752,296</b>   | <b>P990,159</b>             | <b>P2,274,788</b> | <b>P23,399,341</b>           | <b>P169,393,768</b> |



2017

|                                              | Telecommunication<br>Equipment | Buildings and<br>Leasehold<br>Improvement | Cable<br>System | Office<br>Equipment | Transportation<br>Equipment | Land       | Assets Under<br>Construction | Total        |
|----------------------------------------------|--------------------------------|-------------------------------------------|-----------------|---------------------|-----------------------------|------------|------------------------------|--------------|
| <i>(In Thousand Pesos)</i>                   |                                |                                           |                 |                     |                             |            |                              |              |
| Cost                                         |                                |                                           |                 |                     |                             |            |                              |              |
| At January 1                                 | P223,570,596                   | P46,414,056                               | P22,926,569     | P14,458,134         | P2,767,427                  | P3,048,654 | P21,441,248                  | P334,626,684 |
| Additions                                    | 1,663,928                      | 8,730                                     | 2,973,019       | 202,472             | 398,574                     | 31,454     | 45,596,957                   | 50,875,134   |
| Retirements/disposals                        | (6,802,900)                    | (53,795)                                  | (2,215,051)     | (565,621)           | (237,357)                   | (3,750)    | (61,671)                     | (9,940,145)  |
| Reclassifications/adjustments                | 28,323,644                     | 7,138,957                                 | 2,842,270       | 947,422             | (12,086)                    | (798,015)  | (43,133,959)                 | (4,691,767)  |
| At December 31                               | 246,755,268                    | 53,507,948                                | 26,526,807      | 15,042,407          | 2,916,558                   | 2,278,343  | 23,842,575                   | 370,869,906  |
| Accumulated Depreciation<br>and Amortization |                                |                                           |                 |                     |                             |            |                              |              |
| At January 1                                 | 140,960,791                    | 22,538,532                                | 14,004,555      | 11,228,421          | 1,856,868                   | -          | -                            | 190,589,167  |
| Depreciation and amortization<br>(Note 23)   | 17,338,960                     | 2,274,855                                 | 1,173,150       | 1,683,650           | 354,434                     | -          | -                            | 22,825,049   |
| Retirements/disposals                        | (6,117,645)                    | (39,005)                                  | (43)            | (426,532)           | (219,141)                   | -          | -                            | (6,802,366)  |
| Reclassifications/adjustments                | 59,150                         | 1,396                                     | (37)            | (165,889)           | (26,434)                    | -          | -                            | (131,814)    |
| At December 31                               | 152,241,256                    | 24,775,778                                | 15,177,625      | 12,319,650          | 1,965,727                   | -          | -                            | 206,480,036  |
| Impairment Losses                            |                                |                                           |                 |                     |                             |            |                              |              |
| At January 1                                 | 1,231,614                      | 23,252                                    | -               | -                   | 9,860                       | -          | 520,810                      | 1,785,536    |
| Additions (Note 25)                          | 11,916                         | -                                         | -               | -                   | -                           | -          | 16,403                       | 28,319       |
| Write-off/adjustments                        | (24,519)                       | -                                         | -               | -                   | -                           | -          | (2,112)                      | (26,631)     |
| At December 31                               | 1,219,011                      | 23,252                                    | -               | -                   | 9,860                       | -          | 535,101                      | 1,787,224    |
| Carrying amount at<br>December 31            | P 93,295,001                   | P28,708,918                               | P11,349,182     | P2,722,757          | P940,971                    | P2,278,343 | P23,307,474                  | P162,602,646 |



Assets under construction include intangible components of a network system which are reclassified to depreciable intangible assets only when assets become available for use (see [Note 10](#)).

Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under a joint venture or a consortium or private cable set-up and indefeasible rights of use (IRUs) of circuits in various cable systems. It also includes the cost of cable landing station and transmission facilities where the Globe Group is the landing party.

The costs of fully depreciated property and equipment that are still being used as of December 31, 2018 and 2017 amounted to ₱105,431.91 million and ₱68,450.84 million, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of self constructed property and equipment. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 4.69% and 4.32% capitalization rates in 2018 and 2017, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱846.92 million and ₱734.26 million in 2018 and 2017, respectively. (see [Note 16](#))

The carrying value of the hardware infrastructure and information equipment held under finance lease included under "Office Equipment" amounted to ₱75.48 million and ₱266.18 million as of December 31, 2018 and 2017, respectively. ([Note 32.1.2](#))

Pursuant to the Amended Rehabilitation Plan (ARP) and Master Restructuring Agreement (MRA), the remaining outstanding restructured debt of BTI to creditors other than Globe Telecom amounting to USD2.13 million ([Note 16.1](#)) will be secured by a real estate mortgage on identified real property assets. The processing of the real properties to be mortgaged is still ongoing as of December 31, 2018.

## 10 Intangible Assets and Goodwill - net

The rollforward analysis of this account follows:

### 2018

|                                              | Application<br>Software and<br>Licenses | Goodwill          | Other<br>Intangible<br>Assets | Total<br>Intangible<br>Assets and<br>Goodwill |
|----------------------------------------------|-----------------------------------------|-------------------|-------------------------------|-----------------------------------------------|
| <b>Cost</b>                                  |                                         |                   |                               |                                               |
| At January 1                                 | ₱31,128,938                             | ₱1,283,042        | ₱2,324,649                    | ₱34,736,629                                   |
| Additions                                    | 490,569                                 | -                 | -                             | 490,569                                       |
| Retirements/disposals                        | (5,100)                                 | -                 | (150,324)                     | (155,424)                                     |
| Impairment ( <a href="#">Note 25</a> )       |                                         | (142,794)         | -                             | (142,794)                                     |
| Reclassifications ( <a href="#">Note 9</a> ) | 3,936,433                               | -                 | -                             | 3,936,433                                     |
| At December 31                               | ₱35,550,840                             | 1,140,248         | 2,174,325                     | ₱38,865,413                                   |
| <b>Accumulated Amortization</b>              |                                         |                   |                               |                                               |
| At January 1                                 | 19,022,609                              | -                 | 830,314                       | 19,852,923                                    |
| Amortization ( <a href="#">Note 23</a> )     | 5,213,058                               | -                 | 303,196                       | 5,516,254                                     |
| Retirements/disposals                        | (710)                                   | -                 | (150,324)                     | (151,034)                                     |
| Reclassifications ( <a href="#">Note 9</a> ) | (50,999)                                | -                 | -                             | (50,999)                                      |
| At December 31                               | 24,183,958                              | -                 | 983,186                       | 25,167,144                                    |
| <b>Carrying Amount at December 31</b>        | <b>₱11,366,882</b>                      | <b>₱1,140,248</b> | <b>₱1,191,139</b>             | <b>₱13,698,269</b>                            |

2017

|                                | Application<br>Software and<br>Licenses | Goodwill   | Other<br>Intangible<br>Assets | Total<br>Intangible<br>Assets and<br>Goodwill |
|--------------------------------|-----------------------------------------|------------|-------------------------------|-----------------------------------------------|
| Cost                           |                                         |            |                               |                                               |
| At January 1                   | ₱27,348,929                             | ₱1,268,097 | ₱1,934,649                    | ₱30,551,675                                   |
| Additions                      | 152,255                                 | 14,945     | 390,000                       | 557,200                                       |
| Retirements/disposals          | (757,324)                               | -          | -                             | (757,324)                                     |
| Reclassifications (Note 9)     | 4,385,078                               | -          | -                             | 4,385,078                                     |
| At December 31                 | 31,128,938                              | 1,283,042  | 2,324,649                     | 34,736,629                                    |
| Accumulated Amortization       |                                         |            |                               |                                               |
| At January 1                   | 15,137,202                              | -          | 581,254                       | 15,718,456                                    |
| Amortization (Note 23)         | 4,392,428                               | -          | 283,694                       | 4,676,122                                     |
| Retirements/disposals          | (443,572)                               | -          | -                             | (443,572)                                     |
| Reclassifications (Note 9)     | (63,449)                                | -          | (34,634)                      | (98,083)                                      |
| At December 31                 | 19,022,609                              | -          | 830,314                       | 19,852,923                                    |
| Carrying Amount at December 31 | ₱12,106,329                             | ₱1,283,042 | ₱1,494,335                    | ₱14,883,706                                   |

The Globe Group's goodwill were recognized from the acquisition of BTI, TAO and Socialytics. Other intangible assets consist of customer contracts, franchise and spectrum.

The Globe Group conducts its annual impairment test of goodwill related to the acquisition of BTI in the third fiscal quarter of each year. The Globe Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

For impairment testing purposes, the Globe Group allocated the carrying amount of goodwill arising from the acquisition of BTI to CGU of mobile communications services or wireless segment. The recoverable amount of the CGU, which exceeds the carrying amount of the related goodwill by ₱177,534.05 million and ₱184,020.24 million in 2018 and 2017, respectively, has been determined based on value in use calculations using cash flow projections from business plans covering a five-year period. The pre-tax discount rate applied to cash flow projections was 8.7% in 2018 and 8.23% in 2017 and cash flows beyond the five-year period are extrapolated using a 2% long-term growth rate in 2018 and 2017. The most recent annual impairment test of goodwill was performed in the third quarter of the fiscal year of 2018.

The Globe Group has determined that the recoverable amount calculations are most sensitive to changes in assumptions on gross margins, discount rates, market share, and growth rates.

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see Note 10).

No impairment loss on intangible assets was recognized in 2017. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

## 11 Business Combinations

### 11.1 Investment in Socialytics

On January 29, 2016, AI acquired 70% of the outstanding shares of Socialytics Inc. for a total amount of ₱3.01 million. Socialytics is a social media marketing firm founded in 2013. The transaction was accounted for as an acquisition of a subsidiary. The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

Globe Group's acquisition of Socialytics is in line with its strategy to expand its business operations in the advertising industry.

Details of the fair values upon acquisition of Socialytics in 2016 follows:

|                                                    | Amount recognized on acquisition |
|----------------------------------------------------|----------------------------------|
|                                                    | <i>(In Thousand Pesos)</i>       |
| <b>ASSETS</b>                                      |                                  |
| Current assets                                     | ₱4,904                           |
| Other noncurrent assets                            | 60                               |
|                                                    | 4,964                            |
| <b>LIABILITIES</b>                                 |                                  |
| Current Liabilities                                | 1,760                            |
| Other long term liabilities                        | 2,325                            |
|                                                    | 4,085                            |
| <b>Net assets acquired and liabilities assumed</b> | <b>₱879</b>                      |
| Purchase consideration transferred                 | ₱3,006                           |
| Net assets acquired and liabilities assumed        | (879)                            |
| Non-controlling interest measured at fair value    | 264                              |
| Goodwill arising on acquisition                    | <b>₱2,391</b>                    |

Net cash outflow from the acquisition is as follows (in thousand pesos):

|                                                     |                 |
|-----------------------------------------------------|-----------------|
| Total cash paid on acquisition                      | (₱3,006)        |
| Cash and cash equivalents acquired from Socialytics | 175             |
| <b>Net cash outflow on acquisition</b>              | <b>(₱2,831)</b> |

### 11.2 Investment in Tao

In March 2013, Globe Telecom entered into a Shareholders Agreement with four other entities to incorporate Tao.

On November 4, 2016, the BOD of Globe Telecom increased its ownership interest in Tao from 25% to 67% controlling interest by converting certain advances to equity and purchasing incremental shares or advances from Tao for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary. Globe Telecom's acquisition of Tao is intended to augment its existing stores retail network.

The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

The initial accounting for the acquisition of Tao as a subsidiary in 2016 was only provisionally determined pending the finalization of necessary market valuations and determined based on management's best estimate of the likely values. As allowed under the relevant standard, the Globe Group determined the final fair values of identifiable assets and liabilities within 12 months from the acquisition date and any adjustment to the provisional values were taken up as adjustments to goodwill.

In June 2017, the management completed the assessment of the fair values of the net assets of Tao and determined adjustments amounting ₱36.41 million decrease in its net assets. The adjustments to the provisional values likewise resulted to goodwill from acquisition amounting to ₱140.40 million.

The provisional and final fair values of the identifiable assets and liabilities of Tao as at the date of acquisition are shown in the following table:

|                                                    | <b>Final<br/>fair value</b> | <b>Provisional<br/>fair value</b> |
|----------------------------------------------------|-----------------------------|-----------------------------------|
| <i>(In Thousand Pesos)</i>                         |                             |                                   |
| <b>ASSETS</b>                                      |                             |                                   |
| Current assets                                     | ₱194,369                    | ₱164,135                          |
| Property and equipment                             | 14,680                      | 51,306                            |
| Other noncurrent assets                            | 6,634                       | 6,634                             |
|                                                    | 215,683                     | 222,075                           |
| <b>LIABILITIES</b>                                 |                             |                                   |
| Current Liabilities                                | 188,003                     | 140,402                           |
| Other long term liabilities                        | -                           | 17,579                            |
|                                                    | 188,003                     | 157,981                           |
| Total net assets at fair value                     | 27,680                      | 64,094                            |
| <b>Net assets acquired and liabilities assumed</b> | <b>₱27,680</b>              | <b>₱64,094</b>                    |
| Purchase consideration transferred                 | ₱207,015                    | ₱207,345                          |
| Net assets acquired and liabilities assumed        | (27,680)                    | (64,094)                          |
| Non-controlling interest measured at fair value    | 9,148                       | 21,182                            |
| Share in previously held equity interest           | (48,080)                    | (38,976)                          |
| Goodwill arising on acquisition                    | <b>₱140,403</b>             | <b>₱125,457</b>                   |

Net cash inflow from the acquisition is as follows (in thousand pesos):

|                                             |                |
|---------------------------------------------|----------------|
| Total cash paid on acquisition              | (₱207,015)     |
| Cash and cash equivalents acquired from Tao | 223,517        |
| Net cash inflow on acquisition              | <b>₱16,502</b> |

## 12 Investments in associates and joint ventures

This account consists of the following as of December 31:

|                                | 2018                       | 2017        |
|--------------------------------|----------------------------|-------------|
|                                | <i>(In Thousand Pesos)</i> |             |
| Investments in associates:     |                            |             |
| Yondu                          | <b>P940,236</b>            | P941,887    |
| AFPI                           | -                          | 56,034      |
| Investments in joint ventures: |                            |             |
| VTI, BAHC and BHC              | <b>32,481,947</b>          | 32,411,987  |
| GFI/Mynt                       | <b>862,130</b>             | 2,042,001   |
| TechGlobal                     | <b>89,702</b>              | 93,180      |
| Bridge Mobile Pte. Ltd (BMPL)  | <b>50,440</b>              | 46,006      |
| GTHI                           | <b>2,321</b>               | 11,904      |
|                                | <b>P34,426,776</b>         | P35,602,999 |

Details of the Globe Group's investments in associate and joint ventures and the related percentages of ownership as of December 31, 2018 and 2017 are shown below:

|                       | Country of<br>Incorporation | Principal Activities                                      | % of<br>ownership |
|-----------------------|-----------------------------|-----------------------------------------------------------|-------------------|
| <b>Associates</b>     |                             |                                                           |                   |
| Yondu                 | Philippines                 | Mobile content and application development services       | <b>49%</b>        |
| AFPI                  | Philippines                 | Construction and establishment of systems, infrastructure | <b>20%</b>        |
| <b>Joint Ventures</b> |                             |                                                           |                   |
| VTI                   | Philippines                 | Telecommunications                                        | <b>50%</b>        |
| BAHC                  | Philippines                 | Holding company                                           | <b>50%</b>        |
| BHC                   | Philippines                 | Holding company                                           | <b>50%</b>        |
| GTHI                  | Philippines                 | Health hotline facility                                   | <b>50%</b>        |
| TechGlobal            | Philippines                 | Installation and management of data centers               | <b>49%</b>        |
| GFI/Mynt*             | Philippines                 | Holding company                                           | <b>45%</b>        |
| BMPL                  | Singapore                   | Mobile technology infrastructure and common service       | <b>10%</b>        |

\*A subsidiary of Globe Telecom through GCVHI until September 2017 (see [Note 12.4](#))

Equity share in net loss from investment in associates and joint ventures are as follows:

|                                | 2018                       | 2017       |
|--------------------------------|----------------------------|------------|
|                                | <i>(In Thousand Pesos)</i> |            |
| Investments in associates:     |                            |            |
| AFPI                           | <b>(P115,745)</b>          | (P129,495) |
| Yondu                          | <b>38,258</b>              | 56,238     |
| Investments in joint ventures: |                            |            |
| GFI/Mynt                       | <b>(1,179,871)</b>         | (236,304)  |
| VTI, BAHG and BHC              | <b>18,760</b>              | (511,692)  |
| GTHI                           | <b>(9,583)</b>             | (9,570)    |
| TechGlobal                     | <b>(3,478)</b>             | (22,146)   |
| BMPL                           | <b>2,056</b>               | 6,792      |
|                                | <b>(P1,249,603)</b>        | (P846,177) |

The movement in investments in joint ventures and associates are as follows:

|                                                             | Notes    | 2018                       | 2017        |
|-------------------------------------------------------------|----------|----------------------------|-------------|
|                                                             |          | <i>(In Thousand Pesos)</i> |             |
| <b>Costs</b>                                                |          |                            |             |
| At January 1                                                |          | <b>P37,536,885</b>         | P34,983,996 |
| Reclassification arising from loss of control over GFI/Mynt | 12.4     | -                          | 2,278,305   |
| Additional capital contributions during the year            |          |                            |             |
| Investment in VTI                                           | 12.3     | <b>51,200</b>              | 372,443     |
| Investment in AFPI                                          | 12.2     | <b>60,000</b>              | 100,000     |
| Purchase price adjustment                                   | 12.3     | -                          | (155,122)   |
| Return on investment                                        | 12.1     | <b>(39,909)</b>            | (42,737)    |
| At December 31                                              |          | <b>P37,608,176</b>         | 37,536,885  |
| <b>Accumulated Equity in Net Losses</b>                     |          |                            |             |
| At January 1                                                |          | <b>(1,672,094)</b>         | (825,917)   |
| Equity share in net losses                                  |          | <b>(1,249,603)</b>         | (846,177)   |
| At December 31                                              |          | <b>(2,921,697)</b>         | (1,672,094) |
| <b>Other Comprehensive Income</b>                           |          |                            |             |
| At January 1                                                |          | <b>24,244</b>              | 23,373      |
| Equity share in currency translation adjustment             |          | <b>2,089</b>               | 871         |
| At December 31                                              |          | <b>26,333</b>              | 24,244      |
| <b>Impairment Losses</b>                                    |          |                            |             |
| At January 1                                                |          | <b>(286,036)</b>           | -           |
| Impairment losses                                           | 12.2, 25 | -                          | (286,036)   |
| At December 31                                              |          | <b>(286,036)</b>           | (286,036)   |
| <b>Carrying Value at December 31</b>                        |          | <b>P34,426,776</b>         | P35,602,999 |

The table below presents the summarized financial information lifted from the unaudited statutory financial statements of the Globe Group's investments in associate and joint ventures:

|                                            | Yondu            | AFPI             | VTI, BAHC<br>and BHC | GFI/Mynt           | TechGlobal      | BMPL             | GTHI            |
|--------------------------------------------|------------------|------------------|----------------------|--------------------|-----------------|------------------|-----------------|
| <i>(In Thousand Pesos)</i>                 |                  |                  |                      |                    |                 |                  |                 |
| <b>2018</b>                                |                  |                  |                      |                    |                 |                  |                 |
| <b>Statements of Financial Position:</b>   |                  |                  |                      |                    |                 |                  |                 |
| Current assets                             | <b>₱551,384</b>  | <b>₱585,163</b>  | <b>₱3,082,664</b>    | <b>₱2,664,868</b>  | <b>₱74,229</b>  | <b>₱608,627</b>  | <b>₱36,141</b>  |
| Noncurrent assets                          | <b>71,581</b>    | <b>1,450,681</b> | <b>4,050,389</b>     | <b>931,800</b>     | <b>217,996</b>  | <b>22,076</b>    | <b>517</b>      |
| Current liabilities                        | <b>220,181</b>   | <b>367,113</b>   | <b>2,515,135</b>     | <b>3,397,668</b>   | <b>109,159</b>  | <b>129,883</b>   | <b>31,980</b>   |
| Noncurrent liabilities                     | <b>5,871</b>     | <b>267,042</b>   | <b>659,097</b>       | <b>173,057</b>     | <b>-</b>        | <b>-</b>         | <b>38</b>       |
| Equity                                     | <b>396,913</b>   | <b>1,401,689</b> | <b>3,958,821</b>     | <b>25,943</b>      | <b>183,066</b>  | <b>500,820</b>   | <b>4,640</b>    |
| <b>Statements of Comprehensive Income:</b> |                  |                  |                      |                    |                 |                  |                 |
| Revenue                                    | <b>821,322</b>   | <b>52,558</b>    | <b>2,754,717</b>     | <b>1,134,839</b>   | <b>43,407</b>   | <b>316,640</b>   | <b>58,274</b>   |
| Costs and expenses                         | <b>(711,836)</b> | <b>(659,777)</b> | <b>(1,567,580)</b>   | <b>(3,800,622)</b> | <b>(53,475)</b> | <b>(296,078)</b> | <b>(77,440)</b> |
| Income before tax                          | <b>109,486</b>   | <b>(607,219)</b> | <b>1,187,137</b>     | <b>(2,665,783)</b> | <b>(10,068)</b> | <b>20,562</b>    | <b>(19,166)</b> |
| Income tax                                 | <b>(31,409)</b>  | <b>-</b>         | <b>(367,505)</b>     | <b>43,847</b>      | <b>2,970</b>    | <b>-</b>         | <b>-</b>        |
| Profit (Loss) for the period               | <b>78,077</b>    | <b>(607,219)</b> | <b>819,632</b>       | <b>(2,621,936)</b> | <b>(7,098)</b>  | <b>20,562</b>    | <b>(19,166)</b> |
| <b>2017</b>                                |                  |                  |                      |                    |                 |                  |                 |
| <b>Statements of Financial Position:</b>   |                  |                  |                      |                    |                 |                  |                 |
| Current assets                             | <b>₱622,260</b>  | <b>₱684,908</b>  | <b>₱2,779,719</b>    | <b>₱4,355,868</b>  | <b>₱22,577</b>  | <b>₱560,444</b>  | <b>₱43,342</b>  |
| Noncurrent assets                          | <b>89,801</b>    | <b>1,689,353</b> | <b>3,725,832</b>     | <b>542,833</b>     | <b>242,253</b>  | <b>24,824</b>    | <b>1,197</b>    |
| Current liabilities                        | <b>305,908</b>   | <b>335,381</b>   | <b>1,940,313</b>     | <b>2,238,735</b>   | <b>74,666</b>   | <b>128,790</b>   | <b>20,144</b>   |
| Noncurrent liabilities                     | <b>5,871</b>     | <b>328,527</b>   | <b>396,311</b>       | <b>12,087</b>      | <b>-</b>        | <b>-</b>         | <b>589</b>      |
| Equity                                     | <b>400,282</b>   | <b>1,710,353</b> | <b>4,168,927</b>     | <b>2,647,879</b>   | <b>190,164</b>  | <b>456,478</b>   | <b>23,806</b>   |
| <b>Statements of Comprehensive Income:</b> |                  |                  |                      |                    |                 |                  |                 |
| Revenue                                    | <b>834,624</b>   | <b>48,184</b>    | <b>2,352,260</b>     | <b>189,317</b>     | <b>4,911</b>    | <b>232,335</b>   | <b>35,822</b>   |
| Costs and expenses                         | <b>(674,993)</b> | <b>(695,657)</b> | <b>(2,489,433)</b>   | <b>(719,761)</b>   | <b>(66,391)</b> | <b>(165,081)</b> | <b>(54,961)</b> |
| Income before tax                          | <b>159,631</b>   | <b>(647,473)</b> | <b>(137,173)</b>     | <b>(530,444)</b>   | <b>(61,480)</b> | <b>67,254</b>    | <b>(19,139)</b> |
| Income tax                                 | <b>(44,860)</b>  | <b>-</b>         | <b>(201,541)</b>     | <b>5,324</b>       | <b>16,285</b>   | <b>-</b>         | <b>-</b>        |
| Profit (Loss) for the period               | <b>114,771</b>   | <b>(647,473)</b> | <b>(338,714)</b>     | <b>(525,120)</b>   | <b>(45,195)</b> | <b>67,254</b>    | <b>(19,139)</b> |

## Investment in Associates

### 12.1 Investment in Yondu

Yondu is an associate of Globe Telecom and is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

Dividend from Yondu amounted to ₱39.90 million and ₱42.74 million in 2018 and 2017, respectively. Dividends receivable as of December 31, 2018 and 2017 amounted to ₱61.02 million and ₱34.96 million, respectively.

## 12.2 Investment in AFPI (formerly Automated Fare Collection Service Inc. (AFCS))

On January 30, 2014, following a competitive bidding process, the Department of Transportation and Communication awarded to AF Consortium, composed of AC Infrastructure Holdings Corp., BPI Card Finance Corp., Globe Telecom, Inc., Meralco Financial Services, Inc., Metro Pacific Investments Corp., and Smart Communications, Inc. the rights to design, build and operate the ₱1.72 billion automated fare collection system. This is a public-private partnership project intended to upgrade and consolidate the fare collection systems of the three urban rail transit systems which presently serve Metro Manila.

On February 10, 2014, AF Consortium incorporated AFCS, a special purpose company, which will assume the rights and obligations of the concessionaire. These rights and obligations include the construction and establishment of systems, infrastructure including implementation, test, acceptance and maintenance plans, and operate the urban transit system for a period of 10 years.

On March 11, 2015, AFCS amended its corporate name to AFPI.

In 2018 and 2017, Globe Telecom infused additional capital amounting to ₱60.00 million and ₱100.00 million, respectively.

In 2017, management determined that the recoverable amount of the investment in AFPI is less than the carrying value. Accordingly, the Globe Group recognized as impairment loss the difference in the investment's recoverable amount and carrying value amounting to ₱286.04 million. No impairment loss was recognized in 2018 (Note 25).

The Globe Group has no share in any contingent liabilities of any associates as of December 31, 2018 and 2017.

## Investment in Joint Ventures

### 12.3 Investment in VTI, BAHC and BHC

On May 30, 2016, Globe Telecom's BOD, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for acquisition of 50% equity interest in the telecommunications business of San Miguel Corporation (SMC), Schutzengel Telecom, Inc. and Grace Patricia W. Vilchez-Custodio (the "Sellers"; SMC being the major seller) through their respective subsidiaries namely, VTI, BAHC and BHC, respectively (the Acquirees). The preceding sentence is hereinafter referred to as "the Transaction".

VTI owns an equity stake in Liberty Telecom Holdings, Inc. (LIB), a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc. (Bell Tel), Eastern Telecom Philippines, Inc. (Eastern Telecom), Cobaltpoint Telecommunication, Inc (formerly Express Telecom, Inc.), and Tori Spectrum Telecom, Inc., among others. The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

Total consideration for the Transaction amounts to ₱52,847.82 million for the purchase of the equity interest and advances of the Acquirees, which translated to an agreed consideration of ₱26,423.91 million for Globe Telecom's 50% equity stakes in the Acquirees. The SPA also provided for the assumption of total liabilities of ₱17,151.18 million by Globe and PLDT from May 30, 2016 and a price adjustment mechanism based on the variance in the amount of assumed liabilities from April 30, 2016 to be agreed upon by Globe, PLDT and the Sellers at the end of the confirmatory due diligence period. Total price adjustment amounted to ₱2,564.28 million resulting to adjusted total consideration of ₱55,412.10 million. As of December 31, 2016 the negotiated assumed liabilities amounted to ₱10,782.50 million, of which, ₱5,391.25 million was attributed as Globe Telecom's share.



Acquisition-related costs amounting to ₱298.53 million were carried as part of the investment cost. The confirmatory due diligence was finalized as of June 30, 2017. The assumption of liabilities of VTI, BAHG and BHC by Globe Telecom and PLDT may give rise to claims that may not have been contemplated and agreed upon during the period set for confirmatory due diligence. The SPA provides for various indemnity claims expiring between 2 to 5 years from the end of the confirmatory due diligence period.

The consideration for the equity interest and advances was fully settled on a deferred basis as follows: 50% on May 30, 2016, 25% on December 1, 2016 and 25% on May 30, 2017.

The acquisition provided Globe Telecom an access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfillment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

The memorandum of agreement between Globe and PLDT provides for both parties to pool resources and share in the profits and losses of the companies on a 50%-50% basis with a view to being financially self-sufficient and able to operate or borrow funds without recourse to the parties. Globe extended advances to Vega Group amounting to ₱1,316.08 million for the period June 1, 2016 to December 31, 2016 which was carried as part of investment cost.

Of the various companies within the group, only Eastern Telecom and its subsidiary have commercial operations generating ₱2,752.26 million, ₱1,514.47 million and ₱875.27 million in revenues, EBITDA and net income for the year ended December 31, 2018, respectively and ₱2,350.17 million, ₱733.72 million and ₱708.67 million in revenues, EBITDA and net income for the year ended December 31, 2017, respectively. Globe Telecom has adjusted its share in the net assets of the Acquirees to reflect losses on fair value of assets and onerous contracts.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of LIB held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership on LIB is at 99.1%.

The net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of their fair values. On May 31, 2017, the management completed the assessment of the fair value of the identifiable assets of VTI group and determined a net increase in identifiable net assets of VTI amounting to ₱1,552.84 million. The Globe Group recognized the adjustment to the provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date, as allowed by PFRS 3, Business Combinations. Goodwill from acquisition based on final fair values amounted to ₱18,012.26 million as of December 31, 2018.



The provisional and final fair value of the identifiable assets and liabilities of VTI Group as the date of acquisition are as follows:

|                                                          | Final<br>fair values |                   | Provisional<br>fair values |
|----------------------------------------------------------|----------------------|-------------------|----------------------------|
| Assets                                                   | <b>₱6,487,084</b>    |                   | <b>₱8,857,921</b>          |
| Liabilities                                              | <b>(13,730,305)</b>  |                   | <b>(18,474,206)</b>        |
| Total net liabilities at fair value                      | <b>(7,243,221)</b>   |                   | <b>(9,616,285)</b>         |
| Intangible assets arising from the acquisition:          |                      |                   |                            |
| Spectrum                                                 | <b>39,420,882</b>    | <b>37,769,443</b> |                            |
| Trademark                                                | <b>378,349</b>       | <b>419,401</b>    |                            |
| Customer contracts                                       | <b>297,000</b>       | <b>660,400</b>    | <b>38,849,244</b>          |
| Property and equipment appraisal increase                | <b>1,160,045</b>     |                   | <b>1,049,964</b>           |
| Deferred tax liabilities                                 | <b>(12,376,883)</b>  |                   | <b>(11,969,762)</b>        |
| Non-controlling interest measured at fair value          | <b>(1,415,006)</b>   |                   | <b>(1,197,681)</b>         |
|                                                          | <b>₱20,221,166</b>   |                   | <b>₱17,115,480</b>         |
| Purchase consideration transferred                       | <b>₱28,122,847</b>   |                   | <b>₱26,562,192</b>         |
| Share in identifiable assets and intangible assets (50%) | <b>(10,110,583)</b>  |                   | <b>(8,557,740)</b>         |
| Goodwill arising on the acquisition                      | <b>₱18,012,264</b>   |                   | <b>₱18,004,452</b>         |

The fair value amounts of spectrum, trademark, customer contracts and property and equipment were determined by an independent appraiser using acceptable valuation techniques for the industry. However, these techniques make use of inputs which are not based on observable data. The fair values of intangible assets reflect the market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to the entity. The major market participants for the industry are Globe and PLDT.

Spectrum was valued using the greenfield approach where the Globe Group is deemed to have started with nothing but the spectrum and licenses, paid for all other assets and incurred the startup costs and losses during the ramp up period. The relief of royalty approach was applied for the valuation of trademark using a royalty charge derived from comparable transactions and applied against projected revenues. Customer contracts were valued using the multi-period excess earnings method (MEEM) which is the difference between after-tax operating cash flows attributable to the customer contracts following a certain percentage of attrition and the required cost of invested capital on contributory assets.

The goodwill comprises the fair value of the expected synergies arising from the acquisition. For goodwill impairment assessment, the cash generating unit is the mobile communications segment of Globe Group.

Management estimated the useful life of the spectrum to be 50 years, after considering the market forces and technological trends which will determine the economic life of the asset, over which period the Globe Group can continue generating optimum level of future cash flows.

On February 28, 2017, Globe and PLDT each subscribed to 2,760,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed shares (inclusive of a premium over par of ₱3,000 per subscribed share) or a total subscription price of ₱11,040 million (inclusive of a premium over par of ₱8,280 million). Globe and PLDT's assigned advances from SMC, which amounted to ₱11,040 million, were treated as deposit on future stock subscription by VTI and subsequently applied as full payment of the subscription price.

Also, on the same date, Globe and PLDT each subscribed to 800,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed share (inclusive of a premium over par of ₱3,000 per subscribed share), or a total subscription price of ₱3,200 million (inclusive of a premium over par of ₱2,400 million. Globe and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe and PLDT upon call of the VTI's BOD.

The Transaction has been the subject of review notice filed by the PCC against Globe Telecom, PLDT, SMC and VTI on June 7, 2016 where PCC claimed that the notice was deficient in form and substance and concluded that the acquisition cannot be claimed to be deemed approved. Globe Telecom has clarified that the supposed deficiency in form and substance is not a ground to prevent the transaction from being deemed approved. The petitions of both parties with the Court of Appeals have been subsequently consolidated and the parties were required to submit their respective memoranda after which the case shall be deemed submitted for resolution. The status of the petitions with the Court of Appeals are further disclosed in [Note 33](#).

On November 7, 2017, the NTC approved the transfer of Certificate of Public Convenience and Necessities and Provisional Authorities issued to Telecommunications Technologies Philippines, Inc. (TTPI) to operate Local Exchange Carrier (LEC) service in Metro Manila and in Region II and Region 4A and Provision Authority to provide nationwide inter-exchange (IXC) and the outside plant facilities and other telecommunications assets of TTPI, in favor of ETPI. TTPI, a wholly owned subsidiary of ETPI, used to be the voice business arm of ETPI. The latter provides internet, data and voice products, and business-centric managed services, catering mostly to enterprise subscribers.

#### *12.4 Investment in GFI/Mynt*

Prior to September 27, 2017, GCVHI holds 100% ownership interest in GFI and accordingly, GFI's financial position and financial performance are included in the Globe Group's consolidated financial statements. GFI/Mynt is engaged in purchasing, subscribing, owning, holding and assigning real and personal property, shares of stock and other securities. GFI has a wholly-owned subsidiary, Fuse, which operates as a lending company.

#### *Loss of control on investment in GFI/Mynt*

As disclosed in [Note 1](#), on February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and GCVHI entered into an investment agreement with Alipay and Ayala for Alipay and Ayala to invest in the unissued common shares of GFI. PCC released through a memo its affirmative decision on the Alipay acquisition of GFI shares, resulting in the dilution of GCVHI ownership in GFI.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513.00 million common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions.



Total net assets of GFI/Mynt as of the date of loss of control amounted to ₱388.40 million. The fair value of the retained interest in GFI/Mynt held by GCVHI amounted to ₱2,278.30 million at the date of loss of control. The gain on fair value of retained equity interest in GFI/Mynt amounting to ₱1,889.90 million, was presented as "Gain on fair value of retained interest" in the consolidated profit or loss in 2017.

### 12.5 Investment in TechGlobal

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal, a Joint Venture Company, formed to install, own, operate, maintain and manage all kinds of data centers and to provide information technology-enabled services and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

### 12.6 Investment in BMPL

Globe Telecom and other leading Asia Pacific mobile operators (JV partners) signed an Agreement in 2004 (JV Agreement) to form a regional mobile alliance, which will operate through a Singapore-incorporated company, BMPL. The JV company is a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform and deliver different regional mobile services to their subscribers.

### 12.7 Investment in GTHI

On October 23, 2014, Yondu and Salud Interactiva (SI) signed a shareholder's agreement to enter into a joint venture through a Philippine corporation. The Joint Venture (JV) Company was registered with the Securities and Exchange Commission on June 3, 2015 under the name GTHI as a stock corporation with 50% foreign equity formed to establish, operate, manage and provide a health hotline facility, including ancillary Information Technology services with intent to operate as a domestic market enterprise. GTHI started commercial operations in July 2015.

## 13 Other Noncurrent Assets

This account consists of:

|                                       | Notes        | 2018              | 2017       |
|---------------------------------------|--------------|-------------------|------------|
| <i>(In Thousand Pesos)</i>            |              |                   |            |
| Investment in equity securities       | 29.10, 29.12 | <b>₱1,442,940</b> | ₱1,201,187 |
| Security deposits                     |              | <b>1,113,465</b>  | 1,069,660  |
| Loans receivable from related parties | 18.3         | <b>726,620</b>    | 846,620    |
| Deferred input VAT                    | 8            | <b>247,543</b>    | 212,567    |
| Others                                |              | <b>234,421</b>    | 158,782    |
|                                       |              | <b>₱3,764,989</b> | ₱3,488,816 |

Others include investment properties with carrying amount of ₱25.8 million and ₱35.94 million as of December 31, 2018 and 2017, respectively. Investment properties consist of building and improvements which are held to earn rentals. Depreciation and amortization of investment properties amounted to ₱10.02 million, ₱11.52 million and ₱4.36 million in 2018, 2017 and 2016, respectively (see [Note 23](#)).

Fair value gain from investment in equity securities recognized in consolidated OCI amounted to ₱170.65 million, ₱36.08 million and ₱14.54 million in 2018, 2017 and 2016, respectively (see [Note 19.6](#)).

#### 14 Trade Payables and Accrued Expenses

This account consists of:

|                            | Notes       | 2018               | 2017        |
|----------------------------|-------------|--------------------|-------------|
| <i>(In Thousand Pesos)</i> |             |                    |             |
| Accrued expenses           |             | <b>₱22,370,377</b> | ₱19,547,550 |
| Accrued project costs      | 32.3        | <b>19,172,960</b>  | 25,785,455  |
| Trade payable              |             | <b>5,595,929</b>   | 6,557,353   |
| Taxes payable              |             | <b>4,678,853</b>   | 5,322,423   |
| Traffic settlements - net  | 29.11, 32.2 | <b>1,102,411</b>   | 1,074,476   |
| Dividends payable          | 19.3        | <b>260,030</b>     | 260,030     |
| Other creditors            |             | <b>3,038,806</b>   | 3,685,575   |
|                            |             | <b>₱56,219,366</b> | ₱62,232,862 |

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier (see [Note 29.11](#)).

Accrued expenses consists of the following:

|                                     | 2018               | 2017        |
|-------------------------------------|--------------------|-------------|
| <i>(In Thousand Pesos)</i>          |                    |             |
| Services                            | <b>₱4,552,753</b>  | ₱4,353,493  |
| Repairs and maintenance             | <b>4,163,652</b>   | 4,310,915   |
| Manpower                            | <b>3,456,156</b>   | 2,332,892   |
| General, selling and administrative | <b>2,957,088</b>   | 2,033,922   |
| Lease                               | <b>2,879,730</b>   | 2,796,454   |
| Advertising                         | <b>2,459,640</b>   | 2,000,560   |
| Utilities                           | <b>967,624</b>     | 1,009,463   |
| Interest                            | <b>933,734</b>     | 709,851     |
|                                     | <b>₱22,370,377</b> | ₱19,547,550 |

General, selling and administrative accrued expenses include travel, professional fees, supplies, commissions and miscellaneous, which are individually immaterial.

#### 15 Provisions

The rollforward analysis of this account follows:

|                                        | Notes | 2018              | 2017        |
|----------------------------------------|-------|-------------------|-------------|
| <i>(In Thousand Pesos)</i>             |       |                   |             |
| At beginning of year                   |       | <b>₱1,890,415</b> | ₱6,631,612  |
| Provisions for claims                  | 25    | <b>806,084</b>    | 946,534     |
| Payments and reversals for investments |       | -                 | (5,298,268) |
| Payments and reversals for claims      | 25    | <b>(147,112)</b>  | (389,463)   |
| At end of year                         |       | <b>₱2,549,387</b> | ₱1,890,415  |



Provisions pertain to assumed liabilities related to the acquired interest in VTI, BAHC and BHC and various pending unresolved claims over the Globe Group's businesses such as provision for taxes, employee benefits, onerous contracts and various labor cases. As of December 31, 2018 and 2017, Globe Telecom's share in the total assumed liabilities related to the acquired interest in VTI, BAHC and BHC amounts to ₱92.98 million.

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of February 11, 2019, the remaining claims are still being resolved.

## 16 Loans Payable

Loans payable consist of short-term unsecured peso-denominated promissory notes.

The Globe Group has available uncommitted short-term credit facilities of USD119 million and ₱14,000 million as of December 31, 2018 and USD118.90 million and ₱19,500 million, as of December 31, 2017.

The Globe Group also has available ₱3,000 million committed short-term credit facilities as of December 31, 2018 and 2017 and committed long term credit facilities amounting to nil and ₱5,000 million as of December 31, 2018 and 2017, respectively.

These short-term loans have maturities ranging from 1 to 3 months and bear interest ranging from 2.4% to 3.25%.

The Globe Group's long-term debt consists of the following:

|                        | 2018                       | 2017         |
|------------------------|----------------------------|--------------|
|                        | <i>(In Thousand Pesos)</i> |              |
| Term Loans:            |                            |              |
| Peso                   | <b>₱112,287,753</b>        | ₱99,182,125  |
| Dollar                 | <b>23,556,854</b>          | 19,905,492   |
|                        | <b>135,844,607</b>         | 119,087,617  |
| Retail bonds           | <b>12,437,290</b>          | 12,441,088   |
|                        | <b>148,281,897</b>         | 131,528,705  |
| Less current portion   | <b>(16,758,196)</b>        | (8,278,222)  |
| Net of current portion | <b>₱131,523,701</b>        | ₱123,250,483 |

The maturities of long-term debt at nominal values as of December 31, 2018 follow (in thousands):

|                     |                     |
|---------------------|---------------------|
| Due in:             |                     |
| 2019                | ₱16,757,624         |
| 2020                | 13,179,881          |
| 2021                | 7,844,611           |
| 2022                | 15,003,454          |
| 2023 and thereafter | 96,154,092          |
|                     | <b>₱148,939,662</b> |

The interest rates and maturities of the above debts are as follows:

|              | Maturities | Interest Rates         |
|--------------|------------|------------------------|
| Term Loans:  |            |                        |
| Peso         | 2019-2031  | 2.96% to 7.11% in 2018 |
|              | 2018-2031  | 2.53% to 6.00% in 2017 |
| Dollar       | 2019-2027  | 2.08% to 5.00% in 2018 |
|              | 2018-2023  | 1.68% to 5.00% in 2017 |
| Retail bonds | 2019-2023  | 4.89% to 6.00% in 2018 |
|              | 2017-2023  | 4.89% to 6.00% in 2017 |

Unamortized debt issuance costs included in the above long-term debt as of December 31, 2018 and 2017 amounted to ₱657.76 million and ₱526.72 million, respectively.

Total interest expense recognized in the consolidated profit or loss related to long-term debt amounted to ₱5,748.85 million, ₱4,776.24 million and ₱3,101.95 million in 2018, 2017 and 2016, respectively (see [Note 24](#)).

Total interest expenses capitalized as part of property and equipment amounted to ₱846.92 million and ₱734.26 million in 2018 and 2017, respectively (see [Note 9](#)).

#### 16.1 Term Loans and Corporate Notes

Globe Telecom has unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated term loans. The term loans bear interest at stipulated and prevailing market rates. Globe Group also has a secured debt amounting to USD2.13 million as of December 31, 2018 arising from its acquisition of BTI (see [Note 9](#)).

The loan agreements with banks and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of financial ratios and percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

The financial tests under Globe Group's loan agreements include compliance with the following ratios:

- Total debt\* to equity not exceeding 3.0:1,
- Total debt\* to EBITDA not exceeding 3.5:1;
- Debt service coverage exceeding 1.3 times; and
- Secured debt ratio not exceeding 0.2 times.

*\*Composed of notes payable, current portion long term debt, long term debt and net derivative liabilities.*

In December 2018, the loan agreements with Non-bank Financial Institutions were amended to adjust the debt to equity ratio from 2.5:1 to 3:1 and adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

In December 2018, the loan agreements with Financial Institutions were amended to adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

As of December 31, 2018 and 2017, the Globe Group is not in breach of any loan covenants.

## 16.2 Retail Bonds

On June 1, 2012, Globe Telecom issued ₱10,000.00 million fixed rate bonds. The amount comprises ₱4,500.00 million and ₱5,500.00 million fixed rate bonds due in 2017 and 2019, with interest rate of 5.75% and 6.00%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2012.

The five-year and seven-year retail bonds may be redeemed in whole, but not in part only, starting two years before maturity date and on the anniversary thereafter at a price equal to 101.00% and 100.50%, respectively, of the principal amount of the bonds and all accrued interest to the date of the redemption. In 2017, Globe Telecom fully redeemed its ₱4,500.00 million retail bonds.

On July 17, 2013, Globe Telecom issued ₱7,000.00 million fixed rate bond. The amount comprises ₱4,000.00 million and ₱3,000.00 million bonds due in 2020 and 2023, with interest rate of 4.8875% and 5.2792%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2013.

The seven-year and ten-year retail bonds may be redeemed in whole, but not in part only, starting two years for the seven-year bonds and three years for the ten-year bonds before the maturity date and on the anniversary thereafter at a price ranging from 101.0% to 100.5% and 102.0% to 100.5%, respectively, of the principal amount of the bonds and all accrued interest depending on the year of redemption.

In August 2016, the Bond Trust Indentures were amended to adjust the maximum debt-to-equity ratio from 2:1 to 2.5:1.

In October 2018, the Bond Trust Indentures were amended to adjust the maximum debt to equity ratio from 2:5:1 to 3:0:1.

As of December 31, 2018, the Globe Group is not in breach of any bond covenants.

## 17 Other Long-term Liabilities

This account consists of:

|                                   | Notes | 2018              | 2017       |
|-----------------------------------|-------|-------------------|------------|
| <i>(In Thousand Pesos)</i>        |       |                   |            |
| Asset retirement obligation (ARO) |       | <b>₱2,523,939</b> | ₱2,420,224 |
| Accrued pension                   | 26    | <b>1,459,463</b>  | 2,101,313  |
| Accrued lease obligations         |       | <b>518,453</b>    | 624,781    |
| Others                            |       | <b>865,354</b>    | 779,839    |
|                                   |       | <b>₱5,367,209</b> | ₱5,926,157 |

ARO represents Globe Group's obligation to restore leased properties to their original condition and estimated dismantling cost of property and equipment. The rollforward analysis of the Globe Group's ARO follows:

|                                                       | Notes | 2018              | 2017       |
|-------------------------------------------------------|-------|-------------------|------------|
| <i>(In Thousand Pesos)</i>                            |       |                   |            |
| At beginning of year                                  |       | <b>₱2,420,224</b> | ₱2,239,107 |
| Accretion expense during the year                     | 24    | <b>140,457</b>    | 117,188    |
| Capitalized to property and equipment during the year | 31    | <b>9,831</b>      | 97,079     |
| Settlements and reversals                             |       | <b>(11,607)</b>   | (7,744)    |
| Remeasurements                                        |       | <b>(34,966)</b>   | (25,406)   |
| At end of year                                        |       | <b>₱2,523,939</b> | ₱2,420,224 |

Details of gain (loss) on settlement and remeasurement of ARO recognized in consolidated profit or loss are as follows:

|                                     | Note | 2018           | 2017     | 2016     |
|-------------------------------------|------|----------------|----------|----------|
| <i>(In Thousand Pesos)</i>          |      |                |          |          |
| Gain (loss) on remeasurement of ARO |      | <b>₱34,096</b> | (₱77)    | ₱2       |
| Loss on ARO settlements             |      | <b>(6,202)</b> | (4,294)  | (1,497)  |
|                                     | 21   | <b>₱27,894</b> | (₱4,371) | (₱1,495) |

## 18 Related Party Transactions

Parties are considered to be related to the Globe Group if they have the ability, directly or indirectly, to control the Globe Group or exercise significant influence over the Globe Group in making financial and operating decisions, or vice versa, or where the Globe Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Globe Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Globe Group or of any entity that is a related party of the Globe Group.

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures and certain related parties.



The summary of balances arising from related party transactions for the relevant financial year follows (in thousands):

2018

| Amount of transaction                        |                          |                                              |                                        |                                     | Outstanding Balance             |                                 |          | Terms                                                                 | Conditions                                                                                                                    |
|----------------------------------------------|--------------------------|----------------------------------------------|----------------------------------------|-------------------------------------|---------------------------------|---------------------------------|----------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Note                                         | Revenue and Other Income | Costs and Expenses charged to Profit or Loss | Cost and Expenses capitalized as Asset | Cash and Cash Equivalents (Note 31) | Amounts Owed by Related Parties | Amounts Owed to Related Parties |          |                                                                       |                                                                                                                               |
| Entities with joint control over the Company |                          |                                              |                                        |                                     |                                 |                                 |          |                                                                       |                                                                                                                               |
| Singtel                                      | 18.1                     | P639,399                                     | P348,836                               | P-                                  | P-                              | P255,535                        | P123,518 | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| AC                                           | 18.1                     | 31,363                                       | 86,604                                 | -                                   | -                               | 15,515                          | 85       | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| Jointly controlled entities                  |                          |                                              |                                        |                                     |                                 |                                 |          |                                                                       |                                                                                                                               |
| BMPL                                         | 18.2                     | -                                            | 20,703                                 | -                                   | -                               | -                               | 348      | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| GFI/Mynt                                     | 18.2                     | 51,786                                       | 432,145                                | -                                   | -                               | 511,632                         | 52,413   | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| Associate                                    |                          |                                              |                                        |                                     |                                 |                                 |          |                                                                       |                                                                                                                               |
| Yondu                                        | 18.4                     | 46,340                                       | 438,368                                | 90,181                              | -                               | 68,867                          | 255,343  | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| Other related parties                        |                          |                                              |                                        |                                     |                                 |                                 |          |                                                                       |                                                                                                                               |
|                                              |                          |                                              |                                        |                                     |                                 |                                 |          | 3 years, 5.5%, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| GGRP                                         | 13                       | 36,366                                       | -                                      | -                                   | -                               | 598,000                         | -        |                                                                       |                                                                                                                               |
| BHI                                          | 13                       | 7,498                                        | -                                      | -                                   | -                               | 128,620                         | -        | 3 years, 5.75%, settlement in cash                                    | The P250.00 million is covered by a pledge agreement while the P45.00 million is fully secured by chattel mortgage agreement. |
| BEAM                                         | 18.3                     | -                                            | 190,000                                | -                                   | -                               | -                               | -        | -                                                                     | -                                                                                                                             |
| Altimax                                      | 18.3                     | -                                            | 55,000                                 | -                                   | -                               | -                               | -        | -                                                                     | -                                                                                                                             |
| Key management personnel                     | 18.6                     |                                              | 375,200                                |                                     |                                 |                                 |          | -                                                                     | -                                                                                                                             |
| Others                                       | 18.5                     |                                              |                                        |                                     |                                 |                                 |          | Interest-free excluding cash and cash equivalents, settlement in cash | Unsecured, no impairment                                                                                                      |
|                                              |                          | 606,884                                      | 359,767                                | 102,882                             | 1,704,573                       | -                               | 279,726  |                                                                       |                                                                                                                               |
|                                              |                          | P1,419,636                                   | P2,306,623                             | P193,063                            | 1,704,573                       | P1,578,169                      | P711,433 |                                                                       |                                                                                                                               |



2017

|                                              | Note | Amount of transaction    |                                              |                                        | Outstanding Balance                 |                                 |                                 | Terms                                                                 | Conditions                                                                                                                    |
|----------------------------------------------|------|--------------------------|----------------------------------------------|----------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
|                                              |      | Revenue and other income | Costs and Expenses charged to Profit or Loss | Cost and Expenses capitalized as Asset | Cash and Cash Equivalents (Note 31) | Amounts Owed by Related Parties | Amounts Owed to Related Parties |                                                                       |                                                                                                                               |
| Entities with joint control over the Company |      |                          |                                              |                                        |                                     |                                 |                                 |                                                                       |                                                                                                                               |
| Singtel                                      | 18.1 | P695,985                 | P458,408                                     | P-                                     | P-                                  | P92,732                         | P132,319                        | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| AC                                           | 18.1 | 25,580                   | 37,353                                       | -                                      | -                                   | 15,876                          | 85                              | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| Jointly controlled entities                  |      |                          |                                              |                                        |                                     |                                 |                                 |                                                                       |                                                                                                                               |
| BMPL                                         | 18.2 | -                        | 20,711                                       | -                                      | -                                   | 320                             | -                               | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| GFI/Mynt                                     | 18.2 | 12,946                   | 208,206                                      | -                                      | -                                   | 262,460                         | 101,476                         |                                                                       |                                                                                                                               |
| Associate                                    |      |                          |                                              |                                        |                                     |                                 |                                 |                                                                       |                                                                                                                               |
| Yondu                                        | 18.4 | -                        | 486,867                                      | 74,365                                 | -                                   | 274,696                         | 36,057                          | Interest-free, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| Other related parties                        |      |                          |                                              |                                        |                                     |                                 |                                 |                                                                       |                                                                                                                               |
| GGRP                                         | 13   | 38,244                   | -                                            | -                                      | -                                   | 718,000                         | -                               | 3 years, 5.5%, settlement in cash                                     | Unsecured, no impairment                                                                                                      |
| BHI                                          | 13   | 7,842                    | -                                            | -                                      | -                                   | 128,620                         | -                               | 3 years, 5.75%, settlement in cash                                    | The P250.00 million is covered by a pledge agreement while the P45.00 million is fully secured by chattel mortgage agreement. |
| BEAM                                         | 18.3 | -                        | 190,000                                      | -                                      | -                                   | -                               | -                               | -                                                                     | -                                                                                                                             |
| Altimax                                      | 18.3 | -                        | 55,000                                       | -                                      | -                                   | -                               | -                               | -                                                                     | -                                                                                                                             |
| Key management personnel                     | 18.6 |                          | 378,800                                      |                                        |                                     |                                 |                                 | -                                                                     | -                                                                                                                             |
| Others                                       | 18.5 | 574,314                  | 381,289                                      | 192,933                                | 1,020,445                           | 261,332                         | 64,292                          | Interest-free excluding cash and cash equivalents, settlement in cash | Unsecured, no impairment                                                                                                      |
|                                              |      | P1,354,911               | P2,216,634                                   | P267,298                               | P1,020,445                          | P1,754,036                      | P334,229                        |                                                                       |                                                                                                                               |

### 18.1 Entities with Joint Control over Globe Group - AC and Singtel

Globe Telecom has interconnection agreements with Singtel. The related net traffic settlements receivable (included in "Trade 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:

|                         | 2018                       | 2017    | 2016    |
|-------------------------|----------------------------|---------|---------|
|                         | <i>(In Thousand Pesos)</i> |         |         |
| Trade receivables – net | <b>₱255,535</b>            | ₱92,732 | ₱70,141 |
| Service revenues        | <b>639,399</b>             | 695,985 | 755,514 |
| Interconnection costs   | <b>61,423</b>              | 67,867  | 85,148  |

Globe Telecom and Singtel have a technical assistance agreement whereby Singtel will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom's networks and communication services, 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 Singtel.

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:

|                                                          | 2018                       | 2017     | 2016     |
|----------------------------------------------------------|----------------------------|----------|----------|
|                                                          | <i>(In Thousand Pesos)</i> |          |          |
| Maintenance and restoration costs and other transactions | <b>₱83,497</b>             | ₱150,521 | ₱126,148 |
| Technical assistance fee                                 | <b>158,117</b>             | 174,285  | 89,400   |
| Software development, supply, license and support        | <b>45,799</b>              | 65,735   | 28,342   |
|                                                          | <b>₱287,413</b>            | ₱390,541 | ₱243,890 |

The outstanding balances due to Singtel (included in the "trade payables and accrued expenses" account in the consolidated statements of financial position) arising from these transactions are as follows:

|                                                          | 2018                       | 2017     | 2016     |
|----------------------------------------------------------|----------------------------|----------|----------|
|                                                          | <i>(In Thousand Pesos)</i> |          |          |
| Technical assistance fee                                 | <b>₱53,759</b>             | ₱65,035  | ₱63,510  |
| Maintenance and restoration costs and other transactions | <b>14,156</b>              | 23,559   | 22,695   |
| Software development, supply, license and support        | <b>55,603</b>              | 43,725   | 17,974   |
|                                                          | <b>₱123,518</b>            | ₱132,319 | ₱104,179 |

Globe Telecom, Innove and BTI earn subscriber revenues from AC. The outstanding subscribers receivable from AC (included in "Trade 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:

|                        | 2018                       | 2017    | 2016    |
|------------------------|----------------------------|---------|---------|
|                        | <i>(In Thousand Pesos)</i> |         |         |
| Subscriber receivables | <b>₱15,515</b>             | ₱15,876 | ₱11,463 |
| Service revenues       | <b>31,363</b>              | 25,580  | 24,112  |

Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities (included in "Trade payables and accrued expenses" account in the consolidated statements 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:

|                                              | 2018                       | 2017    | 2016    |
|----------------------------------------------|----------------------------|---------|---------|
|                                              | <i>(In Thousand Pesos)</i> |         |         |
| General, selling and administrative expenses | <b>₱86,604</b>             | ₱37,353 | ₱95,717 |
| Trade payables and accrued expenses          | <b>85</b>                  | 85      | 24,653  |

## *18.2 Joint Ventures in which the Globe Group is a venturer*

### *BMPL*

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 incurs commission from BMPL (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱0.35 million and ₱0.32 million as of December 31, 2018 and 2017, respectively. Total expenses recognized related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱20.70 million, ₱20.71 million and ₱19.42 million in 2018, 2017 and 2016, respectively.

### *GFI/Mynt*

The Globe Group renders certain management support services to GXI. The management services also includes the use of the Globe Group's network and facilities to conduct GXI's operations.

The Globe Group also has a VAS sharing agreement with GXI. Under the agreement, GXI shall perform the following services and shall be entitled to a certain percentage of data revenues arising from GCash transactions:

- (1) provide an e-commerce system (the application that drives the service) through which mobile wallets get updated for each cash in and cash out transaction;
- (2) provide cash in and cash out distribution channels for the remittance business through its partners (which may include Globe Stores); and
- (3) provide customer support.

GXI is also entitled to a certain percentage share for the airtime load purchased by the Globe Group's subscribers and Application Processing Interface (API) fees for the usage of GCash system in continuing service of the various products and services of the Globe Group.

### *18.3 Transactions with the GGRP*

The Globe Group granted various loans to the GGRP at an interest rate of 5% which matured on September 11, 2017. Upon maturity, the loan was extended until September 11, 2020 with the interest rate increased to 5.50% per annum. Interest income amounted to ₱36.37 million, ₱38.24 million and ₱44.33 million in 2018, 2017 and 2016, respectively (see [Note 20](#)). As of December 31, 2018 and 2017, the outstanding balance of loan receivable from GGRP amounted to ₱598.00 million and ₱718.00 million, respectively (see [Note 13](#)).

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.

The Globe Group granted loans amounting to ₱250.00 million and ₱45.00 million to BHI at 5% interest which matured on August 14, 2017. 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. Upon maturity, the loan was extended until August 14, 2020 with the interest rate increased to 5.75% per annum.

As of December 31, 2018 and 2017, the outstanding balance of loan receivable from BHI amounted to ₱128.62 million ([Note 13](#)). Interest income amounted to ₱7.50 million, ₱7.84 million and ₱8.06 million in 2018, 2017 and 2016, respectively (see [Note 20](#)).

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. The Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱190.00 million in 2018, 2017 and 2016.

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. The Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱55.00 million in 2018 and 2017 and ₱32.49 million in 2016.

### *18.4 Transactions with Yondu*

The Globe Group has a VAS sharing agreement with Yondu. Under the agreement, Yondu is entitled to a 30% share on revenue for providing mobile contents to Globe and TM subscribers. The Globe Group's payout to Yondu on mobile content transactions in 2018, 2017 and 2016 amounted to ₱46.34 million, ₱45.33 million and ₱264.30 million, respectively.



Yondu also provides various enterprise solutions-based services to the Globe Group for network, platform and applications development under its Business Process Outsourcing Unit (BPO) and mobile content. The Globe Group's related expenses in 2018, 2017 and 2016 amounted to ₱482.21 million, ₱441.54 million and ₱240.21 million, out of which ₱90.18 million, ₱74.36 million and ₱102.32 million were capitalized under "Asset Under Construction", respectively.

#### 18.5 Transactions with other related parties

The Globe Group earns service revenues, maintains money market placements and cash in bank balances, acquires transportation equipment and incurs general, selling and administrative expenses such as rentals, utilities and customer contract services, from entities which are either controlled, jointly controlled or significantly influenced by AC.

#### 18.6 Transactions with key management personnel of the Globe Group

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

|                              | Notes | 2018            | 2017            |
|------------------------------|-------|-----------------|-----------------|
| <i>(In Thousand Pesos)</i>   |       |                 |                 |
| Short-term employee benefits | 22    | <b>₱238,500</b> | ₱204,000        |
| Share-based payments         | 26.1  | <b>120,200</b>  | 159,500         |
| Post-employment benefits     | 26.2  | <b>16,500</b>   | 15,300          |
|                              |       | <b>₱375,200</b> | <b>₱378,800</b> |

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.

### 19 Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock as of December 31, 2018 and 2017 consists of (amounts in thousands pesos and number of shares):

|                                            | Shares  | Amount    |
|--------------------------------------------|---------|-----------|
| Voting preferred stock - ₱5 per share      | 160,000 | ₱800,000  |
| Non-voting preferred stock - ₱50 per share | 40,000  | 2,000,000 |
| Common stock - ₱50 per share               | 148,934 | 7,446,719 |

Globe Telecom's issued, subscribed and fully paid capital stock consists of:

|                                                 | 2018           |                   | 2017    |                   |
|-------------------------------------------------|----------------|-------------------|---------|-------------------|
|                                                 | Shares         | Amount            | Shares  | Amount            |
| <i>(In Thousand Pesos and Number of Shares)</i> |                |                   |         |                   |
| Voting preferred stock                          | <b>158,515</b> | <b>₱792,575</b>   | 158,515 | ₱792,575          |
| Non-voting preferred stock                      | <b>20,000</b>  | <b>1,000,000</b>  | 20,000  | 1,000,000         |
| Common stock                                    | <b>133,053</b> | <b>6,652,663</b>  | 132,917 | 6,645,829         |
| Total capital stock                             |                | <b>₱8,445,238</b> |         | <b>₱8,438,404</b> |

Below is the summary of the Globe Telecom's track record of registration of securities:

|                                                     | Number of<br>shares registered | Issue/offer<br>price | Date of<br>approval |
|-----------------------------------------------------|--------------------------------|----------------------|---------------------|
| <i>(In Thousands, Except for Issue/Offer price)</i> |                                |                      |                     |
| Voting preferred stock                              | 158,515                        | ₱5.00                | June 2001           |
| Non-voting preferred stock                          | 20,000                         | 500.00               | August 11, 2014     |
| Common stock*                                       | 30,000                         | 0.50                 | August 11, 1975     |

*\*Initial number of registered shares only*

### 19.1 Preferred Stock

#### Non-Voting Preferred Stock

On February 10, 2014, Globe Telecom's BOD approved the amendment of Articles of Incorporation (AOI) to reclassify 31 million of unissued common shares with par value of ₱50 per share and 90 million of unissued voting preferred shares with par value of ₱5 per share into a new class of 40 million non-voting preferred shares with par value of ₱50 per share.

On April 8, 2014, the stockholders approved the issuance, offer and listing of up to 20 million non-voting preferred shares, with an issue volume of up to ₱10 billion. The preferred shares shall be redeemable, non-convertible, non-voting, cumulative and may be issued in series.

On June 5, 2014, the SEC approved the amendment of AOI to implement the foregoing reclassification of shares.

On August 8, 2014, the SEC approved the offer of non-voting preferred perpetual shares and on August 15, 2014, the 20 million non-voting preferred shares were fully subscribed and issued. Subsequently, the shares were listed at the Philippines Stock Exchange (PSE) on August 22, 2014.

Non-voting preferred stock has the following features:

- Issued at ₱50 par;
- Dividend rate to be determined by the BOD at the time of issue;
- Redemption - at Globe Telecom's option at such times and price(s) as may be determined by the BOD at the time of issue, which price may not be less than the par value thereof plus accrued dividends;
- Eligibility of investors - Any person, partnership, association or corporation regardless of nationality wherein at least 60% of the outstanding capital stock shall be owned by Filipino
- No voting rights;
- Cumulative and non-participating;
- No pre-emptive rights over any sale or issuance of any share in Globe Telecom's capital stock; and
- Stocks shall rank ahead of the common shares and equally with the voting preferred stocks in the event of liquidation.

### Voting Preferred Stock

Voting preferred stock has the following features:

- Issued at ₱5 par;
- Dividend rate to be determined by the BOD at the time of issue;
- One preferred share is convertible to one common share starting at the end of the 10th year of the issue date at a price to be determined by Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;
- Call option - Exercisable any time by Globe Telecom starting at the end of the 5th year from issue date at a price to be determined by the BOD at the time of issue;
- Eligibility of investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock or voting power is owned by Filipino;
- With voting rights;
- Cumulative and non-participating;
- Preference as to dividends and in the event of liquidation; and
- No preemptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred stocks are declared upon the sole discretion of the Globe Telecom's BOD.

### 19.2 Common Stock

The rollforward of outstanding common shares follows:

|                                                                                      | 2018           |                   | 2017    |            |
|--------------------------------------------------------------------------------------|----------------|-------------------|---------|------------|
|                                                                                      | Shares         | Amount            | Shares  | Amount     |
| <i>(In Thousand Pesos and Number of Shares)</i>                                      |                |                   |         |            |
| At beginning of year                                                                 | <b>132,917</b> | <b>₱6,645,829</b> | 132,759 | ₱6,637,929 |
| Exercise of stock options                                                            | <b>7</b>       | <b>371</b>        | 18      | 900        |
| Issuance of shares under share-based compensation plan and exercise of stock options | <b>129</b>     | <b>6,463</b>      | 140     | 7,000      |
| <b>At end of year</b>                                                                | <b>133,053</b> | <b>₱6,652,663</b> | 132,917 | ₱6,645,829 |

Holders of fully paid common stock are entitled to voting and dividends rights.

### 19.3 Cash Dividends

Information on the Globe Telecom's BOD declaration of cash dividends follows:

|                                               | Per Share | Amount | Date              |                  |
|-----------------------------------------------|-----------|--------|-------------------|------------------|
|                                               |           |        | Record            | Payment          |
| (In Thousand Pesos, Except Per Share Figures) |           |        |                   |                  |
| Dividends on Voting Preferred stock:          |           |        |                   |                  |
| November 4, 2016                              | 0.20      | 32,027 | November 18, 2016 | December 2, 2016 |
| November 3, 2017                              | 0.21      | 33,731 | November 17, 2017 | December 1, 2017 |
| November 5, 2018                              | 0.26      | 41,752 | November 19, 2018 | December 5, 2018 |
| (forward)                                     |           |        |                   |                  |

|                                          | Per Share | Amount    | Date              |                   |
|------------------------------------------|-----------|-----------|-------------------|-------------------|
|                                          |           |           | Record            | Payment           |
| Dividends on Non-voting Preferred stock: |           |           |                   |                   |
| May 4, 2016                              | 13.00     | 260,030   | August 10, 2016   | August 22, 2016   |
| December 7, 2016                         | 13.00     | 260,030   | January 27, 2017  | February 22, 2017 |
| May 9, 2017                              | 13.00     | 260,030   | August 10, 2017   | August 22, 2017   |
| December 5, 2017                         | 13.00     | 260,030   | January 26, 2018  | February 22, 2018 |
| May 4, 2018                              | 13.00     | 260,030   | August 10, 2018   | August 22, 2018   |
| December 6, 2018                         | 13.00     | 260,030   | January 28, 2019  | February 22, 2019 |
| Dividends on Common stock:               |           |           |                   |                   |
| February 5, 2016                         | 22.00     | 2,920,444 | February 22, 2016 | March 4, 2016     |
| May 4, 2016                              | 22.00     | 2,920,661 | May 19, 2016      | June 3, 2016      |
| August 2, 2016                           | 22.00     | 2,920,689 | August 16, 2016   | September 1, 2016 |
| November 4, 2016                         | 22.00     | 2,920,689 | November 18, 2016 | December 2, 2016  |
| February 7, 2017                         | 22.75     | 3,020,280 | February 21, 2017 | March 8, 2017     |
| May 9, 2017                              | 22.75     | 3,023,806 | May 23, 2017      | June 7, 2017      |
| August 7, 2017                           | 22.75     | 3,023,806 | August 22, 2017   | September 6, 2017 |
| November 3, 2017                         | 22.75     | 3,023,844 | November 17, 2017 | December 1, 2017  |
| February 5, 2018                         | 22.75     | 3,023,852 | February 20, 2018 | March 5, 2018     |
| May 7, 2018                              | 22.75     | 3,026,804 | May 21, 2018      | June 1, 2018      |
| August 7, 2018                           | 22.75     | 3,026,962 | August 24, 2018   | September 6, 2018 |
| November 5, 2018                         | 22.75     | 3,026,961 | November 19, 2018 | December 5, 2018  |

Unpaid cash dividends declared related to non-voting preferred stock amounted to ₱260.03 million as of December 31, 2018 and 2017 (see [Note 14](#)).

#### 19.4 Common Stock Dividend

The dividend policy of Globe Telecom as approved by the BOD is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. On November 8, 2011, the BOD approved the current dividend policy of Globe Telecom to distribute cash dividends at the rate of 75% to 90% of prior year's core net income. On August 6, 2013, the BOD further approved the change in distribution from semi-annual dividend payments to quarterly dividend distributions.

On November 5, 2018, the BOD approved the change in the dividend policy from 75% to 90% of prior year's core net income to 60% to 75% of prior year's core net income, to be applied to the 2019 dividend declaration.

The dividend distribution policy is reviewed annually and subsequently each quarter of the year, taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

#### 19.5 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱10,603.03 million as of December 31, 2018. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability, currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see [Note 16](#)).

## 19.6 Other Comprehensive Income

### Other Reserves

#### 2018

|                                                                         | Cash flow<br>hedges | Investment<br>in equity<br>securities<br>(Note 13) | Currency<br>translation<br>adjustment | Remeasurement<br>on defined<br>benefit plan<br>(Note 26.2) | Total             |
|-------------------------------------------------------------------------|---------------------|----------------------------------------------------|---------------------------------------|------------------------------------------------------------|-------------------|
| <i>(In Thousand Pesos)</i>                                              |                     |                                                    |                                       |                                                            |                   |
| <b>As of January 1</b>                                                  | <b>₱85,204</b>      | <b>₱141,874</b>                                    | <b>₱15,841</b>                        | <b>(₱595,294)</b>                                          | <b>(₱352,375)</b> |
| <b>Other comprehensive income for the year</b>                          |                     |                                                    |                                       |                                                            |                   |
| Fair value changes                                                      | 1,178,226           | 170,645                                            | -                                     | -                                                          | 1,348,871         |
| Remeasurement gain on defined benefit plan                              | -                   | -                                                  | -                                     | 71,013                                                     | 71,013            |
| Transferred to profit or loss                                           | 55,653              | -                                                  | -                                     | -                                                          | 55,653            |
| Exchange differences                                                    | -                   | -                                                  | 40,150                                | -                                                          | 40,150            |
| Income tax effect                                                       | (370,164)           | (18,671)                                           | (11,626)                              | (21,304)                                                   | (421,765)         |
|                                                                         | 863,715             | 151,974                                            | 28,524                                | 49,709                                                     | 1,093,922         |
| <b>Reclassification remeasurement (losses) on defined benefit plans</b> | -                   | -                                                  | -                                     | (180,444)                                                  | (180,444)         |
| <b>As of December 31</b>                                                | <b>₱948,919</b>     | <b>₱293,848</b>                                    | <b>₱44,365</b>                        | <b>(₱726,029)</b>                                          | <b>₱561,103</b>   |

#### 2017

|                                                                         | Cash flow<br>hedges | Investment in<br>equity<br>securities<br>(Note 13) | Currency<br>translation<br>adjustment | Remeasurement<br>on defined<br>benefit plan<br>(Note 26.2) | Total               |
|-------------------------------------------------------------------------|---------------------|----------------------------------------------------|---------------------------------------|------------------------------------------------------------|---------------------|
| <i>(In Thousand Pesos)</i>                                              |                     |                                                    |                                       |                                                            |                     |
| <b>As of January 1</b>                                                  | <b>(₱54,208)</b>    | <b>₱115,874</b>                                    | <b>₱38,981</b>                        | <b>(₱1,173,572)</b>                                        | <b>(₱1,072,925)</b> |
| <b>Other comprehensive income for the year</b>                          |                     |                                                    |                                       |                                                            |                     |
| Fair value changes                                                      | (173,001)           | 36,076                                             | -                                     | -                                                          | (136,925)           |
| Remeasurement gain on defined benefit plan                              | -                   | -                                                  | -                                     | 570,289                                                    | 570,289             |
| Transferred to profit or loss                                           | 372,161             | -                                                  | -                                     | -                                                          | 372,161             |
| Income tax effect                                                       | (59,748)            | (10,076)                                           | -                                     | (171,087)                                                  | (240,911)           |
| Share in other comprehensive income from investment in associate        | -                   | -                                                  | 80                                    | 791                                                        | 871                 |
| Exchange differences                                                    | -                   | -                                                  | (23,220)                              | -                                                          | (23,220)            |
|                                                                         | 139,412             | 26,000                                             | (23,140)                              | 399,993                                                    | 542,265             |
| <b>Reclassification remeasurement (losses) on defined benefit plans</b> | -                   | -                                                  | -                                     | 178,285                                                    | 178,285             |
| <b>As of December 31</b>                                                | <b>₱85,204</b>      | <b>₱141,874</b>                                    | <b>₱15,841</b>                        | <b>(₱595,294)</b>                                          | <b>(₱352,375)</b>   |

2016

|                                               | Cash flow<br>hedges | Investment in<br>equity<br>securities<br>(Note 13) | Currency<br>translation<br>adjustment | Remeasurement<br>on defined<br>benefit plan<br>(Note 26.2) | Total        |
|-----------------------------------------------|---------------------|----------------------------------------------------|---------------------------------------|------------------------------------------------------------|--------------|
| <i>(In Thousand Pesos)</i>                    |                     |                                                    |                                       |                                                            |              |
| As of January 1                               | ₱41,357             | ₱102,434                                           | ₱15,776                               | (₱1,371,080)                                               | (₱1,211,513) |
| Other comprehensive income<br>for the year    |                     |                                                    |                                       |                                                            |              |
| Fair value changes                            | (457,499)           | 14,536                                             | -                                     | -                                                          | (442,963)    |
| Remeasurement gain on<br>defined benefit plan | -                   | -                                                  | -                                     | 279,966                                                    | 279,966      |
| Transferred to profit or loss                 | 320,977             | -                                                  | -                                     | -                                                          | 320,977      |
| Income tax effect                             | 40,957              | (1,096)                                            | -                                     | (82,458)                                                   | (42,597)     |
| Exchange differences                          | -                   | -                                                  | 23,205                                | -                                                          | 23,205       |
|                                               | (95,565)            | 13,440                                             | 23,205                                | 197,508                                                    | 138,588      |
| As of December 31                             | (₱54,208)           | ₱115,874                                           | ₱38,981                               | (₱1,173,572)                                               | (₱1,072,925) |

## 20 Interest Income

Interest income is earned from the following sources:

|                            | Notes | 2018            | 2017     | 2016     |
|----------------------------|-------|-----------------|----------|----------|
| <i>(In Thousand Pesos)</i> |       |                 |          |          |
| Short-term placements      |       | <b>₱332,525</b> | ₱71,876  | ₱88,946  |
| Cash in banks              |       | <b>12,353</b>   | 18,007   | 8,900    |
| Loans receivable:          |       |                 |          |          |
| GGRP                       | 18.3  | <b>36,366</b>   | 38,244   | 44,334   |
| BHI                        | 18.3  | <b>7,498</b>    | 7,842    | 8,063    |
| TechGlobal and others      |       | <b>2,288</b>    | 3,612    | 1,346    |
|                            |       | <b>₱391,030</b> | ₱139,581 | ₱151,589 |

## 21 Other Income - net

This account consists of:

|                                                    | Notes  | 2018              | 2017       | 2016     |
|----------------------------------------------------|--------|-------------------|------------|----------|
| <i>(In Thousand Pesos)</i>                         |        |                   |            |          |
| Gain (loss) on derivatives instruments– net        |        | <b>₱1,004,171</b> | (₱127,708) | ₱469,884 |
| Gain (loss) on settlement and remeasurement of ARO | 17     | <b>27,894</b>     | (4,371)    | (1,495)  |
| Rent                                               | 32.1.1 | <b>65,302</b>     | 52,511     | 83,609   |
| Management fees                                    |        | <b>51,786</b>     | 12,946     | -        |
| Loss on previously held in equity interest         |        | -                 | (9,103)    | (30,186) |
| Others                                             |        | <b>446,682</b>    | 777,378    | 461,374  |
|                                                    |        | <b>₱1,595,835</b> | ₱701,653   | ₱983,186 |

Gain on derivatives instruments includes unrealized gain amounting to ₱82.49 million and unrealized loss amounting to ₱181.34 million and ₱116.96 million for the periods ended December 31, 2018, 2017 and 2016 respectively.

## 22 General, Selling and Administrative Expenses

This account consists of:

|                                                       | Notes  | 2018               | 2017        | 2016        |
|-------------------------------------------------------|--------|--------------------|-------------|-------------|
| <i>(In Thousand Pesos)</i>                            |        |                    |             |             |
| Staff costs                                           | 26     | <b>₱13,271,175</b> | ₱12,238,114 | ₱10,109,899 |
| Professional and other contracted services            |        | <b>11,028,251</b>  | 9,844,780   | 9,804,632   |
| Selling, advertising and promotions                   |        | <b>5,620,077</b>   | 9,009,306   | 9,306,788   |
| Repairs and maintenance                               |        | <b>7,944,057</b>   | 7,822,818   | 6,326,581   |
| Rent                                                  | 32.1.1 | <b>6,535,147</b>   | 6,471,461   | 5,902,414   |
| Utilities, supplies and other administrative expenses |        | <b>5,957,642</b>   | 5,215,693   | 5,000,691   |
| Taxes and licenses                                    |        | <b>3,106,915</b>   | 1,951,490   | 1,590,234   |
| Courier, delivery and miscellaneous expenses          |        | <b>1,684,540</b>   | 1,737,609   | 1,806,120   |
| Insurance and security services                       |        | <b>1,607,072</b>   | 1,685,518   | 1,689,252   |
| Others                                                |        | <b>987,255</b>     | 632,133     | 934,442     |
|                                                       |        | <b>₱57,742,131</b> | ₱56,608,922 | ₱52,471,053 |

Globe Telecom is entitled to certain tax and nontax incentives and have availed of incentives for tax and duty-free importation of capital equipment for the services under its franchise.

## 23 Depreciation and amortization

The account consist of:

|                            | Notes | 2018               | 2017        | 2016        |
|----------------------------|-------|--------------------|-------------|-------------|
| <i>(In Thousand Pesos)</i> |       |                    |             |             |
| Property and equipment     | 9     | <b>P24,895,449</b> | P22,825,049 | P20,264,995 |
| Intangible assets          | 10    | <b>5,516,254</b>   | 4,676,122   | 3,579,295   |
| Investment properties      | 13    | <b>10,018</b>      | 11,518      | 4,356       |
|                            |       | <b>P30,421,721</b> | P27,512,689 | P23,848,646 |

## 24 Financing Costs

This account consists of:

|                                | 2018              | 2017       | 2016       |
|--------------------------------|-------------------|------------|------------|
| <i>(In Thousand Pesos)</i>     |                   |            |            |
| Interest expense - net*        | <b>P5,975,164</b> | P5,042,952 | P3,408,899 |
| Foreign exchange loss - net    | <b>900,430</b>    | -          | 525,024    |
| Swap and other financing costs | <b>220,061</b>    | 208,740    | 162,903    |
|                                | <b>P7,095,655</b> | P5,251,692 | P4,096,826 |

\*This account is net of the amount capitalized borrowing costs (see [Notes 9](#) and [16](#)).

Interest expense - net is incurred on the following:

|                            | Notes | 2018              | 2017       | 2016       |
|----------------------------|-------|-------------------|------------|------------|
| <i>(In Thousand Pesos)</i> |       |                   |            |            |
| Loans payable              | 16    | <b>P5,748,853</b> | P4,776,242 | P3,101,953 |
| Pension cost               | 26.2  | <b>84,837</b>     | 145,663    | 129,883    |
| Accretion expense          | 17    | <b>140,457</b>    | 117,188    | 167,742    |
| Others                     |       | <b>1,017</b>      | 3,859      | 9,321      |
|                            |       | <b>P5,975,164</b> | P5,042,952 | P3,408,899 |

## 25 Impairment and other losses

This account consists of:

|                               | Notes | 2018              | 2017       | 2016       |
|-------------------------------|-------|-------------------|------------|------------|
| <i>(In Thousand Pesos)</i>    |       |                   |            |            |
| Impairment loss on            |       |                   |            |            |
| Trade receivables             | 5     | <b>₱2,972,345</b> | ₱4,041,510 | ₱2,860,238 |
| Contract assets               | 6     | <b>457,657</b>    | -          | -          |
| Goodwill                      | 10    | <b>142,794</b>    | -          | -          |
| Property and equipment        | 9     | <b>61,739</b>     | 28,319     | 9,416      |
| Non - trade receivables       | 8     | -                 | 37,467     | 74,072     |
| Investment in associate       | 12.2  | -                 | 286,036    | -          |
| Other assets                  |       | <b>116,362</b>    | 69,926     | -          |
| Provisions for (reversal of): |       |                   |            |            |
| Inventory obsolescence        | 7     | <b>377,775</b>    | 403,037    | 341,759    |
| Other probable losses - net   | 15    | <b>658,972</b>    | 557,071    | (14,184)   |
|                               |       | <b>₱4,787,644</b> | ₱5,423,366 | ₱3,271,301 |

## 26 Staff Cost

This account consist of:

|                             | 2018               | 2017        | 2016        |
|-----------------------------|--------------------|-------------|-------------|
| <i>(In Thousand Pesos)</i>  |                    |             |             |
| Short-term                  | <b>₱12,441,135</b> | ₱11,511,970 | ₱9,255,073  |
| Cost of share based payment | <b>236,714</b>     | 104,828     | 260,269     |
| Pension                     | <b>593,326</b>     | 621,316     | 594,557     |
|                             | <b>₱13,271,175</b> | ₱12,238,114 | ₱10,109,899 |

### 26.1 Stock Plans

The Globe Telecom has stock plans for its employees. The number of shares allocated under these plans shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

### 26.1.1 Executive Stock Option Plan

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2004 to 2017:

| Date of Grant   | Number of Options or Grants | Exercise Price     | Exercise Dates                                                                                                                                                    | Fair Value of Each Option or Grants | Fair Value Measurement         |
|-----------------|-----------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------|
| March 24, 2006  | 749,500                     | 854.75 per share   | 50% of the options become exercisable from March 24, 2008 to March 23, 2016; the remaining 50% become exercisable from March 24, 2009 to March 23, 2016           | 292.12                              | Trinomial option pricing model |
| May 17, 2007    | 604,000                     | 1,270.50 per share | 50% of the options become exercisable from May 17, 2009 to May 16, 2017, the remaining 50% become exercisable from May 17, 2010 to May 16, 2017                   | 375.89                              | Trinomial option pricing model |
| August 1, 2008  | 635,750                     | 1,064.00 per share | 50% of the options become exercisable from August 1, 2010 to July 31, 2018, the remaining 50% become exercisable from August 1, 2011 to July 31, 2018             | 305.03                              | Trinomial option pricing model |
| October 1, 2009 | 298,950                     | 993.75 per share   | 50% of the options become exercisable from October 1, 2011 to September 30, 2019, the remaining 50% become exercisable from October 1, 2012 to September 30, 2019 | 346.79                              | Trinomial option pricing model |

The exercise price is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.



A summary of the Globe Group's ESOP activity and related information follows:

|                                                                | 2018             |                                 | 2017             |                                 |
|----------------------------------------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                                                | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| <i>(In Thousand Number of Shares Except per Share Figures)</i> |                  |                                 |                  |                                 |
| Outstanding, at beginning of year                              | 93               | ₱1,038.36                       | 205              | ₱1,157.45                       |
| Exercised                                                      | (16)             | 993.75                          | (35)             | 1,227.71                        |
| Expired/forfeited                                              | (44)             | 1,064.00                        | (77)             | 1,270.50                        |
| Outstanding and exercisable, at end of year                    | 33               | ₱1,059.55                       | 93               | ₱1,038.36                       |

The average share prices at dates of exercise of the stock options in 2018, 2017 and 2016 amounted to ₱1,704.96, ₱1,014.42 and ₱1,072.23 , respectively.

As of December 31, 2018 and 2017, the weighted average remaining contractual life of options outstanding is 0.75 year and 1.00 year, respectively.

The following assumptions were used to determine the fair value of the stock options at effective grant dates:

|                         | October 1,<br>2009 | August 1,<br>2008 | May 17,<br>2007 | March 24,<br>2006 |
|-------------------------|--------------------|-------------------|-----------------|-------------------|
| Share price             | ₱995.00            | ₱1,130.00         | ₱1,340.00       | ₱895.00           |
| Exercise price          | ₱993.75            | ₱1,064.00         | ₱1,270.50       | ₱854.75           |
| Expected volatility     | 48.49%             | 31.73%            | 38.14%          | 26.97%            |
| Option life             | 10 years           | 10 years          | 10 years        | 10 years          |
| Expected dividends      | 6.43%              | 6.64%             | 4.93%           | 4.47%             |
| Risk-free interest rate | 8.08%              | 9.62%             | 7.04%           | 8.37%             |

The expected volatility measured at the standard deviation of expected share price returns was based on analysis of share prices for the past 365 days.

### 26.1.2 Long-Term Incentive Plan

In November 2014, the Globe Group obtained approval from the BOD to implement a Long-Term Incentive Plan (LTIP) also called a Performance Share Plan (PSP) covering key executives and senior management. Under the PSP, the grantees are awarded a specific number of shares at the start of the performance period which vest over a specified performance period and contingent upon the achievement of specified long-term goals.



The following are the stock grants to key executives and senior management personnel of the Globe Group under the LTIP:

| Date of Grant   | Number of Grants at Grant Date | Settlement Dates                                                                                     | Fair Value of Each Grants | Fair Value Measurement |
|-----------------|--------------------------------|------------------------------------------------------------------------------------------------------|---------------------------|------------------------|
| January 1, 2014 | 106,293                        | 100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements | ₱1,630.35                 | Market price           |
| January 1, 2015 | 114,392                        | 100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements | 1,738.30                  | Market price           |
| January 1, 2016 | 107,365                        | 100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements | 1,904.95                  | Market price           |
| January 1, 2017 | 158,687                        | 100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements | 1,428.85                  | Market price           |
| January 1, 2018 | 146,040                        | 100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements | 1,782.80                  | Market price           |

The fair value is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

Cost of share-based payments in 2018, 2017 and 2016 amounted to ₱236.71 million, ₱104.83 million and ₱260.27 million, respectively.

## 26.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension plans ("the Plan") covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The group retirement plan covering Globe Telecom, and Innove is managed and administered by a Board of Trustees (BOT) whose members are unanimously appointed by the Globe Group acting through its BOD. The BOT are authorized to appoint one or more fund managers to hold, invest and reinvest the assets of the Plans and execute an Investment Agreement with the said fund managers.

The BOT sets the investment policies and limits of the Plan, and appoints fund managers to assist in the investment management of the Plan. The objective of the portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal interest.



### *Asset –liability matching strategies*

The investment policy in managing liquidity is to have sufficient liquidity at all times to meet the Plan's maturing liabilities, including benefit payments to qualified employees who are expected to avail of their retirement benefits when due, without incurring unnecessary funding costs. The investment policy is also geared towards maintaining highly saleable government securities as a significant part of the plan investment portfolio even as other private securities and unquoted securities provided higher yields.

The Plan's liquidity risk is managed on a daily basis by the Plan's investment managers in accordance with the policies and procedures duly approved by the BOT. The Plan's overall liquidity position for the year is monitored on a regular basis by the BOT.

### *Funding policy*

The plan should have at least 100% solvency all levels at all times. If a solvency deficiency exists, the deficit must be immediately funded.

### *Risks associated with the Plan*

The retirement plan typically expose the participants to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

#### *Investment risk*

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan asset is below this rate, it will create a plan deficit.

#### *Interest risk*

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

#### *Longevity risk*

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

#### *Salary risk*

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2018 by an Independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The components of pension expense (included in staff costs under "General, selling and administrative expenses" account) in the consolidated statements of comprehensive income are as follows:

|                                                                              | Note | 2018             | 2017      | 2016      |
|------------------------------------------------------------------------------|------|------------------|-----------|-----------|
| <i>(In Thousand Pesos)</i>                                                   |      |                  |           |           |
| Current service cost                                                         |      | <b>P593,326</b>  | P621,316  | P594,557  |
| Net interest expense                                                         | 24   | <b>84,837</b>    | 145,663   | 129,883   |
| Components of defined benefit costs recognized in profit or loss             |      | <b>P678,163</b>  | 766,979   | 724,440   |
| Remeasurement on the net defined benefit liability:                          |      |                  |           |           |
| Return on plan assets                                                        |      |                  |           |           |
| (excluding amounts included in net interest expense)                         |      | <b>515,908</b>   | 2,337     | 196,969   |
| Actuarial gains and losses:                                                  |      |                  |           |           |
| from changes in assumptions                                                  |      | <b>(892,818)</b> | (420,029) | (614,388) |
| from experience adjustments                                                  |      | <b>305,897</b>   | (152,597) | 137,453   |
| Components of defined benefit costs recognized in other comprehensive income | 19.6 | <b>(71,013)</b>  | (570,289) | (279,966) |
|                                                                              |      | <b>P607,150</b>  | P196,690  | P444,474  |

The accrued pension is as follows:

|                                     | Note | 2018               | 2017        |
|-------------------------------------|------|--------------------|-------------|
| <i>(In Thousand Pesos)</i>          |      |                    |             |
| Present value of benefit obligation |      | <b>P6,693,680</b>  | P6,635,721  |
| Fair value of plan assets           |      | <b>(5,234,217)</b> | (4,534,408) |
| Accrued pension                     | 17   | <b>P1,459,463</b>  | P2,101,313  |

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

*Present value of defined benefit obligation*

|                                                                | 2018              | 2017       |
|----------------------------------------------------------------|-------------------|------------|
| <i>(In Thousand Pesos)</i>                                     |                   |            |
| Balance at beginning of year                                   | <b>P6,635,721</b> | P6,415,840 |
| Current service cost                                           | <b>593,326</b>    | 621,316    |
| Interest cost                                                  | <b>369,988</b>    | 330,289    |
| Benefits paid                                                  | <b>(318,434)</b>  | (158,739)  |
| Remeasurements in other comprehensive income:                  |                   |            |
| Actuarial gains and losses arising from changes in assumptions | <b>(892,818)</b>  | (420,029)  |
| Actuarial gains and losses arising from experience adjustments | <b>305,897</b>    | (152,597)  |
| Effects of business combinations                               | -                 | (359)      |
| Balance at end of year                                         | <b>P6,693,680</b> | P6,635,721 |

*Fair value of plan assets*

|                                                                            | 2018                       | 2017       |
|----------------------------------------------------------------------------|----------------------------|------------|
|                                                                            | <i>(In Thousand Pesos)</i> |            |
| Balance at beginning of year                                               | <b>₱4,534,408</b>          | ₱3,314,288 |
| Remeasurement (gains)/losses:                                              |                            |            |
| Return on plan assets (excluding amounts included in net interest expense) | <b>(515,908)</b>           | (2,337)    |
| Contributions from the employer                                            | <b>1,249,000</b>           | 1,190,000  |
| Interest income                                                            | <b>285,151</b>             | 184,626    |
| Benefits paid                                                              | <b>(318,434)</b>           | (152,169)  |
| Balance at end of year                                                     | <b>₱5,234,217</b>          | ₱4,534,408 |
| Actual return on plan assets                                               | <b>₱230,758</b>            | ₱182,289   |

The recommended contribution for the Globe Group retirement fund for the year 2019 amounted to ₱1,132.18 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2018.

As of December 31, 2018 and 2017, the allocation of the fair value of the plan assets of the Globe Group follows:

|                                         | 2018                       | 2017       |
|-----------------------------------------|----------------------------|------------|
|                                         | <i>(In Thousand Pesos)</i> |            |
| Cash and cash equivalents               | <b>₱248,625</b>            | ₱598,996   |
| Investment in debt securities           | <b>1,725,721</b>           | 1,464,615  |
| Investment quoted in equity shares      | <b>2,259,612</b>           | 1,470,507  |
| Investment in unquoted in equity shares | <b>1,000,259</b>           | 1,000,290  |
|                                         | <b>₱5,234,217</b>          | ₱4,534,408 |

The assumptions used to determine pension benefits for the Globe Group are as follows:

|                      | 2018         | 2017  |
|----------------------|--------------|-------|
| Discount rate        | <b>7.50%</b> | 5.75% |
| Salary rate increase | <b>4.50%</b> | 4.50% |

The assumptions regarding future mortality rates which are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2018 and 2017, the Globe Group applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant (in thousand pesos):

**December 31, 2018**

|                         | <b>Increase<br/>(decrease) in<br/>basis points</b> | <b>Increase (decrease)<br/>on defined benefit<br/>obligation</b> |
|-------------------------|----------------------------------------------------|------------------------------------------------------------------|
| Discount rates          | +0.50%                                             | (P177,138)                                                       |
|                         | -0.50%                                             | 217,914                                                          |
| Future salary increases | +0.50%                                             | 223,930                                                          |
|                         | -0.50%                                             | (182,486)                                                        |
| Rate of return          | +10.00%                                            | 2,005                                                            |
|                         | -10.00%                                            | (2,005)                                                          |

**December 31, 2017**

|                         | <b>Increase<br/>(decrease) in<br/>basis points</b> | <b>Increase (decrease)<br/>on defined benefit<br/>obligation</b> |
|-------------------------|----------------------------------------------------|------------------------------------------------------------------|
| Discount rates          | +0.50%                                             | (P383,590)                                                       |
|                         | -0.50%                                             | 420,102                                                          |
| Future salary increases | +0.50%                                             | 423,420                                                          |
|                         | -0.50%                                             | (389,563)                                                        |
| Rate of return          | +10.00%                                            | 1,326                                                            |
|                         | -10.00%                                            | (1,326)                                                          |

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The objective of the plan's portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal and interest. Asset purchases and sales are determined by the plan's investment managers, who have been given discretionary authority to manage the distribution of assets to achieve the plan's investment objectives. The compliance with target asset allocations and composition of the investment portfolio is monitored by the BOT on a regular basis.

The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation.

The average duration of the defined benefit obligation at the end of the reporting period is 15.17 years and 15.51 years in 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

|                             | 2018                       | 2017       |
|-----------------------------|----------------------------|------------|
|                             | <i>(In Thousand Pesos)</i> |            |
| Within 1 year               | <b>P323,327</b>            | P399,664   |
| More than 1 year to 5 years | <b>1,795,285</b>           | 1,540,651  |
| More than 5 years           | <b>3,521,929</b>           | 3,189,592  |
|                             | <b>P5,640,541</b>          | P5,129,907 |

## 27 Income Tax

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

|                                                                | 2018                       | 2017        |
|----------------------------------------------------------------|----------------------------|-------------|
|                                                                | <i>(In Thousand Pesos)</i> |             |
| Net deferred income tax assets*                                | <b>P2,075,065</b>          | P2,761,626  |
| Net deferred income tax liabilities (Globe, GCVH, GTI and KVI) | <b>(3,918,493)</b>         | (2,748,826) |
| Net deferred income tax (liabilities) assets                   | <b>(P1,843,428)</b>        | P12,800     |

\*2018 consist of Innove, BTI and Asticom

\*2017 consist of Innove, BTI, TAO, Asticom and GTI

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

|                                                                | 2018              |            |                     |                      |                   |                 |
|----------------------------------------------------------------|-------------------|------------|---------------------|----------------------|-------------------|-----------------|
|                                                                |                   |            | Movements           |                      |                   |                 |
|                                                                | 2018              | 2017       | Profit or Loss      | Comprehensive Income | Other equity item | Net             |
| <b>Deferred tax assets</b>                                     |                   |            |                     |                      |                   |                 |
| Allowance for impairment losses on receivables                 | <b>P3,711,267</b> | P2,718,940 | <b>(P1,401,898)</b> | P-                   | <b>P2,394,225</b> | <b>P992,327</b> |
| Unearned revenues and advances already subjected to income tax | <b>1,967,076</b>  | 1,504,476  | <b>462,600</b>      | -                    | -                 | <b>462,600</b>  |
| Accrued manpower cost                                          | <b>1,123,845</b>  | 780,993    | <b>342,852</b>      | -                    | -                 | <b>342,852</b>  |
| Accrued pension                                                | <b>814,264</b>    | 845,211    | <b>(9,643)</b>      | <b>(21,304)</b>      | -                 | <b>(30,947)</b> |
| Unrealized foreign exchange losses                             | <b>810,409</b>    | 541,975    | <b>268,434</b>      | -                    | -                 | <b>268,434</b>  |
| ARO                                                            | <b>701,327</b>    | 661,388    | <b>39,939</b>       | -                    | -                 | <b>39,939</b>   |
| Provision for claims and assessment                            | <b>505,719</b>    | 314,759    | <b>190,960</b>      | -                    | -                 | <b>190,960</b>  |
| Cost of share-based payments                                   | <b>174,360</b>    | 120,463    | <b>56,246</b>       | -                    | <b>(2,349)</b>    | <b>53,897</b>   |
| Accumulated impairment losses on property and Equipment        | <b>159,442</b>    | 141,496    | <b>17,946</b>       | -                    | -                 | <b>17,946</b>   |
| <i>(forward)</i>                                               |                   |            |                     |                      |                   |                 |

| 2018                                                                                                                              |                     |             |                    |                      |                    |                    |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------|--------------------|----------------------|--------------------|--------------------|
|                                                                                                                                   | 2018                | 2017        | Profit or Loss     | Movements            |                    | Net                |
|                                                                                                                                   |                     |             |                    | Comprehensive Income | Other equity item  |                    |
| <b>Deferred tax assets</b>                                                                                                        |                     |             |                    |                      |                    |                    |
| Inventory obsolescence and market decline                                                                                         | <b>P158,722</b>     | P184,780    | <b>(P26,058)</b>   | <b>P-</b>            | <b>P-</b>          | <b>(P26,058)</b>   |
| Accrued rent expense under PAS 17                                                                                                 | <b>144,298</b>      | 158,915     | <b>(14,617)</b>    | -                    | -                  | <b>(14,617)</b>    |
| Contract liabilities                                                                                                              | <b>108,223</b>      | -           | <b>(8,286)</b>     | -                    | <b>116,509</b>     | <b>108,223</b>     |
| MCIT                                                                                                                              | <b>21,258</b>       | -           | <b>21,258</b>      | -                    | -                  | <b>21,258</b>      |
| NOLCO                                                                                                                             | <b>556</b>          | 62,339      | <b>(61,783)</b>    | -                    | -                  | <b>(61,783)</b>    |
| Others                                                                                                                            | <b>36,427</b>       | 74,686      | <b>(31,490)</b>    | -                    | <b>(6,769)</b>     | <b>(38,259)</b>    |
|                                                                                                                                   | <b>10,437,193</b>   | 8,110,421   | <b>(153,540)</b>   | <b>(21,304)</b>      | <b>2,501,616</b>   | <b>2,326,772</b>   |
| <b>Deferred tax liabilities</b>                                                                                                   |                     |             |                    |                      |                    |                    |
| Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting | <b>(7,921,353)</b>  | (6,478,641) | <b>(1,442,712)</b> | -                    | -                  | <b>(1,442,712)</b> |
| Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting                                          | <b>(1,076,544)</b>  | (1,231,218) | <b>154,674</b>     | -                    | -                  | <b>154,674</b>     |
| Contract asset                                                                                                                    | <b>(2,330,482)</b>  | -           | <b>(121,791)</b>   | -                    | <b>(2,208,691)</b> | <b>(2,330,482)</b> |
| Unrealized gain on derivative transaction                                                                                         | <b>(615,513)</b>    | (220,602)   | <b>(24,747)</b>    | <b>(370,164)</b>     | -                  | <b>(394,911)</b>   |
| Unrealized foreign exchange gain                                                                                                  | <b>(12,207)</b>     | (7,329)     | <b>(4,878)</b>     | -                    | -                  | <b>(4,878)</b>     |
| Unamortized discount on noninterest bearing liability                                                                             | <b>(11,113)</b>     | -           | <b>(11,113)</b>    | -                    | -                  | <b>(11,113)</b>    |
| Others                                                                                                                            | <b>(313,409)</b>    | (159,831)   | <b>(123,281)</b>   | <b>(30,297)</b>      | -                  | <b>(153,578)</b>   |
|                                                                                                                                   | <b>(12,280,621)</b> | (8,097,621) | <b>(1,573,848)</b> | <b>(400,461)</b>     | <b>(2,208,691)</b> | <b>(4,183,000)</b> |
| Deferred income tax expense                                                                                                       |                     |             | <b>(1,727,388)</b> | <b>(421,765)</b>     | <b>292,925</b>     | <b>(1,856,228)</b> |
| Net deferred income tax assets (liabilities)                                                                                      | <b>(P1,843,428)</b> | P12,800     |                    |                      |                    |                    |

<sup>(a)</sup> Sum-of-the-years digit method

<sup>(b)</sup> Straight-line method

| 2017                                                                                                                              |             |             |                |                            |             |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|----------------|----------------------------|-------------|
| Movements                                                                                                                         |             |             |                |                            |             |
|                                                                                                                                   | 2017        | 2016        | Profit or Loss | Other Comprehensive Income | Net         |
| <b>Deferred tax assets</b>                                                                                                        |             |             |                |                            |             |
| Allowance for impairment losses on receivables                                                                                    | P2,718,940  | P2,503,807  | P215,133       | P-                         | P215,133    |
| Unearned revenues and advances already subjected to income tax                                                                    | 1,504,476   | 1,127,762   | 376,714        | -                          | 376,714     |
| Accrued pension                                                                                                                   | 845,211     | 979,943     | 36,355         | (171,087)                  | (134,732)   |
| Accrued manpower cost                                                                                                             | 780,993     | 462,183     | 318,810        | -                          | 318,810     |
| ARO                                                                                                                               | 661,388     | 622,390     | 38,998         | -                          | 38,998      |
| Unrealized foreign exchange losses                                                                                                | 541,975     | 642,829     | (100,854)      | -                          | (100,854)   |
| Provision for claims and assessment                                                                                               | 314,759     | 112,735     | 202,024        | -                          | 202,024     |
| Inventory obsolescence and market decline                                                                                         | 184,780     | 202,429     | (17,649)       | -                          | (17,649)    |
| Accrued rent expense under PAS 17                                                                                                 | 158,915     | 162,920     | (4,005)        | -                          | (4,005)     |
| Accumulated impairment losses on property and Equipment                                                                           | 141,496     | 144,564     | (3,068)        | -                          | (3,068)     |
| Cost of share-based payments                                                                                                      | 120,463     | 31,014      | 89,449         | -                          | 89,449      |
| Unrealized loss on derivative transactions                                                                                        | -           | 10,402      | (10,402)       | -                          | (10,402)    |
| NOLCO                                                                                                                             | 62,339      | 394,763     | (332,424)      | -                          | (332,424)   |
| Others                                                                                                                            | 74,686      | 251,649     | (176,963)      | -                          | (176,963)   |
|                                                                                                                                   | 8,110,421   | 7,649,390   | 632,118        | (171,087)                  | 461,031     |
| <b>Deferred tax liabilities</b>                                                                                                   |             |             |                |                            |             |
| Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting | (6,478,641) | (5,654,854) | (823,787)      | -                          | (823,787)   |
| Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting                                          | (1,231,218) | (1,041,492) | (189,726)      | -                          | (189,726)   |
| Unrealized gain on derivative transaction                                                                                         | (220,602)   | (225,658)   | 64,804         | (59,748)                   | 5,056       |
| Unrealized foreign exchange gain                                                                                                  | (7,329)     | (15,776)    | 8,447          | -                          | 8,447       |
| Unamortized discount on noninterest bearing liability                                                                             | -           | (3,034)     | 3,034          | -                          | 3,034       |
| Others                                                                                                                            | (159,831)   | (2,796)     | (146,959)      | (10,076)                   | (157,035)   |
|                                                                                                                                   | (8,097,621) | (6,943,610) | (1,084,187)    | (69,824)                   | (1,154,011) |
| Deferred income tax expense                                                                                                       |             |             | (P452,069)     | (P240,911)                 | (P692,980)  |
| Net deferred income tax assets                                                                                                    | P12,800     | P705,780    |                |                            |             |

<sup>(a)</sup> Sum-of-the-years digit method

<sup>(b)</sup> Straight-line method

The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

|                                                                                                                       | 2018                       | 2017       | 2016       |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------|------------|------------|
|                                                                                                                       | <i>(In Thousand Pesos)</i> |            |            |
| Provision at statutory income tax rate                                                                                | <b>P8,283,995</b>          | P6,462,511 | P6,581,221 |
| Add (deduct) tax effects of:                                                                                          |                            |            |            |
| Equity in net losses of associates and joint ventures                                                                 | <b>374,881</b>             | 253,853    | 256,559    |
| Impairment loss on goodwill                                                                                           | <b>42,838</b>              | -          | -          |
| Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense | <b>(1,561)</b>             | 12,752     | 42,209     |
| Recognition of deferred income tax asset                                                                              | <b>78,586</b>              | 61,806     | (902,205)  |
| Income subjected to lower tax rates                                                                                   | <b>(71,985)</b>            | (489,235)  | (13,331)   |
| Others                                                                                                                | <b>280,619</b>             | 155,802    | 84,450     |
| Actual provision for income tax                                                                                       | <b>P8,987,373</b>          | P6,457,489 | P6,048,903 |

The current provision for income tax includes the following:

|                                  | 2018                       | 2017       | 2016       |
|----------------------------------|----------------------------|------------|------------|
|                                  | <i>(In Thousand Pesos)</i> |            |            |
| RCIT or MCIT whichever is higher | <b>P7,151,614</b>          | P5,942,221 | P5,494,883 |
| Final tax                        | <b>108,371</b>             | 63,199     | 62,082     |
|                                  | <b>P7,259,985</b>          | P6,005,420 | P5,556,965 |

Deferred tax assets of BTI on the following deductible temporary differences were not recognized since Management believes that it will not be utilized for future taxable income.

|                                                | 2018                       | 2017       |
|------------------------------------------------|----------------------------|------------|
|                                                | <i>(In Thousand Pesos)</i> |            |
| Deferred tax assets on:                        |                            |            |
| Allowance for impairment of assets             | <b>P684,445</b>            | P1,269,283 |
| Provision for probable loss                    | <b>236,298</b>             | 993,532    |
| NOLCO                                          | <b>12,790</b>              | 159,735    |
| Carryforward benefits of MCIT                  | <b>1,449</b>               | 67,209     |
| Allowance for impairment losses on receivables | -                          | 758,478    |
|                                                | <b>P934,982</b>            | P3,248,237 |

## 28 Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

|                                                                                      | 2018               | 2017        | 2016        |
|--------------------------------------------------------------------------------------|--------------------|-------------|-------------|
| <i>(In Thousand Pesos and Number of Shares Except per Share Figures)</i>             |                    |             |             |
| Net income attributable to common shareholders                                       | <b>₱18,640,740</b> | ₱15,065,779 | ₱15,878,415 |
| Less dividends on preferred shares:                                                  |                    |             |             |
| Non-voting preferred shares                                                          | <b>520,060</b>     | 520,060     | 520,060     |
| Convertible voting preferred shares                                                  | <b>41,752</b>      | 33,731      | 32,027      |
| Net income attributable to common shareholders for basic earnings per share (a)      | <b>18,078,928</b>  | 14,511,988  | 15,326,328  |
| Add dividends on convertible voting preferred shares                                 | <b>41,752</b>      | 33,731      | 32,027      |
| Net income attributable to common shareholders for diluted earnings per share (b)    | <b>18,120,680</b>  | 14,545,719  | 15,358,355  |
| Common shares outstanding, beginning                                                 | <b>132,917</b>     | 132,759     | 132,743     |
| Add Weighted average number of exercised shares for stock options                    | <b>101</b>         | 105         | 13          |
| Weighted average number of shares for basic earnings per share (c)                   | <b>133,018</b>     | 132,864     | 132,756     |
| Add Dilutive shares arising from:                                                    |                    |             |             |
| Convertible preferred shares                                                         | <b>431</b>         | 400         | 399         |
| Share based compensation plans                                                       | <b>371</b>         | 103         | -           |
| Stock options                                                                        | <b>15</b>          | 67          | 88          |
| Adjusted weighted average number of common shares for diluted earnings per share (d) | <b>133,835</b>     | 133,434     | 133,243     |
| Basic earnings per share (a/c)                                                       | <b>₱135.91</b>     | ₱109.22     | ₱115.45     |
| Diluted earnings per share (b/d)                                                     | <b>₱135.40</b>     | ₱109.01     | ₱115.27     |

## 29 Capital and Financial Risk Management and Financial Instruments

The Globe Group adopts an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to provide a better understanding of the different risks that could threaten the achievement of the Globe Group's mission, vision, strategies, and goals, and to provide emphasis on how management and employees play a vital role in achieving the Globe Group's mission of transforming and enriching lives through communications.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. The Globe Group risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The application of these policies is the responsibility of the BOD through the Chief Executive Officer. The Chief Finance Officer and concurrent Chief Risk Officer champion oversees the entire risk management function. Risk owners have been identified for each risk and they are responsible for coordinating and continuously improving risk strategies, processes and measures on an enterprise-wide basis in accordance with established business objectives.



The risks are managed through the delegation of management and financial authority and individual accountability as documented in employment contracts, consultancy contracts, letters of authority, letters of appointment, performance planning and evaluation forms, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the Globe Group's business operations and environment.

The Globe Group continues to monitor and manage its financial risk exposures according to its BOD approved policies.

The succeeding discussion focuses on Globe Group's capital and financial risk management.

### *29.1 Capital Risk Management Objectives and Policies*

Capital represents equity attributable to equity holders of the Parent.

The primary objective of the Globe Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Globe Group monitors its use of capital using leverage ratios, such as debt to total capitalization and makes adjustments to it in light of changes in economic conditions and its financial position. The ratio of debt to total capitalization for the years ended December 31, 2018 and 2017 was at 67% and 66%, respectively.

The Globe Group is not subject to regulatory imposed capital requirements.

The Globe Group's loan agreements include compliance with certain ratios (see [Note 16](#))

### *29.2 Financial Risk Management Objectives and Policies*

The main purpose of the Globe Group's financial risk management is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Globe Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

Globe Telecom's BOD reviews and approves the policies for managing each of these risks.

The Globe Group monitors market price risk arising from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

The Globe Group's risk management policies are summarized below:

#### *29.2.1 Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Globe Group is mainly exposed to two types of market risk: interest rate risk and currency risk.

Financial instruments affected by market risk include loans and borrowings and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as of December 31, 2018 and 2017. The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2018 and 2017 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes in the underlying.
- The assumed changes in market rates applied in the sensitivity analyses were based on historical information and may not necessarily reflect the actual movements that may occur in the future periods.

#### 29.2.1.1 Interest Rate Risk

The Globe Group's exposure to market risk from changes in interest rates relates primarily to the Globe Group's long-term debt obligations.

Globe Group's policy is to manage its interest cost using a mix of fixed and variable rate debt, targeting a ratio of between 31%-62% fixed rate USD debt to total USD debt, and between 44%-88% fixed rate PHP debt to total PHP debt. To manage this mix in a cost-efficient manner, the Globe Group enters into interest rate swaps, in which Globe Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of interest rate swaps, the ratio of loans with fixed interest rates to total loans are as follows:

|                      | 2018       | 2017 |
|----------------------|------------|------|
| USD fixed rate loans | <b>42%</b> | 41%  |
| PHP fixed rate loans | <b>87%</b> | 83%  |

The following tables demonstrate the sensitivity of income before tax to and equity a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

|                            | Increase/ Decrease<br>in basis Points | Effect on income<br>before income tax<br>Increase (Decrease) | Effect on equity<br>Increase (Decrease) |
|----------------------------|---------------------------------------|--------------------------------------------------------------|-----------------------------------------|
| <i>(In Thousand Pesos)</i> |                                       |                                                              |                                         |
| <b>2018</b>                |                                       |                                                              |                                         |
| USD                        | <b>+75bps</b>                         | <b>(P24,787)</b>                                             | <b>(P731)</b>                           |
|                            | <b>-75bps</b>                         | <b>24,787</b>                                                | <b>731</b>                              |
| PHP                        | <b>+150bps</b>                        | <b>11,130</b>                                                | <b>9,821</b>                            |
|                            | <b>-150bps</b>                        | <b>(11,130)</b>                                              | <b>(9,830)</b>                          |
| <b>2017</b>                |                                       |                                                              |                                         |
| USD                        | +55bps                                | (P8,759)                                                     | (P565)                                  |
|                            | -55bps                                | 8,759                                                        | 565                                     |
| PHP                        | +200bps                               | (30,808)                                                     | 14,758                                  |
|                            | -200bps                               | 30,808                                                       | (14,780)                                |

### 29.2.1.2 Foreign Exchange Risk

The Globe Group's foreign exchange risk results primarily from movements of the PHP against the USD with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in PHP, while substantially all of capital expenditures are in USD. In addition, 16% and 15% of debt as of December 31, 2018 and 2017, respectively, are denominated in USD before taking into account any swap and hedges.

Information on the Globe Group's foreign currency-denominated monetary assets and liabilities and their PHP equivalents are as follows:

|                                                | US<br>Dollar     | 2018<br>Peso<br>Equivalent | US<br>Dollar | 2017<br>Peso<br>Equivalent |
|------------------------------------------------|------------------|----------------------------|--------------|----------------------------|
| <i>(In Thousand Pesos)</i>                     |                  |                            |              |                            |
| <u>Assets</u>                                  |                  |                            |              |                            |
| Cash and cash equivalents                      | \$95,989         | ₱5,045,457                 | \$148,412    | ₱7,414,343                 |
| Trade Receivables                              | 100,211          | 5,267,417                  | 87,696       | 4,381,132                  |
|                                                | <b>196,200</b>   | <b>10,312,874</b>          | 236,108      | 11,795,475                 |
| <u>Liabilities</u>                             |                  |                            |              |                            |
| Trade payable and accrued expenses             | 413,556          | 21,737,770                 | 466,510      | 23,305,881                 |
| Loans payable                                  | 442,569          | 23,262,732                 | 399,944      | 19,980,423                 |
|                                                | <b>856,125</b>   | <b>45,000,502</b>          | 866,454      | 43,286,304                 |
| Net foreign currency - denominated liabilities | <b>\$659,925</b> | <b>₱34,687,628</b>         | \$630,346    | ₱31,490,829                |

The following tables demonstrate the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Globe Group's income before tax (due to changes in the fair value of foreign currency-denominated assets and liabilities).

|                            | Increase/Decrease<br>in Peso to<br>US Dollar exchange rate | Effect on income before<br>income tax<br>Increase (Decrease) | Effect on equity<br>Increase (Decrease) |
|----------------------------|------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------|
| <i>(In Thousand Pesos)</i> |                                                            |                                                              |                                         |
| <b>2018</b>                |                                                            |                                                              |                                         |
|                            | <b>+.40</b>                                                | <b>(₱231,977)</b>                                            | <b>₱157,469</b>                         |
|                            | <b>-.40</b>                                                | <b>231,977</b>                                               | <b>(157,469)</b>                        |
| 2017                       |                                                            |                                                              |                                         |
|                            | + .45                                                      | (₱283,656)                                                   | ₱152,812                                |
|                            | - .45                                                      | 283,656                                                      | (152,812)                               |

The movement in equity arises from changes in the fair values of derivative financial instruments designated as cash flow hedges.

In addition, the consolidated expected future payments on foreign currency-denominated purchase orders related to capital projects amounted to USD886.95 million and USD809.03 million as of December 31, 2018 and 2017, respectively (see [Note 32.3](#)). The settlement of these liabilities is dependent on the achievement of project milestones and payment terms agreed with the suppliers and contractors. Foreign exchange exposure assuming a +/-40 centavos in 2018 and +/-45 centavos in 2017 movement in PHP to USD rate on commitments amounted to ₱354.78 million and ₱364.06 million gain or loss, respectively.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. The Globe Group enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

### 29.2.2 Credit Risk

The carrying amounts of financial assets recognized in the consolidated statements of financial position represent the Globe Group's maximum exposure to credit risk. The table below details the Globe Group's exposure to credit risk:

|                                       | 2018                       | 2017        |
|---------------------------------------|----------------------------|-------------|
|                                       | <i>(In Thousand Pesos)</i> |             |
| Cash and cash equivalents             | <b>₱23,226,386</b>         | ₱11,222,220 |
| Trade receivables – net               | <b>21,112,561</b>          | 27,304,888  |
| Contract assets – net                 | <b>7,124,332</b>           | -           |
| Derivative assets                     | <b>2,363,366</b>           | 926,401     |
| Loans receivable from related parties | <b>726,620</b>             | 846,620     |
|                                       | <b>₱54,553,265</b>         | ₱40,300,129 |

The Globe Group has not executed any credit guarantees in favor of other parties.

Credit exposures from subscribers and carrier partners continue to be managed closely for possible deterioration. When necessary, credit management measures are proactively implemented and identified collection risks are being provided for accordingly. Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

Applications for postpaid service are subjected to standard credit evaluation and verification procedures. The Credit and Billing Management of the Globe Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of postpaid subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency. Likewise, net receivable balances from carriers of traffic are also being monitored and subjected to appropriate actions to manage credit risk.

Subsequent to the adoption of PFRS 9, the Globe Group analyzes its subscribers' receivables and contract assets based on internal credit risk rating. The table below shows the analysis of the Globe Group's subscribers' receivables and contract assets as of December 31, 2018.

|                                                      | High<br>Quality    | Medium<br>Quality | Low<br>Quality    | Terminated<br>Accounts | Total              |
|------------------------------------------------------|--------------------|-------------------|-------------------|------------------------|--------------------|
| <i>(In Thousand Pesos)</i>                           |                    |                   |                   |                        |                    |
| <b>2018</b>                                          |                    |                   |                   |                        |                    |
| Wireless subscribers receivables:                    |                    |                   |                   |                        |                    |
| Consumer                                             | <b>₱3,867,223</b>  | <b>₱1,318,821</b> | <b>₱863,317</b>   | <b>₱ 5,708,844</b>     | <b>₱11,758,205</b> |
| Key corporate accounts                               | <b>398,964</b>     | <b>145,801</b>    | <b>13,828</b>     | <b>457,431</b>         | <b>1,016,024</b>   |
| Other corporations and SME                           | <b>1,592,325</b>   | <b>262,086</b>    | <b>258,407</b>    | <b>1,200,103</b>       | <b>3,312,921</b>   |
|                                                      | <b>5,858,512</b>   | <b>1,726,708</b>  | <b>1,135,552</b>  | <b>7,366,378</b>       | <b>16,087,150</b>  |
| Wireline subscribers receivables:                    |                    |                   |                   |                        |                    |
| Consumer                                             | <b>114,172</b>     | <b>147,503</b>    | <b>76,908</b>     | <b>3,590,838</b>       | <b>3,929,421</b>   |
| Key corporate accounts                               | <b>3,847,729</b>   | <b>608,622</b>    | <b>321,906</b>    | <b>1,866,643</b>       | <b>6,644,900</b>   |
| Other corporations and SME                           | <b>107,829</b>     | <b>130,825</b>    | <b>78,924</b>     | <b>819,235</b>         | <b>1,136,813</b>   |
|                                                      | <b>4,069,730</b>   | <b>886,950</b>    | <b>477,738</b>    | <b>6,276,716</b>       | <b>11,711,134</b>  |
| Wireless contract assets                             |                    |                   |                   |                        |                    |
| Consumer                                             | <b>4,323,538</b>   | <b>2,015,704</b>  | <b>239,176</b>    | <b>686,339</b>         | <b>7,264,757</b>   |
| Key corporate accounts                               | <b>669,418</b>     | <b>137,343</b>    | <b>15,574</b>     | <b>16,542</b>          | <b>838,877</b>     |
| Other corporations and SME                           | <b>374,298</b>     | <b>141,618</b>    | <b>4,416</b>      | <b>48,155</b>          | <b>568,487</b>     |
|                                                      | <b>5,367,254</b>   | <b>2,294,665</b>  | <b>259,166</b>    | <b>751,036</b>         | <b>8,672,121</b>   |
| Total wireless and wireline subscribers' receivables | <b>₱9,928,242</b>  | <b>₱2,613,658</b> | <b>₱1,613,290</b> | <b>₱13,643,094</b>     | <b>₱27,798,284</b> |
| Total wireless receivables and contract assets       | <b>₱11,225,766</b> | <b>₱4,021,373</b> | <b>₱1,394,718</b> | <b>₱8,117,414</b>      | <b>₱24,759,271</b> |
| Total subscribers' receivables and contracts assets  | <b>₱15,295,496</b> | <b>₱4,908,323</b> | <b>₱1,872,456</b> | <b>₱14,394,130</b>     | <b>₱36,470,405</b> |

The Globe Group's credit risk rating comprises the following categories:

- High quality accounts are accounts considered to be of good quality, have consistently exhibited good paying habits, and are unlikely to miss payments. High quality accounts primarily include strong corporate and consumer accounts with whom the Globe Group has excellent payment experience.
- Medium quality accounts are accounts that exhibited good paying habits but may require minimal monitoring with the objective of moving accounts to high quality rating. Medium quality accounts primarily include subscribers whose creditworthiness can be moderately affected by adverse changes in economic and financial conditions, but will not necessarily, reduce the ability of the subscriber to fulfill its obligations. It includes customers with whom the Globe Group has limited experience and therefore, creditworthiness needs to be further established over time.

- Low quality accounts are accounts which exhibit characteristics that are identified to have increased likelihood to miss payments. Low quality accounts are subject to closer monitoring and scrutiny with the objective of managing risk and moving accounts to improved rating category. It primarily includes mass consumer, corporate and SME customers whose creditworthiness are easily affected by adverse changes in economic and financial conditions.
- Terminated accounts are accounts in cancelled status. Although there is a possibility that terminated accounts may still be collected by exhausting collection efforts, the probability of recovery has significantly deteriorated.

For traffic settlements and other trade receivables the Globe Group uses delinquency and past due information to analyze the credit risk. The table below shows the aging analysis of the Globe Group's traffic settlements and other trade receivables as of December 31, 2018.

|                            | Current           | Less than<br>30 days<br>past due | 31 to 60<br>days past<br>due | 61 to 90<br>days past<br>due | Over<br>90 days<br>past due | Total             |
|----------------------------|-------------------|----------------------------------|------------------------------|------------------------------|-----------------------------|-------------------|
| <i>(In Thousand Pesos)</i> |                   |                                  |                              |                              |                             |                   |
| Traffic receivables:       |                   |                                  |                              |                              |                             |                   |
| Foreign                    | <b>₱1,141,976</b> | <b>₱28</b>                       | <b>₱206,240</b>              | <b>₱320,262</b>              | <b>₱764,916</b>             | <b>₱2,433,422</b> |
| Local                      | <b>171,717</b>    | <b>29,229</b>                    | <b>19,026</b>                | <b>3,137</b>                 | <b>211,865</b>              | <b>434,974</b>    |
|                            | <b>1,313,693</b>  | <b>29,257</b>                    | <b>225,266</b>               | <b>323,399</b>               | <b>976,781</b>              | <b>2,868,396</b>  |
| Other trade receivables    | <b>1,744,398</b>  | <b>187,629</b>                   | <b>197,197</b>               | <b>92,384</b>                | <b>747,160</b>              | <b>2,968,768</b>  |
| Total                      | <b>₱3,058,091</b> | <b>₱216,886</b>                  | <b>₱422,463</b>              | <b>₱415,783</b>              | <b>₱1,723,941</b>           | <b>₱5,837,164</b> |

Prior to the adoption of PFRS 9, the Globe Group analyzes its trade receivables based on delinquency and past due information. The table below shows the aging analysis of the Globe Group's receivables as of December 31, 2017.

|                            | Neither<br>Past<br>Due Nor<br>Impaired | Past Due But Not Impaired |                   |                   |                      | Individually<br>Impaired<br>Financial<br>Assets | Total              |
|----------------------------|----------------------------------------|---------------------------|-------------------|-------------------|----------------------|-------------------------------------------------|--------------------|
|                            |                                        | Less than 30<br>days      | 31 to 60<br>days  | 61 to 90<br>days  | More than<br>90 days |                                                 |                    |
| <i>(In Thousand Pesos)</i> |                                        |                           |                   |                   |                      |                                                 |                    |
| 2017                       |                                        |                           |                   |                   |                      |                                                 |                    |
| Wireless receivables:      |                                        |                           |                   |                   |                      |                                                 |                    |
| Consumer                   | <b>₱864,514</b>                        | <b>₱1,292,975</b>         | <b>₱431,734</b>   | <b>₱281,336</b>   | <b>₱7,653,190</b>    | <b>₱2,016,130</b>                               | <b>₱12,539,879</b> |
| Key corporate accounts     | 23,599                                 | 84,288                    | 154,539           | 196,119           | 1,927,452            | 638,926                                         | 3,024,923          |
| Other corporations and SME | 109,533                                | 157,433                   | 57,348            | 40,519            | 1,140,087            | 101,954                                         | 1,606,874          |
|                            | <b>997,646</b>                         | <b>1,534,696</b>          | <b>643,621</b>    | <b>517,974</b>    | <b>10,720,729</b>    | <b>2,757,010</b>                                | <b>17,171,676</b>  |
| Wireline receivables:      |                                        |                           |                   |                   |                      |                                                 |                    |
| Consumer                   | 479,124                                | 439,673                   | 149,616           | 84,894            | 503,897              | 4,010,811                                       | 5,668,015          |
| Key corporate accounts     | 155,399                                | 351,638                   | 653,354           | 780,439           | 3,292,290            | 945,688                                         | 6,178,808          |
| Other corporations and SME | 119,633                                | 109,511                   | 68,445            | 45,173            | 351,923              | 708,891                                         | 1,403,576          |
|                            | <b>754,156</b>                         | <b>900,822</b>            | <b>871,415</b>    | <b>910,506</b>    | <b>4,148,110</b>     | <b>5,665,390</b>                                | <b>13,250,399</b>  |
| Traffic receivables:       |                                        |                           |                   |                   |                      |                                                 |                    |
| Foreign                    | 2,265,459                              | -                         | -                 | -                 | -                    | 309,654                                         | 2,575,113          |
| Local                      | 121,851                                | -                         | 14,310            | 96                | 24,235               | 83,251                                          | 243,743            |
|                            | <b>2,387,310</b>                       | <b>-</b>                  | <b>14,310</b>     | <b>96</b>         | <b>24,235</b>        | <b>392,905</b>                                  | <b>2,818,856</b>   |
| Other receivables          | 2,881,118                              | 18,747                    | 42,532            | 26,038            | 226,533              | -                                               | 3,194,968          |
| Total                      | <b>₱7,020,230</b>                      | <b>₱2,454,265</b>         | <b>₱1,571,878</b> | <b>₱1,454,614</b> | <b>₱15,119,607</b>   | <b>₱8,815,305</b>                               | <b>₱36,435,899</b> |

The individually impaired financial assets presented above does not include impairment losses arising from collective assessment.



Below is the analysis of the Globe Group's trade receivables as of December 31, 2017 that are neither past due nor impaired.

|                            | Neither Past Due Nor Impaired |                   |                |            |
|----------------------------|-------------------------------|-------------------|----------------|------------|
|                            | High<br>Quality               | Medium<br>Quality | Low<br>Quality | Total      |
| (In Thousand Pesos)        |                               |                   |                |            |
| 2017                       |                               |                   |                |            |
| Wireless receivables:      |                               |                   |                |            |
| Consumer                   | ₱15,062                       | ₱266,238          | ₱583,214       | ₱864,514   |
| Key corporate accounts     | 462                           | 17,465            | 5,672          | 23,599     |
| Other corporations and SME | 39,156                        | 9,572             | 60,805         | 109,533    |
|                            | 54,680                        | 293,275           | 649,691        | 997,646    |
| Wireline receivables:      |                               |                   |                |            |
| Consumer                   | 331,655                       | 43,226            | 104,243        | 479,124    |
| Key corporate accounts     | 135,488                       | 7,148             | 12,763         | 155,399    |
| Other corporations and SME | 86,284                        | 6,799             | 26,550         | 119,633    |
|                            | 553,427                       | 57,173            | 143,556        | 754,156    |
| Total                      | ₱608,107                      | ₱350,448          | ₱793,247       | ₱1,751,802 |

Other trade receivables that are neither past due nor impaired are considered high quality accounts as these are substantially from credit card companies and Globe Group dealers.

With respect to other financial assets of the Globe Group which comprise cash in banks, short-term investments loans to related parties and certain derivative instruments, the exposure to credit risk is managed on a Group basis.

For investments with banks and other counterparties, the Globe Group has a risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile. The Globe Group makes a quarterly assessment of the credit standing of its investment counterparties, and allocates investment limits based on size, liquidity, profitability, and asset quality. The usage of limits is regularly monitored.

For its derivative counterparties, the Globe Group deals only with counterparty banks with investment grade ratings and large local banks. Credit ratings of derivative counterparties are reviewed quarterly.

Following are the Globe Group exposures with its investment counterparties for time deposits as of December 31:

|                       | 2018 | 2017 | 2016 |
|-----------------------|------|------|------|
| Local bank deposits   | 59%  | 43%  | 52%  |
| Onshore foreign bank  | 31%  | 47%  | 40%  |
| Offshore bank deposit | 10%  | 10%  | 8%   |

### 29.2.3 Liquidity Risk

The Globe Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Globe Group intends to use internally generated funds and available long-term and short-term credit facilities.

The following table shows the Globe Group's available credit facilities (in millions)

|                     | 2018    | 2017    |
|---------------------|---------|---------|
| Long-term committed | ₱-      | ₱5,000  |
| Short term          |         |         |
| Committed           | ₱3,000  | ₱3,000  |
| Uncommitted         |         |         |
| USD                 | \$119   | \$118.9 |
| PHP                 | ₱14,000 | ₱19,500 |

As part of its liquidity risk management, the Globe Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans, export credit agency facilities and capital market issues.

The following tables show comparative information about the Globe Group's financial instruments as of December 31 that are exposed to liquidity risk and interest rate risk and presented by maturity profile including forecasted interest payments for the next five years from December 31 figures (in thousands).

#### Loans Payable

##### 2018

|                          | Less than 1 year | 1 to 3 years | Over 3 years |
|--------------------------|------------------|--------------|--------------|
| <b>Loans Payable</b>     |                  |              |              |
| Fixed Rate               |                  |              |              |
| USD notes                | \$410            | \$1,493      | \$227        |
| Philippine peso          | ₱11,110,000      | ₱22,922,500  | ₱72,427,500  |
| Floating rate            |                  |              |              |
| USD notes                | \$11,150         | \$235,850    | \$200,800    |
| Philippine peso          | ₱5,040,000       | ₱630,000     | ₱13,160,000  |
| <b>Interest payable*</b> |                  |              |              |
| PHP debt                 | ₱6,523,381       | ₱16,834,502  | ₱18,179,506  |
| USD debt                 | \$16,484         | \$34,623.00  | \$18,914     |

\*Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

2017

|                          | Less than 1 year | 1 to 3 years | Over 3 years |
|--------------------------|------------------|--------------|--------------|
| <b>Loans Payable</b>     |                  |              |              |
| Fixed Rate               |                  |              |              |
| USD notes                | \$400            | \$1,377      | \$767        |
| Philippine peso          | ₱805,000         | ₱22,397,500  | ₱68,062,500  |
| Floating rate            |                  |              |              |
| USD notes                | \$9,600          | \$146,250    | \$241,550    |
| Philippine peso          | ₱6,980,000       | ₱5,360,000   | ₱8,470,000   |
| <b>Interest payable*</b> |                  |              |              |
| PHP debt                 | ₱5,126,322       | ₱13,024,999  | ₱17,917,015  |
| USD debt                 | \$9,737          | \$23,393     | \$15,062     |

\*Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

The following tables present the maturity profile of the Globe Group's other liabilities and derivative instruments (undiscounted cash flows including swap costs payments/receipts except for other long-term liabilities) as of December 31, 2018 and 2017.

## 2018

### Other Financial Liabilities

|                                      | Less than 1 year | 1 to 5 years | Over 5 years | Total       |
|--------------------------------------|------------------|--------------|--------------|-------------|
| Trade payables and accrued expenses* | ₱51,540,513      | ₱-           | ₱-           | ₱51,540,513 |
| Other long-term liabilities          | -                | -            | 865,354      | 865,354     |
|                                      | ₱51,540,513      | ₱-           | ₱865,354     | ₱52,405,867 |

\*Excludes taxes payable which is not a financial instrument.

### Derivative Instrument

|                         | Less than 1 year |          | 1 to 3 years |            | Over 3 years |            |
|-------------------------|------------------|----------|--------------|------------|--------------|------------|
|                         | Receive          | Pay      | Receive      | Pay        | Receive      | Pay        |
| Projected Swap Coupons: |                  |          |              |            |              |            |
| Interest Rate Swaps-USD | ₱89,644          | ₱54,151  | ₱79,146      | ₱59,574    | ₱-           | ₱-         |
| Cross Currency Swaps    | ₱583,720         | ₱808,957 | ₱1,103,598   | ₱1,742,079 | ₱953,765     | ₱1,324,365 |
| Principal Only Swaps    | ₱-               | ₱73,732  | ₱-           | ₱93,982    | ₱-           | ₱-         |

|                                | Less than 1 year |            | 1 to 3 years |            | Over 3 years |             |
|--------------------------------|------------------|------------|--------------|------------|--------------|-------------|
|                                | Receive          | Pay        | Receive      | Pay        | Receive      | Pay         |
| Projected Principal Exchanges: |                  |            |              |            |              |             |
| FX Swap, Buys USD Forward      | \$80,000         | ₱4,283,050 | \$-          | ₱-         | \$-          | ₱-          |
| Cross Currency Swaps- PHP      | ₱-               | ₱79,221    | ₱-           | ₱4,957,711 | ₱-           | ₱10,349,168 |
| Cross Currency Swaps- USD      | \$1,550          | \$-        | \$97,650     | \$-        | \$200,800    | \$-         |
| Principal Only Swaps- PHP      | ₱-               | ₱410,241   | ₱-           | ₱3,742,229 | ₱-           | ₱-          |
| Principal Only Swaps- USD      | \$8,700          | \$-        | \$77,700     | \$-        | \$-          | \$-         |

\*Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.

\*\*Deliverable and non-deliverable

\*Excludes taxes payable which is not a financial instrument.

2017

### Other Financial Liabilities

|                                      | Less than 1 year | 1 to 5 years | Over 5 years | Total       |
|--------------------------------------|------------------|--------------|--------------|-------------|
| Trade payables and accrued expenses* | P56,910,439      | P-           | P-           | P56,910,439 |
| Other long-term liabilities          | -                | -            | 779,839      | 779,839     |
|                                      | P56,910,439      | P-           | P779,839     | P57,690,278 |

\*Excludes taxes payable which is not a financial instrument.

### Derivative Instrument

|                         | Less than 1 year |          | 1 to 3 years |            | Over 3 years |            |
|-------------------------|------------------|----------|--------------|------------|--------------|------------|
|                         | Receive          | Pay      | Receive      | Pay        | Receive      | Pay        |
| Projected Swap Coupons: |                  |          |              |            |              |            |
| Interest Rate Swaps-USD | P56,352          | P52,126  | P122,305     | P100,277   | P8,806       | P7,813     |
| Cross Currency Swaps    | P323,194         | P508,771 | P857,751     | P1,280,248 | P981,314     | P1,455,755 |
| Principal Only Swaps    | P-               | P80,900  | P-           | P153,289   | P-           | P14,425    |

|                                | Less than 1 year |          | 1 to 3 years |            | Over 3 years |            |
|--------------------------------|------------------|----------|--------------|------------|--------------|------------|
|                                | Receive          | Pay      | Receive      | Pay        | Receive      | Pay        |
| Projected Principal Exchanges: |                  |          |              |            |              |            |
| Cross Currency Swaps- PHP      | P-               | P-       | P-           | P3,886,453 | P-           | P7,684,389 |
| Cross Currency Swaps- USD      | \$-              | \$-      | \$89,650     | \$-        | \$150,350    | \$-        |
| Principal Only Swaps- PHP      | P-               | P410,241 | P-           | P2,559,029 | P-           | P1,593,442 |
| Principal Only Swaps- USD      | \$8,700          | \$-      | \$53,900     | \$-        | \$32,500     | \$-        |

\*Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.

\*\*Deliverable and non-deliverable

\*Excludes taxes payable which is not a financial instrument.

### 29.2.4 Hedging Objectives and Policies

The Globe Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure. It uses interest rate derivatives to reduce earnings volatility related to interest rate movements, and principal only swaps to hedge the foreign exchange risk exposure to principal repayments on USD debt.

It is the Globe Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange and interest rate risks. The Globe Group does not engage in any speculative derivative transactions. Authorized derivative instruments include currency forward contracts, currency swap contracts, interest rate swap contracts and currency option contracts.

### 29.3 Derivative Financial Instruments

The Globe Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The table below sets out information about the Globe Group's derivative financial instruments and the related fair values as of December 31:

#### 2018

|                                                        | USD<br>Notional<br>Amount | PHP<br>Notional<br>Amount | Derivative<br>Assets | Derivative<br>Liabilities |
|--------------------------------------------------------|---------------------------|---------------------------|----------------------|---------------------------|
| <i>(In Thousands)</i>                                  |                           |                           |                      |                           |
| <b>Derivative instruments designated as hedges</b>     |                           |                           |                      |                           |
| <i>Cash flow hedges</i>                                |                           |                           |                      |                           |
| Cross currency swaps                                   | \$300,000                 | P -                       | P1,787,777           | P203,983                  |
| Principal only swaps                                   | 86,400                    | -                         | 528,297              | 32,010                    |
| Interest rate swaps                                    | 61,400                    | -                         | 47,292               | -                         |
| <b>Derivative instruments not designated as hedges</b> |                           |                           |                      |                           |
| <i>Freestanding</i>                                    |                           |                           |                      |                           |
| Deliverable forwards*                                  | 80,000                    | -                         | -                    | 75,661                    |
| <b>Net</b>                                             |                           |                           | <b>P2,363,366</b>    | <b>P311,654</b>           |

#### 2017

|                                                        | USD<br>Notional<br>Amount | PHP<br>Notional<br>Amount | Derivative<br>Assets | Derivative<br>Liabilities |
|--------------------------------------------------------|---------------------------|---------------------------|----------------------|---------------------------|
| <i>(In Thousands)</i>                                  |                           |                           |                      |                           |
| <b>Derivative instruments designated as hedges</b>     |                           |                           |                      |                           |
| <i>Cash flow hedges</i>                                |                           |                           |                      |                           |
| Cross currency swaps                                   | \$240,000                 | P -                       | P713,951             | P153,370                  |
| Principal only swaps                                   | 95,100                    | -                         | 177,641              | 36,384                    |
| Interest rate swaps                                    | 62,600                    | -                         | 28,553               | 1,306                     |
| <b>Derivative instruments not designated as hedges</b> |                           |                           |                      |                           |
| <i>Embedded</i>                                        |                           |                           |                      |                           |
| Currency forwards*                                     | 6,345                     | -                         | 6,256                | -                         |
| <b>Net</b>                                             |                           |                           | <b>P926,401</b>      | <b>P191,060</b>           |

\*The embedded currency forwards are at a net buy position.



The table below also sets out information about the maturities of Globe Group's derivative instruments as of December 31 that were entered into to manage interest and foreign exchange risks related to the long-term debt (in thousands).

## 2018

|                       | Less than 1 year | 1 to 5 years | Over 5 years | Total                    |
|-----------------------|------------------|--------------|--------------|--------------------------|
| <b>Derivatives</b>    |                  |              |              |                          |
| Interest Rate Swaps   |                  |              |              |                          |
| Floating-Fixed        |                  |              |              |                          |
| Notional PHP          | P-               | P-           | P-           | P-                       |
| Notional USD          | \$8,700          | \$52,700     | \$-          | \$61,400                 |
| Cross Currency Swaps  |                  |              |              |                          |
| Floating-Fixed        |                  |              |              |                          |
| Notional PHP          | P79,221          | P5,141,932   | P10,164,947  | P15,386,100              |
| Notional USD          | \$1,550          | \$101,200    | \$197,250    | \$300,000                |
| Pay-fixed rate        |                  |              |              | 4.15%-6.68%              |
| Receive-floating rate |                  |              |              | USD LIBOR + (0.60%-1.0%) |
| Principal Only Swaps  |                  |              |              |                          |
| Fixed-Fixed           |                  |              |              |                          |
| Notional PHP          | P410,241         | P3,742,229   | P-           | P4,152,470               |
| Notional USD          | \$8,700          | \$77,700     | \$-          | \$86,400                 |
| Pay-fixed rate        |                  |              |              | 1.31%-2.3%               |

## 2017

|                       | Less than 1 year | 1 to 5 years | Over 5 years | Total                    |
|-----------------------|------------------|--------------|--------------|--------------------------|
| <b>Derivatives</b>    |                  |              |              |                          |
| Interest Rate Swaps   |                  |              |              |                          |
| Floating-Fixed        |                  |              |              |                          |
| Notional PHP          | P-               | P-           | P-           | P-                       |
| Notional USD          | \$1,200          | \$61,400     | \$-          | \$62,600                 |
| Cross Currency Swaps  |                  |              |              |                          |
| Floating-Fixed        |                  |              |              |                          |
| Notional PHP          | P-               | P3,965,684   | P7,605,168   | P11,570,852              |
| Notional USD          | \$-              | \$91,200     | \$148,800    | \$240,000                |
| Pay-fixed rate        |                  |              |              | 4.12%-4.69%              |
| Receive-floating rate |                  |              |              | USD LIBOR + (0.60%-1.0%) |
| Principal Only Swaps  |                  |              |              |                          |
| Fixed-Fixed           |                  |              |              |                          |
| Notional PHP          | P410,241         | P4,152,471   | P-           | P4,562,712               |
| Notional USD          | \$8,700          | \$86,400     | \$-          | \$95,100                 |
| Pay-fixed rate        |                  |              |              | 1.31%-2.3%               |

The Globe Group's other financial instruments that are exposed to interest rate risk are cash and cash equivalents. These mature in less than a year and are subject to market interest rate fluctuations.

The Globe Group's other financial instruments which are non-interest bearing and therefore not subject to interest rate risk are trade and other receivables, trade payables and accrued expenses and other long-term liabilities. Loans receivable are also not subject to interest rate risk due to fixed interest rates.



The subsequent sections will discuss the Globe Group's derivative financial instruments according to the type of financial risk being managed and the details of derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges.

#### *29.4 Derivative Instruments Accounted for as Hedges*

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- *Currency Swaps and Cross Currency Swaps*

The Globe Group entered into cross currency swap contracts with maturities on April 2020, December 2023, August 2024, March 2025 and August 2027 and principal only swaps contracts with maturities on April 2020, April 2022 and October 2022 to hedge the foreign exchange and interest rate risk on dollar loans. The cross currency swaps have a notional amount of USD300.00million and USD240.00million as of December 31, 2018 and 2017, respectively. Principal only swaps have a notional amount of USD86.4 million and USD95.10 million as of December 31, 2018 and 2017, respectively. The fair values of the currency swaps as of December 31, 2018 and 2017 amounted to net asset of ₱2,080 million and ₱701.84 million, of which ₱915.81 million and ₱66.13 million (net of tax) is included in "Other reserves" in the equity section of the consolidated statements of financial position (see [Note 19.6](#))

- *Interest Rate Swaps*

As of December 31, 2018 and 2017, the Globe Group has USD61.40 million and USD62.60 million in notional amount of USD interest rate swap that have been designated as cash flow hedge of interest rate risk from USD loans. The interest rate swap effectively fixed the benchmark rate of the hedged USD loan at 1.7% over the duration of the agreement, which involves quarterly and semi-annual payment intervals up to October 2022 and April 2020, respectively.

As of December 31, 2018 and 2017, the fair value of the outstanding swap amounted to a net asset of ₱47.29 million and ₱27.25 million, respectively, of which ₱33.10 million and ₱19.07 million (net of tax), respectively, is included in "Other reserves" in the equity section of the consolidated statements of financial position (see [Note 19.6](#)).

Accumulated swap cost for the years ended December 31, 2018, 2017 and 2016 amounted to ₱16.84 million, ₱7.04 million and ₱0.40 million, respectively.

#### *29.5 Other Derivative Instruments Not Designated as Hedges*

The Globe Group enters into certain derivatives as economic hedges of certain underlying exposures. Such derivatives, which include embedded and freestanding currency forwards, embedded call options, and certain currency and interest rate swaps with option combination or structured provisions, are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly in the consolidated profit or loss. This section consists of freestanding derivatives and embedded derivatives found in both financial and nonfinancial contracts.

#### *29.6 Freestanding Derivatives*

Freestanding derivatives that are not designated as hedges consist of currency forwards entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in consolidated profit or loss.

### 29.7 Deliverable and Non-deliverable Forwards

As of December 31, 2018 and 2017, the Globe Group has USD80.00 million and nil deliverable and non-deliverable currency forward contracts not designated as hedges, respectively.

### 29.8 Embedded Derivatives and Other Financial Instruments

Prior to adoption of PFRS 9, the Globe Group instituted a process to identify any derivatives embedded in its financial or nonfinancial contracts. In accordance with PAS 39, the Globe Group assesses whether these derivatives are required to be bifurcated or are exempted based on the qualifications provided by the standard. The Globe Group's embedded derivatives include embedded currency derivatives noted in non-financial contracts.

#### Embedded Currency Forwards

As of December 31, 2018 and 2017, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to nil and USD6.35 million, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated maintenance and lease agreements and unbilled leased lines receivables denominated in foreign currency with domestic counterparties. The net fair value of the embedded currency forwards as of December 31, 2018 and 2017 amounted to nil and ₱6.26 million, respectively.

### 29.8 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

|                                           | 2018                       | 2017      |
|-------------------------------------------|----------------------------|-----------|
|                                           | <i>(In Thousand Pesos)</i> |           |
| At beginning of year                      | <b>₱735,341</b>            | ₱717,520  |
| Net changes in fair value of derivatives: |                            |           |
| Designated as cash flow hedges            | <b>1,947,986</b>           | (141,891) |
| Not designated as cash flow hedges        | <b>70,003</b>              | 4,603     |
|                                           | <b>₱2,753,330</b>          | 580,232   |
| Fair value of settled instruments         | <b>(701,618)</b>           | 155,109   |
| At end of period                          | <b>₱2,051,712</b>          | ₱735,341  |

### 29.9 Hedge Effectiveness Results

As of December 31, 2018 and 2017, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to ₱948.92 million gains and ₱85.20 million gain, net of tax, respectively. Total ineffectiveness for the years ended December 31, 2018 and 2017 is immaterial.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PFRS 9 and PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

### 29.10 Categories of Financial Assets and Financial Liabilities

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31, 2018 and January 1, 2018 based on the classification requirements of PFRS 9 (in thousand pesos):

|                                                       | December 31<br>2018 | January 1<br>2018 |
|-------------------------------------------------------|---------------------|-------------------|
| <i>(In Thousand Pesos)</i>                            |                     |                   |
| <b>Financial Assets</b>                               |                     |                   |
| Financial assets at FVPL:                             |                     |                   |
| Derivative assets designated as cash flow hedges      | <b>P2,363,366</b>   | P920,145          |
| Derivative assets not designated as hedges            | -                   | 6,256             |
| Financial assets at FVOCI:                            |                     |                   |
| Investment in equity securities - net                 | <b>1,442,940</b>    | 1,201,187         |
| Financial assets at amortized cost                    |                     |                   |
| Cash and cash equivalents                             | <b>23,226,386</b>   | 11,222,220        |
| Trade receivables – net                               | <b>21,112,561</b>   | 18,682,932        |
| Contract assets – net                                 | <b>7,124,331</b>    | 6,389,037         |
| Non-trade receivables                                 | <b>1,325,152</b>    | 868,913           |
| Loans receivable from related parties                 | <b>726,620</b>      | 846,620           |
|                                                       | <b>P57,321,356</b>  | P40,137,310       |
| <b>Financial Liabilities:</b>                         |                     |                   |
| Financial liabilities at FVPL:                        |                     |                   |
| Derivative liabilities designated as cash flow hedges | <b>P235,993</b>     | P191,060          |
| Derivative liabilities not designated as hedges       | <b>75,661</b>       | -                 |
| Financial liabilities at amortized cost               |                     |                   |
| Trade payables and accrued expenses*                  | <b>51,540,513</b>   | 56,910,439        |
| Loans payable                                         | <b>148,281,897</b>  | 131,528,705       |
| Other                                                 | <b>1,383,807</b>    | 1,404,620         |
|                                                       | <b>P201,517,871</b> | P190,034,824      |

\*Trade payables and accrued expenses .does not include taxes payables which are not considered financial liabilities

\*\*Other long term liabilities do not include ARO and accrued pension which are not considered financial liabilities

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31, 2017 based on the classification requirements of PAS 39.

| 2017                                                  |                     |
|-------------------------------------------------------|---------------------|
| <i>(In Thousand Pesos)</i>                            |                     |
| <b>Financial Assets</b>                               |                     |
| Financial assets at FVPL:                             |                     |
| Derivative assets designated as cash flow hedges      | ₱920,145            |
| Derivative assets not designated as hedges            | 6,256               |
| AFS financial assets                                  |                     |
| Investment in equity securities                       | 1,201,187           |
| Loans and receivables - net                           |                     |
| Cash and cash equivalents                             | 11,222,220          |
| Trade receivables – net                               | 27,304,288          |
| Non-trade receivables                                 | 868,913             |
| Loans from related parties                            | 846,620             |
|                                                       | <b>₱42,369,629</b>  |
| <b>Financial Liabilities</b>                          |                     |
| Financial liabilities at FVPL:                        |                     |
| Derivative liabilities designated as cash flow hedges | ₱191,060            |
| Derivative liabilities not designated as hedges       | -                   |
| Financial liabilities at amortized cost               |                     |
| Trade payables and accrued expenses*                  | 56,910,439          |
| Loans payable                                         | 131,528,705         |
| Other long term liabilities**                         | 1,404,620           |
|                                                       | <b>₱190,034,824</b> |

\*Trade payables and accrued expenses do not include taxes payables which are not considered financial liabilities

\*\*Other long term liabilities do not include ARO and accrued pension which are not considered financial liabilities

### 29.11 Offsetting Financial Assets and Financial Liabilities

The Globe Group has derivative financial instruments that have offsetting arrangements as follows:

|                                            | Gross<br>amounts | Amounts<br>offset under<br>PAS 32 | Reported amounts in<br>the consolidated<br>statements of<br>financial position | Amounts offset under<br>master netting<br>arrangements or other<br>similar contracts | Net exposure |
|--------------------------------------------|------------------|-----------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------|
| <i>(In Thousand Pesos)</i>                 |                  |                                   |                                                                                |                                                                                      |              |
| <b>December 31, 2018</b>                   |                  |                                   |                                                                                |                                                                                      |              |
| Derivative assets                          | ₱2,363,366       | ₱-                                | ₱2,363,366                                                                     | (₱204,606)                                                                           | ₱2,158,760   |
| Derivative liabilities                     | 311,654          | -                                 | 311,654                                                                        | (204,606)                                                                            | 107,048      |
| Traffic settlements<br>receivable (Note 5) | 3,661,635        | (793,239)                         | 2,868,396                                                                      | -                                                                                    | 2,868,396    |
| Traffic settlements<br>payable (Note 14)   | 1,895,650        | (793,239)                         | 1,102,411                                                                      | -                                                                                    | 1,102,411    |
| <b>December 31, 2017</b>                   |                  |                                   |                                                                                |                                                                                      |              |
| Derivative assets                          | ₱926,401         | ₱-                                | ₱926,401                                                                       | (₱162,713)                                                                           | ₱763,688     |
| Derivative liabilities                     | 191,060          | -                                 | 191,060                                                                        | (162,713)                                                                            | 28,347       |
| Traffic settlements<br>receivable (Note 5) | 5,953,035        | (3,134,179)                       | 2,818,856                                                                      | -                                                                                    | 2,818,856    |
| Traffic settlements<br>payable (Note 14)   | 4,208,655        | (3,134,179)                       | 1,074,476                                                                      | -                                                                                    | 1,074,476    |

The Globe Group makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance sheet assets and liabilities unless certain conditions for offsetting under PAS 32 apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized; and
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement and fluctuations in market factors.

### 29.12 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of carrying amounts and estimated fair values of all the Globe Group's financial instruments as of December 31:

|                                              | 2018                |                     | 2017           |              |
|----------------------------------------------|---------------------|---------------------|----------------|--------------|
|                                              | Carrying Value      | Fair Value          | Carrying Value | Fair Value   |
| <i>(In Thousand Pesos)</i>                   |                     |                     |                |              |
| <b>Financial Assets</b>                      |                     |                     |                |              |
| Derivative assets <sup>1</sup>               | <b>P2,363,366</b>   | <b>P2,363,366</b>   | P926,401       | P926,401     |
| Investment in equity securities <sup>1</sup> | <b>1,442,940</b>    | <b>1,442,940</b>    | 1,201,187      | 1,201,187    |
|                                              | <b>P3,806,306</b>   | <b>P3,806,306</b>   | P2,127,588     | P2,127,588   |
| <b>Financial Liabilities</b>                 |                     |                     |                |              |
| Derivative liabilities <sup>1</sup>          | <b>P311,654</b>     | <b>P311,654</b>     | P191,060       | P191,060     |
| Loans payables <sup>2</sup>                  | <b>148,281,897</b>  | <b>137,834,270</b>  | 131,528,705    | 138,812,508  |
|                                              | <b>P148,593,551</b> | <b>P138,145,924</b> | P131,719,765   | P139,003,568 |

<sup>1</sup> Measured at fair value on a recurring basis

<sup>2</sup> Fair value is disclosed only in the Notes to Financial Statements

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

#### 29.12.1 Non-Derivative Financial Instrument

The fair value of loans receivable from related parties was estimated based on the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument. The resulting fair value of loans receivable from related parties approximates the carrying amount.

The fair value of investments in equity securities are based on quoted prices of similar instruments.

For variable rate financial instruments that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate financial instruments that reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. The discount rates used range from 2.8084% to 2.8807% for USD floating loans.



For noninterest bearing obligations, the fair value was estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

### 29.12.2 Derivative Instrument

The fair value of freestanding and embedded forward exchange contracts is calculated by using the interest rate parity concept.

The fair values of interest rate swaps and cross currency swap transactions are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end each of reporting period. The fair value of interest rate swap transactions is the net present value of the estimated future cash flows. The fair values of currency and cross currency swap transactions are determined based on changes in the term structure of interest rates of each currency and the spot rate.

The fair values were tested to determine the impact of credit valuation adjustments. However, the impact is immaterial given that the Globe Group deals its derivatives with large foreign and local banks with very minimal risk of default.

### 29.12.3 Fair Value Hierarchy

The following tables provide the fair value measurement hierarchy of the Globe Group's assets and liabilities:

|                                 | Fair value measurement using |             |         |             |
|---------------------------------|------------------------------|-------------|---------|-------------|
|                                 | Level 11                     | Level 2     | Level 3 | Total       |
| <b>2018</b>                     |                              |             |         |             |
| <b>Financial Assets</b>         |                              |             |         |             |
| <i>(In Thousand Pesos)</i>      |                              |             |         |             |
| Derivative assets:              |                              |             |         |             |
| Cross currency swaps            | P-                           | P1,787,777  | P-      | P1,787,777  |
| Principal only swaps            | -                            | 528,297     | -       | 528,297     |
| Interest rate swaps             | -                            | 47,292      | -       | 47,292      |
| Investment in equity securities | 357,200                      | 1,085,740   | -       | 1,442,940   |
| <b>Financial Liabilities</b>    |                              |             |         |             |
| Derivative liabilities:         |                              |             |         |             |
| Cross currency swaps            | -                            | 203,983     | -       | 203,983     |
| Principal only swaps            | -                            | 32,010      | -       | 32,010      |
| Deliverable forwards            | -                            | 75,661      | -       | 75,661      |
| Loans payable                   | -                            | 137,834,270 | -       | 137,834,270 |

|                                 | Fair value measurement using |             |         |                            |
|---------------------------------|------------------------------|-------------|---------|----------------------------|
|                                 | Level 1                      | Level 2     | Level 3 | Total                      |
| 2017                            |                              |             |         |                            |
| Financial Assets                |                              |             |         | <i>(In Thousand Pesos)</i> |
| Derivative assets:              |                              |             |         |                            |
| Cross currency swaps            | P-                           | P713,951    | P-      | P713,951                   |
| Principal only swaps            | -                            | 177,641     | -       | 177,641                    |
| Interest rate swaps             | -                            | 28,553      | -       | 28,553                     |
| Embedded currency forwards      | -                            | 6,256       | -       | 6,256                      |
| Investment in equity securities | 249,200                      | 951,987     | -       | 1,201,187                  |
| Financial Liabilities:          |                              |             |         |                            |
| Derivative liabilities:         |                              |             |         |                            |
| Cross currency swaps            | -                            | 153,370     | -       | 153,370                    |
| Principal only swaps            | -                            | 36,384      | -       | 36,384                     |
| Interest rate swaps             | -                            | 1,306       | -       | 1,306                      |
| Loans payable                   | -                            | 138,812,508 | -       | 138,812,508                |

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2018 and 2017. The Globe Group has no financial instruments classified under Level 3.

### 30 Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; and (2) wireline communication services; which the Globe Group operates and manages as strategic business units and organize by products and services. The Globe Group presents its various operating segments based on segment net income.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

Most of the Globe Group's revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8, *Operating Segments*. The Globe Group does not have a single customer that will meet the 10% reporting criteria.

The Globe Group also presents the different product types that are included in the report that is regularly reviewed by the chief operating decision maker in assessing the operating segments performance.

Segment assets and liabilities are not measures used by the chief operating decision maker since the assets and liabilities are managed on a group basis.

The Globe Group's segment information is as follows (in thousand pesos):

|                                                                 | 2018                           |                                  |                    |
|-----------------------------------------------------------------|--------------------------------|----------------------------------|--------------------|
|                                                                 | Mobile Communications Services | Wireline Communications Services | Consolidated       |
| <i>(In Thousand Pesos)</i>                                      |                                |                                  |                    |
| REVENUES:                                                       |                                |                                  |                    |
| Service revenues:                                               |                                |                                  |                    |
| External customers:                                             |                                |                                  |                    |
| Data                                                            | P50,819,828                    | P11,761,929                      | P62,581,757        |
| Voice                                                           | 28,519,660                     | 2,977,017                        | 31,496,677         |
| SMS                                                             | 20,191,240                     | -                                | 20,191,240         |
| Broadband                                                       | -                              | 18,605,636                       | 18,605,636         |
| Nonservice revenues:                                            |                                |                                  |                    |
| External customers                                              | 17,905,545                     | 391,951                          | 18,297,496         |
| Segment revenues                                                | 117,436,273                    | 33,736,533                       | 151,172,806        |
| EBITDA                                                          | 54,813,431                     | 10,313,684                       | 65,127,115         |
| Depreciation and amortization                                   | (18,515,035)                   | (11,906,686)                     | (30,421,721)       |
| EBIT                                                            | 36,298,396                     | (1,593,002)                      | 34,705,394         |
| <b>NET INCOME (LOSS) BEFORE TAX<sup>2</sup></b>                 | <b>28,329,140</b>              | <b>(715,824)</b>                 | <b>27,613,316</b>  |
| Provision for income tax                                        | (6,105,079)                    | (2,882,294)                      | (8,987,373)        |
| <b>NET INCOME (LOSS)</b>                                        | <b>P22,224,061</b>             | <b>(P3,598,118)</b>              | <b>P18,625,943</b> |
| <b>Core net income after tax</b>                                |                                |                                  | <b>P18,734,587</b> |
| Intersegment revenues                                           | (P3,151,866)                   | (P1,464,068)                     | (P4,615,934)       |
| Subsidy <sup>1</sup>                                            | (237,272)                      | (110,546)                        | (347,818)          |
| Interest income                                                 | 265,706                        | 125,324                          | 391,030            |
| Interest expense                                                | (5,958,866)                    | (16,298)                         | (5,975,164)        |
| Equity in net losses of associates and joint ventures           | (1,249,603)                    | -                                | (1,249,603)        |
| Impairment losses and others                                    | 3,126,709                      | 1,660,935                        | 4,787,644          |
| Total additions to property and equipment and intangible assets | 26,601,407                     | 9,713,380                        | 36,314,787         |
| Cost of sales                                                   | (18,142,817)                   | (502,497)                        | (18,645,314)       |
| Operating expenses                                              | (44,480,026)                   | (22,920,353)                     | (67,400,379)       |
| <b>Cash Flows</b>                                               |                                |                                  |                    |
| Net cash from (used in):                                        |                                |                                  |                    |
| Operating activities                                            | P41,727,279                    | P16,123,250                      | P57,850,529        |
| Investing activities                                            | (33,616,425)                   | (9,035,328)                      | (42,651,753)       |
| Financing activities                                            | 752,364                        | (4,187,410)                      | (3,435,046)        |

<sup>1</sup> Computed as non-service revenues less cost of sales

|                                                                    | 2017                           |                                  |              |
|--------------------------------------------------------------------|--------------------------------|----------------------------------|--------------|
|                                                                    | Mobile Communications Services | Wireline Communications Services | Consolidated |
| <i>(In Thousand Pesos)</i>                                         |                                |                                  |              |
| REVENUES:                                                          |                                |                                  |              |
| Service revenues:                                                  |                                |                                  |              |
| External customers:                                                |                                |                                  |              |
| Data                                                               | ₱43,058,894                    | ₱10,287,868                      | ₱53,346,762  |
| Voice                                                              | 32,274,474                     | 3,490,350                        | 35,764,824   |
| SMS                                                                | 23,149,293                     | -                                | 23,149,293   |
| Broadband                                                          | -                              | 15,644,974                       | 15,644,974   |
| Nonservice revenues:                                               |                                |                                  |              |
| External customers                                                 | 7,103,490                      | 271,388                          | 7,374,878    |
| Segment revenues                                                   | 105,586,151                    | 29,694,580                       | 135,280,731  |
| EBITDA                                                             | 46,412,954                     | 6,912,717                        | 53,325,671   |
| Depreciation and amortization                                      | (14,719,797)                   | (12,792,892)                     | (27,512,689) |
| EBIT                                                               | 31,693,157                     | (5,880,175)                      | 25,812,982   |
| NET INCOME (LOSS) BEFORE TAX <sup>2</sup>                          | 27,495,220                     | (5,953,518)                      | 21,541,702   |
| Provision for income tax                                           | (4,965,817)                    | (1,491,672)                      | (6,457,489)  |
| NET INCOME (LOSS)                                                  | ₱22,529,403                    | (₱7,445,190)                     | ₱15,084,213  |
| Core net income after tax                                          |                                |                                  | ₱13,546,018  |
| Intersegment revenues                                              | (₱2,880,641)                   | (₱1,470,841)                     | (₱4,351,482) |
| Subsidy <sup>1</sup>                                               | (5,522,391)                    | (116,168)                        | (5,638,559)  |
| Interest income                                                    | 112,222                        | 27,359                           | 139,581      |
| Interest expense                                                   | (5,025,778)                    | (17,174)                         | (5,042,952)  |
| Equity in net losses of associates and joint ventures <sup>2</sup> | (846,177)                      | -                                | (846,177)    |
| Impairment losses and others                                       | (5,326,363)                    | (97,003)                         | (5,423,366)  |
| Total additions to property and equipment and intangible assets    | 39,553,734                     | 11,878,600                       | 51,432,334   |
| Cost of sales                                                      | (12,625,881)                   | (387,556)                        | (13,013,437) |
| Operating expenses                                                 | (46,567,834)                   | (22,373,725)                     | (68,941,559) |
| Cash Flows                                                         |                                |                                  |              |
| Net cash from (used in):                                           |                                |                                  |              |
| Operating activities                                               | ₱34,396,520                    | ₱15,907,742                      | ₱50,304,262  |
| Investing activities                                               | (55,344,717)                   | (77,298)                         | (55,422,015) |
| Financing activities                                               | 7,814,350                      | -                                | 7,814,350    |

<sup>1</sup> Computed as non-service revenues less cost of sales

<sup>2</sup> Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.

|                                                                    | 2016                           |                                  |              |
|--------------------------------------------------------------------|--------------------------------|----------------------------------|--------------|
|                                                                    | Mobile Communications Services | Wireline Communications Services | Consolidated |
| <i>(In Thousand Pesos)</i>                                         |                                |                                  |              |
| REVENUES:                                                          |                                |                                  |              |
| Service revenues:                                                  |                                |                                  |              |
| External customers:                                                |                                |                                  |              |
| Data                                                               | ₱34,991,091                    | ₱9,873,417                       | ₱44,864,508  |
| Voice                                                              | 34,065,300                     | 3,779,820                        | 37,845,120   |
| SMS                                                                | 23,198,924                     | -                                | 23,198,924   |
| Broadband                                                          | -                              | 14,679,451                       | 14,679,451   |
| Nonservice revenues:                                               |                                |                                  |              |
| External customers                                                 | 5,670,249                      | 523,408                          | 6,193,657    |
| Segment revenues                                                   | 97,925,564                     | 28,856,096                       | 126,781,660  |
| EBITDA <sup>3</sup>                                                | 41,260,570                     | 8,717,826                        | 49,978,396   |
| Depreciation and amortization                                      | (10,978,984)                   | (12,869,662)                     | (23,848,646) |
| EBIT                                                               | 30,281,586                     | (4,151,836)                      | 26,129,750   |
| NET INCOME (LOSS) BEFORE TAX <sup>2</sup>                          | 26,090,530                     | (4,153,128)                      | 21,937,402   |
| Provision for income tax                                           | (5,359,344)                    | (689,559)                        | (6,048,903)  |
| NET INCOME (LOSS)                                                  | ₱20,731,186                    | (₱4,842,687)                     | ₱15,888,499  |
| Core net income after tax                                          |                                |                                  | ₱16,013,946  |
| Intersegment revenues                                              | (₱2,573,816)                   | (₱1,511,959)                     | (₱4,085,775) |
| Subsidy <sup>1</sup>                                               | (5,476,822)                    | (243,635)                        | (5,720,457)  |
| Interest income                                                    | 105,834                        | 45,755                           | 151,589      |
| Interest expense                                                   | (3,388,476)                    | (20,423)                         | (3,408,899)  |
| Equity in net losses of associates and joint ventures <sup>2</sup> | (855,198)                      | -                                | (855,198)    |
| Impairment losses and others                                       | (2,420,759)                    | (850,542)                        | (3,271,301)  |
| Total additions to property and equipment and intangible assets    | 32,328,400                     | 6,762,791                        | 39,091,191   |
| Cost of sales                                                      | (11,147,071)                   | (767,043)                        | (11,914,114) |
| Operating expenses                                                 | (45,544,108)                   | (19,345,118)                     | (64,889,226) |
| Cash Flows                                                         |                                |                                  |              |
| Net cash from (used in):                                           |                                |                                  |              |
| Operating activities                                               | ₱31,140,895                    | ₱6,321,702                       | ₱37,462,597  |
| Investing activities                                               | (51,644,709)                   | (6,016,878)                      | (57,661,587) |
| Financing activities                                               | 16,988,326                     | (23,696)                         | 16,964,630   |

<sup>1</sup> Computed as non-service revenues less cost of sales

<sup>2</sup> Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.

A breakdown of gross revenues to net revenues and a reconciliation of segment revenues to the total revenues presented in the consolidated statements of comprehensive income are shown below:

|                                         | 2018                       | 2017         | 2016         |
|-----------------------------------------|----------------------------|--------------|--------------|
|                                         | <i>(In Thousand Pesos)</i> |              |              |
| Gross service revenues                  | <b>P132,875,310</b>        | P127,905,853 | P120,588,003 |
| Interconnection charges                 | <b>(5,677,375)</b>         | (7,852,336)  | (9,623,127)  |
| Net service revenues                    | <b>127,197,935</b>         | 120,053,517  | 110,964,876  |
| Nonservice revenues                     | <b>18,297,496</b>          | 7,374,878    | 6,193,657    |
| Segment revenues                        | <b>145,495,431</b>         | 127,428,395  | 117,158,533  |
| Interest income                         | <b>391,030</b>             | 139,581      | 151,589      |
| Gain on fair value of retained interest | -                          | 1,889,901    | -            |
| Other income - net                      | <b>1,595,835</b>           | 701,653      | 983,186      |
| Total revenues                          | <b>P147,482,296</b>        | P130,159,530 | P118,293,308 |

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

|                                                       | 2018                       | 2017         | 2016         |
|-------------------------------------------------------|----------------------------|--------------|--------------|
|                                                       | <i>(In Thousand Pesos)</i> |              |              |
| EBITDA                                                | <b>P65,127,115</b>         | P53,325,671  | P49,978,396  |
| Depreciation and amortization                         | <b>(30,421,721)</b>        | (27,512,689) | (23,848,646) |
| Financing costs                                       | <b>(7,095,655)</b>         | (5,251,692)  | (4,096,826)  |
| Equity in net losses of associates and joint ventures | <b>(1,249,603)</b>         | (846,177)    | (855,198)    |
| Gain (loss) on derivative instruments (Note 21)       | <b>1,004,171</b>           | (127,708)    | 469,884      |
| Interest income                                       | <b>391,030</b>             | 139,581      | 151,589      |
| Gain on disposal of property and equipment - net      | <b>73,088</b>              | 38,455       | 101,232      |
| Gain (loss) on previously held equity interest        | -                          | (9,103)      | (30,186)     |
| Gain on fair value of retained interest               | -                          | 1,889,901    | -            |
| Other items                                           | <b>(215,109)</b>           | (104,537)    | 67,157       |
| Income before income tax                              | <b>P27,613,316</b>         | P21,541,702  | P21,937,402  |

The reconciliation of core net income after tax (core NIAT) to NIAT is shown below:

|                                         | 2018                       | 2017        | 2016        |
|-----------------------------------------|----------------------------|-------------|-------------|
|                                         | <i>(In Thousand Pesos)</i> |             |             |
| Core NIAT                               | <b>P18,734,587</b>         | P13,546,018 | P16,013,946 |
| Gain (loss) on derivatives instruments  | <b>702,919</b>             | (89,396)    | 328,919     |
| Foreign exchange gains (losses)         | <b>(630,301)</b>           | 149,934     | (367,517)   |
| Non-recurring items                     | <b>(181,262)</b>           | (307,477)   | (56,663)    |
| Gain on previously held equity interest | -                          | (9,103)     | (30,186)    |
| Gain on fair value of retained interest | -                          | 1,794,237   | -           |
| NIAT                                    | <b>P18,625,943</b>         | P15,084,213 | P15,888,499 |

### *30.1 Mobile Communications Services*

This reporting segment is made up of digital cellular telecommunications services that allow subscribers to make and receive local, domestic long distance and international long distance calls, international roaming calls and other value added services (VAS) in any place within the coverage areas.

#### *30.1.1 Mobile communication voice net service revenues include the following:*

- a) Pro-rated monthly service fees on postpaid plans;
- b) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments (CERA) net of loyalty discounts credited to subscriber billings;
- c) Airtime fees for intra-network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts;
- d) Revenues generated from inbound international and national long distance calls and international roaming calls; and
- e) Mobile service revenues of GTI.

*30.1.2 Mobile SMS service revenues* consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, and infotext, subscription fees on unlimited and bucket prepaid SMS services, net of any payouts to content providers.

*30.1.3 Mobile communication data net service revenues* consist of local and international revenues from value-added services such as mobile internet browsing and content downloading, mobile commerce services, other add-on VAS and service revenues of GXI and Yondu, net of payouts to content providers.

*30.1.4* Globe Telecom offers its wireless communications services to consumers, corporate and small and medium enterprise (SME) clients through the following three (3) brands: Globe Postpaid, Globe Prepaid and Touch Mobile.

The Globe Group also provides its subscribers with mobile payment and remittance services under the GCash brand.

### *30.2 Wireline Communications Services*

This reporting segment is made up of fixed line telecommunications services which offer subscribers local, domestic long distance and international long distance voice services in addition to broadband and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

#### *30.2.1 Wireline voice service revenues consist of the following:*

- a) Monthly service fees including CERA of voice-only subscriptions;
- b) Revenues from local, international and national long distance calls made by postpaid and prepaid wireline subscribers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid call card discounts;

- c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
- d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
- e) Installation charges and other one-time fees associated with the establishment of the service; and
- f) Revenues from DUO and SUPERDUO (fixed line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

### *30.2.2 Wireline data service revenues consist of the following:*

- a) Monthly service fees from international and domestic leased lines;
- b) Other wholesale transport services;
- c) Revenues from value-added services; and
- d) One-time connection charges associated with the establishment of service.

### *30.2.3 Broadband service revenues consist of the following:*

- a) Monthly service fees of wired, fixed wireless and bundled voice and data subscriptions;
- b) Browsing revenues from all postpaid and prepaid wired, fixed wireless in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
- c) Value-added services such as games; and
- d) Installation charges and other one-time fees associated with the service.

### *30.2.4 The Globe Group provides wireline voice communications (local, national and international long distance), data and broadband and data services to consumers, corporate and SME clients in the Philippines.*

- *Consumers* - the Globe Group's postpaid voice service provides basic landline services including toll-free NDD calls to other Globe landline subscribers for a fixed monthly fee. For wired broadband, consumers can choose between broadband services bundled with a voice line, or a broadband data-only service. The Globe Group offers broadband packages bundled with voice, or broadband data-only service. For subscribers who require full mobility, Globe Broadband service come in postpaid and prepaid packages and allow them to access the internet via LTE, 3G with HSDPA, Enhanced Data rate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.
- *Corporate/SME clients* - for corporate and SME enterprise clients wireline voice communication needs, the Globe Group offers postpaid service bundles which come with a business landline and unlimited dial-up internet access. The Globe Group also provides a *full* suite of telephony services from basic direct lines to Integrated Services Digital Network (ISDN) services, 1-800 numbers, International Direct Dialing (IDD) and National Direct Dialing (NDD) access as well as managed voice solutions such as Voice Over Internet Protocol (VOIP) and managed Internet Protocol (IP) communications. Value-priced, high speed data services, wholesale and corporate internet access, data center services and segment-specific solutions customized to the needs of vertical industries.

### 31 Notes to Consolidated Statements of Cash Flows

Cash equivalents are short term highly liquid investments with insignificant risk of changes in value. The cash and cash equivalents account consists of the following as of December 31:

|                                    | 2018                       | 2017        |
|------------------------------------|----------------------------|-------------|
|                                    | <i>(In Thousand Pesos)</i> |             |
| Cash on hand and in banks          | <b>₱2,018,910</b>          | ₱1,930,219  |
| Short-term money market placements | <b>21,207,476</b>          | 9,292,001   |
|                                    | <b>₱23,226,386</b>         | ₱11,222,220 |

Cash in banks earn interest at respective bank deposit rates.

The ranges of interest rates of the above placements are as follows:

|             | 2018                   | 2017           | 2016           |
|-------------|------------------------|----------------|----------------|
| Placements: |                        |                |                |
| PHP         | <b>0.375% to 6.00%</b> | 0.10% to 3.70% | 0.05% to 1.75% |
| USD         | <b>0.10% to 2.75%</b>  | 0.05% to 1.75% | 0.25% to 2.70% |

The principal noncash transactions are as follows:

|                                                                              | Notes    | 2018                       | 2017      | 2016        |
|------------------------------------------------------------------------------|----------|----------------------------|-----------|-------------|
|                                                                              |          | <i>(In Thousand Pesos)</i> |           |             |
| Unpaid investments and advances                                              |          | <b>₱97,426</b>             | ₱97,426   | ₱11,997,228 |
| Increase in liabilities related to the acquisition of property and equipment |          | <b>(7,800,837)</b>         | 8,076,049 | 1,780,201   |
| Unpaid dividends on preferred shares                                         | 14, 19.3 | <b>260,030</b>             | 260,030   | 260,030     |
| Capitalized ARO                                                              | 17       | <b>9,831</b>               | 97,079    | 23,210      |

Cash flows from financing activities include non-cash change arising from foreign exchange gains or losses and amortization of debt issue cost and others amounting to ₱926.20 million.

### 32 Agreements and Commitments

#### 32.1 Lease Commitments

##### 32.1.1 Operating lease commitments

##### *Globe Group as lessee*

The Globe Group leases certain premises for some of its telecommunication facilities and equipment and for most of its business centers and network sites. The operating lease agreements are for periods ranging from one (1) to ten (10) years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are included as part of the security deposits in the consolidated statements of financial position (see [Notes 8](#) and [13](#)).

The Globe Group also has short-term renewable leases on transmission cables and equipment. The Globe Group's rentals incurred on these various leases amounted to ₱6,535.15 million ₱6,471.46 million and ₱5,902.41 million in 2018, 2017 and 2016, respectively (See [Note 22](#)).

The future minimum lease payments under these operating leases are as follows:

|                                              | 2018                       | 2017        |
|----------------------------------------------|----------------------------|-------------|
|                                              | <i>(In Thousand Pesos)</i> |             |
| Not later than one year                      | <b>₱4,830,349</b>          | ₱3,718,794  |
| After one year but not later than five years | <b>14,944,091</b>          | 13,697,922  |
| After five years                             | <b>3,889,549</b>           | 6,226,088   |
|                                              | <b>₱23,663,989</b>         | ₱23,642,804 |

#### *Globe Group as lessor*

The Globe Group has certain short term lease agreements on equipment and of the open space. Total lease income amounted to ₱65.30 million, ₱52.51 million and ₱83.61 million in 2018, 2017 and 2016, respectively (see [Note 21](#)).

#### *32.1.2 Finance lease commitments*

##### *Globe Group as lessee*

Globe Telecom entered into an agreement with Huawei, for the upgrade of its billing and customer management system. The agreement covers the supply of hardware, application systems and software and software licenses including installation, as well as a managed services agreement with Amdocs Philippines Inc. and Amdocs Software Solution Limited Liability Company that covers a seven (7) year period.

The agreement includes a lease component for hardware infrastructure and information equipment valued at ₱893.48 million. The managed service engagement has terms of renewal and purchase options, among others.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

|                                             | 2017                       |                           |
|---------------------------------------------|----------------------------|---------------------------|
|                                             | <i>(In Thousand Pesos)</i> |                           |
|                                             | Minimum Payments           | Present Value of Payments |
| Within one year                             | ₱130,866                   | ₱95,045                   |
| After one year but not more than five years | -                          | -                         |
| More than five years                        | -                          | -                         |
|                                             | <b>₱130,866</b>            | <b>₱95,045</b>            |

In addition, total payments to service providers based on the seven-year agreement for the non - lease component which includes application development and maintenance, service design, managed network services, office automation or end-user computing, service desk services and business supports systems amounted to ₱1,999.97 million and ₱1,876.50 million in 2018 and 2017, respectively.

### *32.2 Agreements and Commitments with Other Carriers*

Globe Telecom, Innove and BTI have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe Telecom also has international roaming agreements with other foreign operators, which allow its subscribers access to foreign networks. The agreements provide for sharing of toll revenues derived from the mutual use of telecommunication networks.

The Interconnect costs for the period 2018, 2017 and 2016 amounted to ₱5,677 million ₱7,852 million and ₱9,623 million, respectively. (see [Note 30](#))

Net traffic settlements receivables amounted to ₱2,868.40 million and ₱2,818.87 million while net traffic settlements payable amounted to ₱1,102.41 million and ₱1,074.48 million as of December 31, 2018 and 2017, respectively (see [Note 5](#) and [14](#)).

### *32.3 Arrangements and Commitments with Suppliers*

The Globe Group has entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments and down payments are made to suppliers upon submission of required documentation. While the development or construction is in progress, project costs are accrued based on the project status. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the value of unbilled but delivered goods or services from the related purchase orders is accrued.

The accrued project costs as of December 31, 2018 and 2017 included in the "Trade payables and accrued expenses" account in the consolidated statements of financial position amounted to ₱19,172.96 million and ₱25,785.46 million, respectively (see [Note 14](#)). As of December 31, 2018 and 2017, the consolidated expected future billings on the unaccrued portion of purchase orders issued amounted to ₱61,401.13 million and ₱50,062.36 million, respectively. The settlement of these liabilities is dependent on the payment terms and project milestones agreed with the suppliers and contractors. As of December 31, 2018 and 2017, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱9,459.24 million and ₱11,667.00 million, respectively (see [Note 8](#)).

### *32.4 Agreements with Pacnet Cable Ltd. (Pacnet), formerly C2C*

In 2001, Globe Telecom signed a cable equipment supply agreement with Pacnet as the supplier. In March 2002, Globe Telecom as a lessor entered into an equipment lease agreement for the said equipment with GB21 Hong Kong Limited (GB21).

Subsequently, GB21, in consideration of Pacnet's agreement to assume all payment obligations pursuant to the lease agreement, assigned all its rights, obligations and interest in the equipment lease agreement to Pacnet. As a result of the said assignment of payables by GB21 to Pacnet, the Globe Telecom's liability arising from the cable equipment supply agreement with Pacnet was effectively converted into a noninterest bearing long-term obligation.

In January 2003, Globe Telecom received advance lease payments from Pacnet for its use of a portion of the Globe Telecom's cable landing station facilities.

On November 17, 2009, Globe Telecom and Pacnet, signed a memorandum of agreement (MOA) to terminate and unwind their Landing Party Agreement (LPA) dated August 15, 2000. The MOA further requires Globe Telecom, being duly licensed and authorized by the NTC to land the C2C Cable Network in the Philippines and operate the C2C Cable Landing Station (CLS) in Nasugbu, Batangas, Philippines, to transfer to Pacnet's designated qualified partner, the license of the C2C CLS, the CLS, a portion of the property on which the CLS is situated, certain equipment and associated facilities thereof.

In return, Pacnet will compensate Globe Telecom in cash and by way of Pacnet cable capacities deliverable upon completion of certain closing conditions. The MOA also provided for novation of abovementioned equipment supply and lease agreements and reciprocal options for Globe Telecom to purchase future capacities from Pacnet and Pacnet to purchase backhaul and ducts from Globe Telecom at agreed prices.

### *32.5 Network Sharing Arrangement with ABS-CBN Convergence Inc.*

On May 27, 2013, Globe Telecom, Innove and ABS-CBN Convergence Inc. (ABS-C) entered into a network sharing arrangement to provide capacity and coverage for new mobile telephony, data and value-added services to be offered by ABS-C nationwide to its subscribers using shared network and interconnect assets of the parties.

This arrangement will enable Globe Telecom, Innove and ABS-C to improve public service by enhancing utility, capacity, inter-operability and quality of mobile and local exchange telephone and data services to the public and allow ABS-C to modernize its existing service and expand to a retail base on top of its existing subscriber base.

On May 31, 2013, NTC approved the network sharing agreement and co-use of the number blocks assigned to Globe Telecom.

On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.

### *32.6 Southeast Asia - United States (SEA - US) Project*

Globe Telecom has joined a consortium of seven international telecommunication companies for the construction of a new submarine cable system directly connecting Southeast Asia and the United States. Other members of the consortium include PT Telekomunikasi Indonesia International (Telin), Telkom USA, RAM Telecom International (RTI), Hawaiian Telcom, and Teleguam Holdings (GTA). The 15,000-kilometer cable system will link Manado in Indonesia, Davao in the Philippines, Piti in Guam, Oahu in Hawaii, and Los Angeles in California, providing superior latency delivering additional 20 terabits per second (Tbps), utilizing 100 gigabits per second (Gbps) transmission equipment. Globe Telecom and GTIC US is spending more than USD80 million for the SEA-US undersea cable system.

On March 17, 2015, Globe Telecom provided a written guaranty to NEC Corporation (NEC) pursuant to the supply contract of the cable system between GTIC US and NEC. Globe Telecom unconditionally guarantees the full and punctual performance by GTIC US of its payment obligations up to an aggregate amount of USD46.23 million, less any payments made in accordance with the terms and conditions of the contract. A default by GTIC US to pay any guaranteed obligation under the contract is a condition that will render the guaranty exercisable.

SEA US cable was commercially launched on August 8, 2017. Accordingly, the Globe Group has been released from unconditional guarantee extended to NEC on behalf of GTIC as the latter has already been settled more than the guarantee value to NEC.

### *32.7 Agreements with Huawei International, Pte. Ltd., Huawei Technology Co. Ltd and Huawei Technology Phils.*

In 2014, Globe Telecom and Innove engaged Huawei for a period of ten (10) years to perform the design, engineering, manufacture, assembly and delivery of certain equipment and all its ancillary equipment and related software and documentation, and to provide services, including subsequent training and technical support, in an end-to-end full-turn key outcome based technical solution. Globe Telecom's payments to Huawei as of December 31, 2018 totaled ₱29,565.37 million for the services and ₱1,214.57 million and USD1,005.04 million for the equipment.

### *32.8 Agreements with Premium Content Providers*

The Globe Group has entered into various content and license distribution agreements with various developers for periods ranging from 2 to 5 years. Under the agreements, the developers granted the Globe Group the right to market, reproduce and distribute the premium content in the form of portable music streaming, videos, movies or other forms of content to its subscribers. The agreement also provides for the Globe Group to provide advertising and/or promotions support at certain agreed amounts.

In consideration of the agreements, Globe agreed to pay royalty or service fees based on its net revenues or active subscribers.

## **33 Contingencies**

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

### *Interconnection Charge for Short Messaging Service*

On October 10, 2011, the NTC issued Memorandum Circular (MC) No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from P1.00 to P0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated. The respective motions for reconsideration filed by NTC and that of intervenor Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate were both denied.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated September 15, 2017.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6, 2017, requiring it to comment on said petition of Bayan Muna. Subsequently, on February 21, 2018, Globe received a copy of the SC's Resolution dated December 13, 2017 consolidating the Petitions for Review filed by Bayan Muna and NTC, and requiring Globe to file its comment on the petition for review filed by NTC. Thus, on April 2, 2018, Globe filed its Consolidated Comment on both Bayan Muna and the NTC's petitions for review. On September 18, 2018, Globe received a copy of Bayan Muna's Consolidated Reply to Globe's Consolidated Comment and Digitel and Smart's Comment.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

#### *Guidelines on Unit of Billing of Mobile Voice Service*

On July 23, 2009, the NTC issued NTC MC No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the Cellular Mobile Telephone System (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

On January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that “the Per Pulse Billing Scheme shall be the default”. The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other’s petitions, as well as their replies to each other’s comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

#### *Right of Innove to Render Services and Build Telecommunications Infrastructure in BGC*

- PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove’s installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA’s rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the SC.

- In a case filed by BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds. The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

#### *Acquisition by Globe Telecom and PLDT of the Entire Issued and Outstanding Shares of VTI*

In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. I6-002 (MC No. I6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.



On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the SC a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the SC did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the SC en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the SC en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the CA, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

### **34 NTC Regulation**

Effective January 5, 2018, all prepaid load with denomination of ₱300 and above will carry a one-year expiration period as mandated by the joint Memorandum Circular No. 05-12-2017 issued by the NTC, Department of Information and Communication Technology and Department of Trade and Industry.

On July 19, 2018, NTC released Memorandum Circular (MC) no. 05-07-2018 for the amendment of interconnect charge for voice from ₱2.50 per minute to ₱0.50 and text messaging rates from ₱0.15 per message to ₱0.05. This memorandum circular shall take effect fifteen days after publication.

### **35 Events After Reporting Period**

On February 11, 2019, the BOD approved the declaration of the first quarter cash dividend of ₱22.75 per common share, payable to common stockholders of record as of February 26, 2019. Total dividends amounting to ₱3.00 billion will be payable on March 13, 2019.

On February 8, 2019, the RA 11202 or the "Mobile Number Portability Act" was signed into law. The act allows subscribers to change their subscription plans or service providers and still keep their current mobile numbers. Moreover, no interconnection fee or charge shall be imposed for domestic calls and SMS made by a subscriber. This act shall take effect fifteen days after its publication in the Official Gazette or in any newspaper of general circulation.

Within ninety (90) days from the effectivity of the act, NTC shall coordinate with the Department of Information and Communications Technology, The National Privacy Commission, the Philippine Competition Commission, and other concerned agencies, and promulgate rules and regulations and other issuances to ensure the effective implementation of the Act. Within six (6) months from the promulgation of the rules and regulations, service providers shall comply with the provisions of the act and set up a mechanism for the purpose of implementing nationwide.

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors  
**GLOBE TELECOM, INC.**  
The Globe Tower, 32<sup>nd</sup> Street corner 7<sup>th</sup> Avenue  
Bonifacio Global City, Taguig City

We have audited the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries (the "Globe Group") as at and for the year then ended December 31, 2018, in accordance with Philippine Standards on Auditing (PSAs), on which we have rendered an unqualified opinion dated February 11, 2019.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on the attached schedules showing the list of all effective accounting standards and interpretations, the financial soundness indicators, the reconciliation of retained earnings available for dividend declaration, the map showing the relationships between and among Globe Telecom, Inc. and Subsidiaries and its related parties, and the other supplementary information shown in Schedules A to H as at December 31, 2018, as required by the Philippine Securities and Exchange Commission under the SRC Rule 68, as amended, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These information are the responsibility of Management and have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.  
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021  
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A  
TIN 005299331

By:



Oliver C. Bucao  
Partner  
CPA License No. 0086699  
SEC A.N. 1623-A, issued on March 23, 2017; effective until March 22, 2020, Group A  
TIN 129433612  
BIR A.N. 08-002552-47-2017, issued on June 8, 2017; effective until June 8, 2020  
PTR No. A-4255727, issued on January 10, 2019, Taguig City

Taguig City, Philippines  
February 11, 2019





## **GLOBE TELECOM, INC. AND SUBSIDIARIES**

### **Index to the Consolidated Financial Statements and Supplementary Schedules**

Schedule 1 - Schedule of all the effective standards and interpretations as of December 31, 2018

Schedule 2 - Financial Soundness Indicators

Schedule 3 - Reconciliation of retained earnings available for dividend declaration

Schedule 4 - Map of the relationships of the companies within the Group

Schedule 5 - Schedule of Preferred Shares Offering Proceeds

Schedule 6 - Supplementary Schedules required by Annex 68-E

**Schedule 1**
**SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)**
**DECEMBER 31, 2018**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>                                                             |                                                                                                                                                                                            | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------|-----------------------|
| <b>Conceptual Framework for Financial Reporting</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |                                                                                                                                                                                            | ✓              |                    |                       |
| <b>PFRSs Practice Statement 1 Management Commentary</b>                                                                         |                                                                                                                                                                                            |                | ✓                  |                       |
| <b>PFRSs Practice Statement 2 Making Materiality Judgments</b>                                                                  |                                                                                                                                                                                            |                | ✓                  |                       |
| <b>Philippine Financial Reporting Standards</b>                                                                                 |                                                                                                                                                                                            |                |                    |                       |
| <b>PFRS 1 (Revised)</b>                                                                                                         | <i>First-time Adoption of Philippine Financial Reporting Standards</i>                                                                                                                     |                |                    | ✓                     |
|                                                                                                                                 | Amendments to PFRS 1 and PAS 27: <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>                                                                      |                |                    | ✓                     |
|                                                                                                                                 | Amendments to PFRS 1: <i>Additional Exemptions for First-time Adopters</i>                                                                                                                 |                |                    | ✓                     |
|                                                                                                                                 | Amendment to PFRS 1: <i>Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>                                                                                  |                |                    | ✓                     |
|                                                                                                                                 | Amendments to PFRS 1: <i>Severe Hyperinflation and Removal of Fixed Date for First-time Adopters</i>                                                                                       |                |                    | ✓                     |
|                                                                                                                                 | Amendments to PFRS 1: <i>Government Loans</i>                                                                                                                                              |                |                    | ✓                     |
|                                                                                                                                 | Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PFRS 1: <i>First-Time Adoption of PFRS</i>                                                                                    |                |                    | ✓                     |
|                                                                                                                                 | Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 1: <i>First-time Adoption of International Financial Reporting Standards (Changes to the Basis for Conclusions only)</i> |                |                    | ✓                     |
|                                                                                                                                 | Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PFRS 1: <i>Deletion of short-term exemptions for first-time adopters</i>                                                      |                |                    | ✓                     |
| <b>PFRS 2</b>                                                                                                                   | <i>Share-based Payment</i>                                                                                                                                                                 | ✓              |                    |                       |
|                                                                                                                                 | Amendments to PFRS 2: <i>Vesting Conditions and Cancellations</i>                                                                                                                          | ✓              |                    |                       |
|                                                                                                                                 | Amendments to PFRS 2: <i>Group Cash-settled Share-based Payment Transactions</i>                                                                                                           |                |                    | ✓                     |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                               | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 2: <i>Definition of Vesting Condition</i>                                   | ✓       |             |                |
|                                                              | <i>Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions</i>                                               | ✓       |             |                |
| <b>PFRS 3 (Revised)</b>                                      | <i>Business Combinations</i>                                                                                                                  | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 3: <i>Accounting for Contingent Consideration in a business combination</i> |         |             | ✓              |
|                                                              | Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 3: <i>Scope of Exception for Joint Ventures</i>                             | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PFRS 3: <i>Previously held interest in a joint operation*</i>                    |         |             | ✓              |
|                                                              | Amendments to PFRS 3: <i>Definition of a Business*</i>                                                                                        |         | ✓           |                |
| <b>PFRS 4</b>                                                | <i>Insurance Contracts</i>                                                                                                                    |         |             | ✓              |
|                                                              | Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>                                                                         |         |             | ✓              |
|                                                              | Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> with PFRS 4, <i>Insurance Contracts</i>                                   |         |             | ✓              |
| <b>PFRS 5</b>                                                | <i>Non-current Assets Held for Sale and Discontinued Operations</i>                                                                           |         |             | ✓              |
|                                                              | Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PFRS 5: <i>Changes in methods of disposal</i>                                    |         |             | ✓              |
| <b>PFRS 6</b>                                                | <i>Exploration for and Evaluation of Mineral Resources</i>                                                                                    |         |             | ✓              |
| <b>PFRS 7</b>                                                | <i>Financial Instruments: Disclosures</i>                                                                                                     | ✓       |             |                |
|                                                              | Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets</i>                                                                  | ✓       |             |                |
|                                                              | Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets - Effective Date and Transition</i>                                  | ✓       |             |                |
|                                                              | Amendments to PFRS 7: <i>Improving Disclosures about Financial Instruments</i>                                                                | ✓       |             |                |
|                                                              | Amendments to PFRS 7: <i>Disclosures - Transfers of Financial Assets</i>                                                                      | ✓       |             |                |
|                                                              | Amendments to PFRS 7: <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>                                              | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                                            | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | Amendments to PFRS 7: <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>                                                                                                 | ✓       |             |                |
|                                                              | Amendments to PFRS 7: <i>Hedge Accounting Disclosures</i>                                                                                                                                  | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PFRS 7: <i>Servicing contracts and Applicability of the amendments to PFRS 7 to condensed interim financial statements</i>    |         |             | ✓              |
| <b>PFRS 8</b>                                                | <i>Operating Segments</i>                                                                                                                                                                  | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 8: <i>Aggregation of Operating Segments and Reconciliation of the reportable segments' assets to the entity's assets</i> | ✓       |             |                |
| <b>PFRS 9</b>                                                | <i>Financial Instruments (2014)</i>                                                                                                                                                        | ✓       |             |                |
|                                                              | Amendments to PFRS 9: <i>Prepayment Features with Negative Compensation*</i>                                                                                                               |         | ✓           |                |
| <b>PFRS 10</b>                                               | <i>Consolidated Financial Statements</i>                                                                                                                                                   | ✓       |             |                |
|                                                              | Amendments to PFRS 10: <i>Consolidated Financial Statement: Transition Guidance</i>                                                                                                        |         |             | ✓              |
|                                                              | Amendments to PFRS 10: <i>Transition Guidance and Investment Entities</i>                                                                                                                  |         |             | ✓              |
|                                                              | Amendments to PFRS 10: <i>Sales or contributions of assets between an investor and its associate/joint venture*</i>                                                                        |         | ✓           |                |
|                                                              | Amendments to PFRS 10: <i>Investment Entities: Applying the Consolidation Exception</i>                                                                                                    |         |             | ✓              |
| <b>PFRS 11</b>                                               | <i>Joint Arrangements</i>                                                                                                                                                                  | ✓       |             |                |
|                                                              | Amendments to PFRS 1: <i>Joint Arrangements: Transition Guidance</i>                                                                                                                       |         |             | ✓              |
|                                                              | Amendments to PFRS 11: <i>Accounting for Acquisitions of Interests in Joint Operations</i>                                                                                                 |         |             | ✓              |
|                                                              | Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PFRS 11: <i>Previously held interest in a joint operation*</i>                                                                |         | ✓           |                |
| <b>PFRS 12</b>                                               | <i>Disclosure of Interests in Other Entities</i>                                                                                                                                           | ✓       |             |                |
|                                                              | Amendments to PFRS 12: <i>Disclosure of Interests in Other Entities: Transition Guidance</i>                                                                                               | ✓       |             |                |
|                                                              | Amendments to PFRS 12: <i>Transition Guidance and</i>                                                                                                                                      |         |             | ✓              |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                                                                                 | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | <i>Investment Entities</i>                                                                                                                                                                                                      |         |             |                |
|                                                              | Amendments to PFRS 12: <i>Investment Entities: Applying the Consolidation Exception</i>                                                                                                                                         |         |             | ✓              |
|                                                              | Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PFRS 12: <i>Clarification of the scope of the standard</i>                                                                                                         | ✓       |             |                |
| <b>PFRS 13</b>                                               | <i>Fair Value Measurement</i>                                                                                                                                                                                                   | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 13: <i>Fair Value Measurement (Amendments to the Basis of Conclusions only, with consequential amendments to the Bases of Conclusions of other standards)</i> | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 13: <i>Portfolio Exception</i>                                                                                                                                | ✓       |             |                |
| <b>PFRS 14</b>                                               | <i>Regulatory Deferral Accounts</i>                                                                                                                                                                                             |         |             | ✓              |
| <b>PFRS 15</b>                                               | <i>Revenue from Contracts with Customers</i>                                                                                                                                                                                    | ✓       |             |                |
|                                                              | Amendments to PFRS 15: <i>Clarifications to PFRS 15</i>                                                                                                                                                                         | ✓       |             |                |
| <b>PFRS 16</b>                                               | <i>Leases*</i>                                                                                                                                                                                                                  |         | ✓           |                |
| <b>PFRS 17</b>                                               | <i>Insurance Contracts*</i>                                                                                                                                                                                                     |         | ✓           |                |
| <b>Philippine Accounting Standards</b>                       |                                                                                                                                                                                                                                 |         |             |                |
| <b>PAS 1 (Revised)</b>                                       | <i>Presentation of Financial Statements</i>                                                                                                                                                                                     | ✓       |             |                |
|                                                              | Amendment to PAS 1: <i>Capital Disclosures</i>                                                                                                                                                                                  | ✓       |             |                |
|                                                              | Amendments to PAS 32 and PAS 1: <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>                                                                                                                    | ✓       |             |                |
|                                                              | Amendments to PAS 1: <i>Presentation of Items of Other Comprehensive Income</i>                                                                                                                                                 | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 1: <i>Comparative Information</i>                                                                                                                              | ✓       |             |                |
|                                                              | Amendments to PAS 1: <i>Disclosure Initiative</i>                                                                                                                                                                               | ✓       |             |                |
|                                                              | Amendments to PAS 1: <i>Definition of Material*</i>                                                                                                                                                                             |         | ✓           |                |
| <b>PAS 2</b>                                                 | <i>Inventories</i>                                                                                                                                                                                                              | ✓       |             |                |
| <b>PAS 7</b>                                                 | <i>Statement of Cash Flows</i>                                                                                                                                                                                                  | ✓       |             |                |
|                                                              | Amendments to PAS 7: <i>Disclosure Initiative</i>                                                                                                                                                                               | ✓       |             |                |
| <b>PAS 8</b>                                                 | <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>                                                                                                                                                          | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | Amendments to PAS 8: <i>Definition of Material*</i>                                                                                                            |         | ✓           |                |
| <b>PAS 10</b>                                                | <i>Events after the Reporting Period</i>                                                                                                                       | ✓       |             |                |
| <b>PAS 12</b>                                                | <i>Income Taxes</i>                                                                                                                                            | ✓       |             |                |
|                                                              | Amendment to PAS 12: <i>Deferred Tax: Recovery of Underlying Assets</i>                                                                                        | ✓       |             |                |
|                                                              | Amendment to PAS 12: <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>                                                                           | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PAS 12: <i>Income tax consequences of payments on financial instruments classified as equity*</i> |         | ✓           |                |
| <b>PAS 16</b>                                                | <i>Property, Plant and Equipment</i>                                                                                                                           | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 16: <i>Servicing Equipment</i>                                                                | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 16: <i>Revaluation Method - Proportionate Restatement of Accumulated Depreciation</i>         |         |             | ✓              |
|                                                              | Amendments to PAS 16: <i>Clarification of Acceptable Methods of Depreciation</i>                                                                               | ✓       |             |                |
|                                                              | Amendments to PAS 16: <i>Agriculture: Bearer Plants</i>                                                                                                        |         |             | ✓              |
| <b>PAS 19 (Amended)</b>                                      | <i>Employee Benefits (2011)</i>                                                                                                                                | ✓       |             |                |
|                                                              | Amendments to PAS 19: <i>Defined Benefit Plans: Employee Contributions</i>                                                                                     | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PAS 19: <i>Discount rate: regional market issue</i>                                               |         |             | ✓              |
|                                                              | Amendments to PAS 19: <i>Plan Amendment, Curtailment or Settlement*</i>                                                                                        |         | ✓           |                |
| <b>PAS 20</b>                                                | <i>Accounting for Government Grants and Disclosure of Government Assistance</i>                                                                                |         |             | ✓              |
| <b>PAS 21</b>                                                | <i>The Effects of Changes in Foreign Exchange Rates</i>                                                                                                        | ✓       |             |                |
|                                                              | Amendment to PAS 21: <i>Net Investment in a Foreign Operation</i>                                                                                              | ✓       |             |                |
| <b>PAS 23 (Revised)</b>                                      | <i>Borrowing Costs</i>                                                                                                                                         | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PAS 23: <i>Borrowing costs eligible for capitalization*</i>                                       |         | ✓           |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                   | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>PAS 24 (Revised)</b>                                      | <i>Related Party Disclosures</i>                                                                                                  | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 24: <i>Key Management Personnel</i>                              | ✓       |             |                |
| <b>PAS 26</b>                                                | <i>Accounting and Reporting by Retirement Benefit Plans</i>                                                                       | ✓       |             |                |
| <b>PAS 27 (Amended)</b>                                      | <i>Separate Financial Statements</i>                                                                                              | ✓       |             |                |
|                                                              | Amendments to PAS 27: <i>Transition Guidance and Investment Entities</i>                                                          |         |             | ✓              |
|                                                              | Amendments to PAS 27: <i>Equity Method in Separate Financial Statements</i>                                                       |         |             | ✓              |
| <b>PAS 28 (Amended)</b>                                      | <i>Investments in Associates and Joint Ventures</i>                                                                               | ✓       |             |                |
|                                                              | Amendments to PAS 28: <i>Investment Entities: Applying the Consolidation Exception</i>                                            |         |             | ✓              |
|                                                              | Amendments to PAS 28: <i>Sales or contributions of assets between an investor and its associate/joint venture*</i>                |         | ✓           |                |
|                                                              | Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PAS 28: <i>Measuring an associate or joint venture at fair value</i> | ✓       |             |                |
|                                                              | Amendments to PAS 28: <i>Long-term Interests and Joint Ventures *</i>                                                             |         | ✓           |                |
| <b>PAS 29</b>                                                | <i>Financial Reporting in Hyperinflationary Economies</i>                                                                         |         |             | ✓              |
| <b>PAS 32</b>                                                | <i>Financial Instruments: Disclosure and Presentation</i>                                                                         | ✓       |             |                |
|                                                              | Amendments to PAS 32 and PAS 1: <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>                      | ✓       |             |                |
|                                                              | Amendment to PAS 32: <i>Classification of Rights Issues</i>                                                                       | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 32: <i>Tax Effect of Equity Distributions</i>                    | ✓       |             |                |
|                                                              | Amendments to PAS 32: <i>Offsetting Financial Assets and Financial Liabilities</i>                                                | ✓       |             |                |
| <b>PAS 33</b>                                                | <i>Earnings per Share</i>                                                                                                         | ✓       |             |                |
| <b>PAS 34</b>                                                | <i>Interim Financial Reporting</i>                                                                                                |         |             | ✓              |
|                                                              | Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 34: <i>Interim Reporting of</i>                                  |         |             | ✓              |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                                                               | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | <i>Segment Assets</i>                                                                                                                                                                                         |         |             |                |
|                                                              | Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PAS 34: <i>Disclosure of information 'elsewhere in the interim financial report'</i>                                                             |         |             | ✓              |
| <b>PAS 36</b>                                                | <i>Impairment of Assets</i>                                                                                                                                                                                   | ✓       |             |                |
|                                                              | Amendments to PAS 36: <i>Recoverable Amount Disclosures for Non-Financial Assets</i>                                                                                                                          | ✓       |             |                |
| <b>PAS 37</b>                                                | <i>Provisions, Contingent Liabilities and Contingent Assets</i>                                                                                                                                               | ✓       |             |                |
| <b>PAS 38</b>                                                | <i>Intangible Assets</i>                                                                                                                                                                                      | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 38: <i>Revaluation Method - Proportionate Restatement of Accumulated Amortization</i>                                                        | ✓       |             |                |
|                                                              | Amendments to PAS 38: <i>Clarification of Acceptable Methods of Amortization</i>                                                                                                                              | ✓       |             |                |
| <b>PAS 40</b>                                                | <i>Investment Property</i>                                                                                                                                                                                    | ✓       |             |                |
|                                                              | Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PAS 40: <i>Clarifying the Interrelationship of PFRS 3 and PAS 40 When Classifying Property as Investment Property or Owner-Occupied Property</i> | ✓       |             |                |
|                                                              | Amendments to PAS 40: <i>Transfers of Investment Property</i>                                                                                                                                                 | ✓       |             |                |
| <b>PAS 41</b>                                                | <i>Agriculture</i>                                                                                                                                                                                            |         |             | ✓              |
|                                                              | Amendments to PAS 41: <i>Agriculture: Bearer Plants</i>                                                                                                                                                       |         |             | ✓              |
| <b>Philippine Interpretations</b>                            |                                                                                                                                                                                                               |         |             |                |
| <b>IFRIC 1</b>                                               | <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>                                                                                                                               | ✓       |             |                |
| <b>IFRIC 2</b>                                               | <i>Members' Share in Co-operative Entities and Similar Instruments</i>                                                                                                                                        |         |             | ✓              |
| <b>IFRIC 5</b>                                               | <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>                                                                                                   |         |             | ✓              |
| <b>IFRIC 6</b>                                               | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>                                                                                                |         |             | ✓              |
| <b>IFRIC 7</b>                                               | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>                                                                                                      |         |             | ✓              |
| <b>IFRIC 8</b>                                               | <i>Scope of PFRS 2</i>                                                                                                                                                                                        | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                   | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>IFRIC 10</b>                                              | <i>Interim Financial Reporting and Impairment</i>                                                                                                                 |         |             | ✓              |
| <b>IFRIC 12</b>                                              | <i>Service Concession Arrangements</i>                                                                                                                            |         |             | ✓              |
| <b>IFRIC 14</b>                                              | <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>                                                                   | ✓       |             |                |
|                                                              | <i>Amendments to Philippine Interpretations IFRIC- 14: Prepayments of a Minimum Funding Requirement</i>                                                           | ✓       |             |                |
| <b>IFRIC 16</b>                                              | <i>Hedges of a Net Investment in a Foreign Operation</i>                                                                                                          |         |             | ✓              |
| <b>IFRIC 17</b>                                              | <i>Distributions of Non-cash Assets to Owners</i>                                                                                                                 |         |             | ✓              |
| <b>IFRIC 19</b>                                              | <i>Extinguishing Financial Liabilities with Equity Instruments</i>                                                                                                |         |             | ✓              |
| <b>IFRIC 20</b>                                              | <i>Stripping Costs in the Production Phase of a Surface Mine</i>                                                                                                  |         |             | ✓              |
| <b>IFRIC 21</b>                                              | <i>Levies</i>                                                                                                                                                     | ✓       |             |                |
| <b>IFRIC 22</b>                                              | <i>Foreign Currency Transactions and Advance Consideration</i>                                                                                                    | ✓       |             |                |
| <b>IFRIC 23</b>                                              | <i>Uncertainty over Income Tax Treatments*</i>                                                                                                                    |         | ✓           |                |
| <b>SIC-7</b>                                                 | <i>Introduction of the Euro</i>                                                                                                                                   |         |             | ✓              |
| <b>SIC-10</b>                                                | <i>Government Assistance - No Specific Relation to Operating Activities</i>                                                                                       |         |             | ✓              |
| <b>SIC-25</b>                                                | <i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>                                                                                  |         |             | ✓              |
| <b>SIC-29</b>                                                | <i>Service Concession Arrangements. Disclosures</i>                                                                                                               |         |             | ✓              |
| <b>SIC-32</b>                                                | <i>Intangible Assets - Web Site Costs</i>                                                                                                                         | ✓       |             |                |
| <b>PIC Q&amp;A No. 2006-02</b>                               | <i>Clarification of criteria for exemption from presenting consolidated financial statements [Amended by PIC Q&amp;A No. 2013-02 and PIC Q&amp;A No. 2017-01]</i> |         |             | ✓              |
| <b>PIC Q&amp;A No. 2007-03</b>                               | <i>Valuation of Bank Real and Other Properties Acquired (ROPA)</i>                                                                                                |         |             | ✓              |
| <b>PIC Q&amp;A No. 2008-01 (Revised)</b>                     | <i>Rate used in discounting post-employment benefit obligations [Amended by PIC Q&amp;A No. 2016-01]</i>                                                          | ✓       |             |                |
| <b>PIC Q&amp;A No. 2009-01</b>                               | <i>Financial statements prepared on a basis other than going concern [Amended by PIC Q&amp;A No. 2013-02 and PIC Q&amp;A No. 2018-13]</i>                         |         |             | ✓              |
| <b>PIC Q&amp;A No. 2010-02</b>                               | <i>Basis of preparation of financial statements [Amended by PIC Q&amp;A No. 2017-01 and PIC Q&amp;A</i>                                                           | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                                                                        | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                              | <i>No. 2018-13]</i>                                                                                                                                                                                                    |         |             |                |
| <b>PIC Q&amp;A No. 2010-03</b>                               | <i>Current/non-current Classification of a Callable Term Loan</i>                                                                                                                                                      |         |             | ✓              |
| <b>PIC Q&amp;A No. 2011-02</b>                               | <i>Common Control Business Combinations</i>                                                                                                                                                                            | ✓       |             |                |
| <b>PIC Q&amp;A No. 2011-03</b>                               | <i>Accounting for Inter-company Loans [Amended by PIC Q&amp;A No. 2015-01 and PIC Q&amp;A No. 2018-13]</i>                                                                                                             | ✓       |             |                |
| <b>PIC Q&amp;A No. 2011-04</b>                               | <i>Costs of Public Offering of Shares [Amended by PIC Q&amp;A No. 2018-13]</i>                                                                                                                                         | ✓       |             |                |
| <b>PIC Q&amp;A No. 2011-05</b>                               | <i>Fair Value or Revaluation as Deemed Cost [Amended by PIC Q&amp;A No. 2016-01 and PIC Q&amp;A No. 2018-13]</i>                                                                                                       |         |             | ✓              |
| <b>PIC Q&amp;A No. 2011-06</b>                               | <i>Acquisition of Investment Properties – Asset Acquisition or Business Combination?</i>                                                                                                                               |         |             | ✓              |
| <b>PIC Q&amp;A No. 2012-01</b>                               | <i>Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements [Amended by PIC Q&amp;A No. 2015-01 and PIC Q&amp;A No. 2018-13]</i> | ✓       |             |                |
| <b>PIC Q&amp;A No. 2012-02</b>                               | <i>Cost of a New Building Constructed on Site of a Previous Building</i>                                                                                                                                               |         |             | ✓              |
| <b>PIC Q&amp;A No. 2013-02</b>                               | <i>Conforming Changes to PIC Q&amp;As - Cycle 2013</i>                                                                                                                                                                 | ✓       |             |                |
| <b>PIC Q&amp;A No. 2013-03 (Revised)</b>                     | <i>Accounting for Employee Benefits under a Defined Contribution Plan Subject to Requirement of Republic Act (RA) 7641: The Philippine Retirement Law</i>                                                              |         |             | ✓              |
| <b>PIC Q&amp;A No. 2015-01</b>                               | <i>Conforming Changes to PIC Q&amp;As - Cycle 2015</i>                                                                                                                                                                 | ✓       |             |                |
| <b>PIC Q&amp;A 2016-01</b>                                   | <i>Conforming changes to PIC Q&amp;As – Cycle 2016</i>                                                                                                                                                                 | ✓       |             |                |
| <b>PIC Q&amp;A No. 2016-02</b>                               | <i>Accounting Treatment of Club Shares Held by an Entity [Amended by PIC Q&amp;A No. 2018-13]</i>                                                                                                                      | ✓       |             |                |
| <b>PIC Q&amp;A No. 2016-03</b>                               | <i>Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations [Amended by PIC Q&amp;A No. 2018-13]</i>                                                                                   |         |             | ✓              |
| <b>PIC Q&amp;A 2016-04</b>                                   | <i>Application of PFRS 15 “Revenue from Contracts with Customers” on Sale of Residential Properties under Pre-completion Contract</i>                                                                                  |         |             | ✓              |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                                                                 | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>PIC Q&amp;A No. 2017-01</b>                               | <i>Conforming Changes to PIC Q&amp;As – Cycle 2017*</i>                                                                                                                         |         | ✓           |                |
| <b>PIC Q&amp;A No. 2017-02</b>                               | <i>Capitalization of operating lease cost as part of construction costs of a building</i>                                                                                       |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-03</b>                               | <i>Elimination of profits and losses resulting from transactions between associates and/or joint ventures</i>                                                                   | ✓       |             |                |
| <b>PIC Q&amp;A No. 2017-04</b>                               | <i>Related party relationships between parents, subsidiary, associate and non-controlling shareholder</i>                                                                       | ✓       |             |                |
| <b>PIC Q&amp;A No. 2017-05</b>                               | <i>Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures [Amended by PIC Q&amp;A No. 2018-13]</i> | ✓       |             |                |
| <b>PIC Q&amp;A No. 2017-06</b>                               | <i>Accounting for collector's items</i>                                                                                                                                         |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-07</b>                               | <i>Accounting for reciprocal holdings in associates and joint ventures</i>                                                                                                      |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-08</b>                               | <i>Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture</i>                   |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-09</b>                               | <i>Accounting for payments between and among lessors and lessees</i>                                                                                                            | ✓       |             |                |
| <b>PIC Q&amp;A No. 2017-10</b>                               | <i>Separation of property and classification as investment property</i>                                                                                                         |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-11</b>                               | <i>Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control</i>                                 |         |             | ✓              |
| <b>PIC Q&amp;A No. 2017-12</b>                               | <i>Subsequent Treatment of Equity Component Arising from Intercompany Loans</i>                                                                                                 |         |             | ✓              |
| <b>PIC Q&amp;A No. 2018-01</b>                               | <i>Voluntary changes in accounting policy*</i>                                                                                                                                  |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-02</b>                               | <i>Non-controlling interests and goodwill impairment test*</i>                                                                                                                  |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-03</b>                               | <i>Fair value of property, plant and equipment and depreciated replacement cost*</i>                                                                                            |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-04</b>                               | <i>Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture*</i>                                                                  |         | ✓           |                |
| <b>PIC Q&amp;A</b>                                           | <i>Liability arising from maintenance requirement of</i>                                                                                                                        |         | ✓           |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS |                                                                                                                                          | Adopted | Not Adopted | Not Applicable |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>No. 2018-05</b>                                           | <i>an asset held under a lease*</i>                                                                                                      |         |             |                |
| <b>PIC Q&amp;A No. 2018-06</b>                               | <i>Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements*</i> |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-07</b>                               | <i>Cost of an associate, joint venture, or subsidiary in separate financial statements [Amended by PIC Q&amp;A No. 2018-13*]</i>         |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-08</b>                               | <i>Accounting for the acquisition of a non-wholly owned subsidiary that is not a business*</i>                                           |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-09</b>                               | <i>Classification of deposits and progress payments as monetary or nonmonetary items*</i>                                                |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-10</b>                               | <i>Scope of disclosure of inventory write-downs*</i>                                                                                     |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-11</b>                               | <i>Classification of land by real estate developer*</i>                                                                                  |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-12</b>                               | <i>PFRS 15 implementation issues affecting the real estate industry</i>                                                                  |         |             | ✓              |
| <b>PIC Q&amp;A No. 2018-13</b>                               | <i>Conforming Changes to PIC Q&amp;As – Cycle 2018*</i>                                                                                  |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-14</b>                               | <i>Accounting for Cancellation of Real Estate Sales*</i>                                                                                 |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-15</b>                               | <i>Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*</i>                                  |         | ✓           |                |
| <b>PIC Q&amp;A No. 2018-16</b>                               | <i>Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy*</i>                   |         | ✓           |                |

\* These are the new and revised accounting standards and interpretations that are effective for annual period beginning on or after the reporting period ended December 31, 2018.

**Schedule 2**

| <b>FINANCIAL SOUNDNESS INDICATORS</b> | <b>December 31<br/>2018</b> | <b>December 31<br/>2017</b> |
|---------------------------------------|-----------------------------|-----------------------------|
| <b>FINANCIAL RATIOS</b>               |                             |                             |
| Interest Coverage Ratio               | <b>9.34</b>                 | 9.36                        |
| Debt to Equity (D/E Ratio)            | <b>2.03</b>                 | 1.98                        |
| Total Asset to Equity Ratio           | <b>4.09</b>                 | 4.17                        |
| Current Ratio                         | <b>0.86</b>                 | 0.72                        |
| Solvency Ratio                        | <b>0.23</b>                 | 0.22                        |
| <b>PROFITABILITY MARGINS</b>          |                             |                             |
| EBITDA Margins                        | <b>49%</b>                  | 42%                         |
| Net Profit Margin                     | <b>14%</b>                  | 12%                         |
| Return on Equity                      | <b>27%</b>                  | 23%                         |

**Schedule 3**
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION  
AS OF DECEMBER 31, 2018**

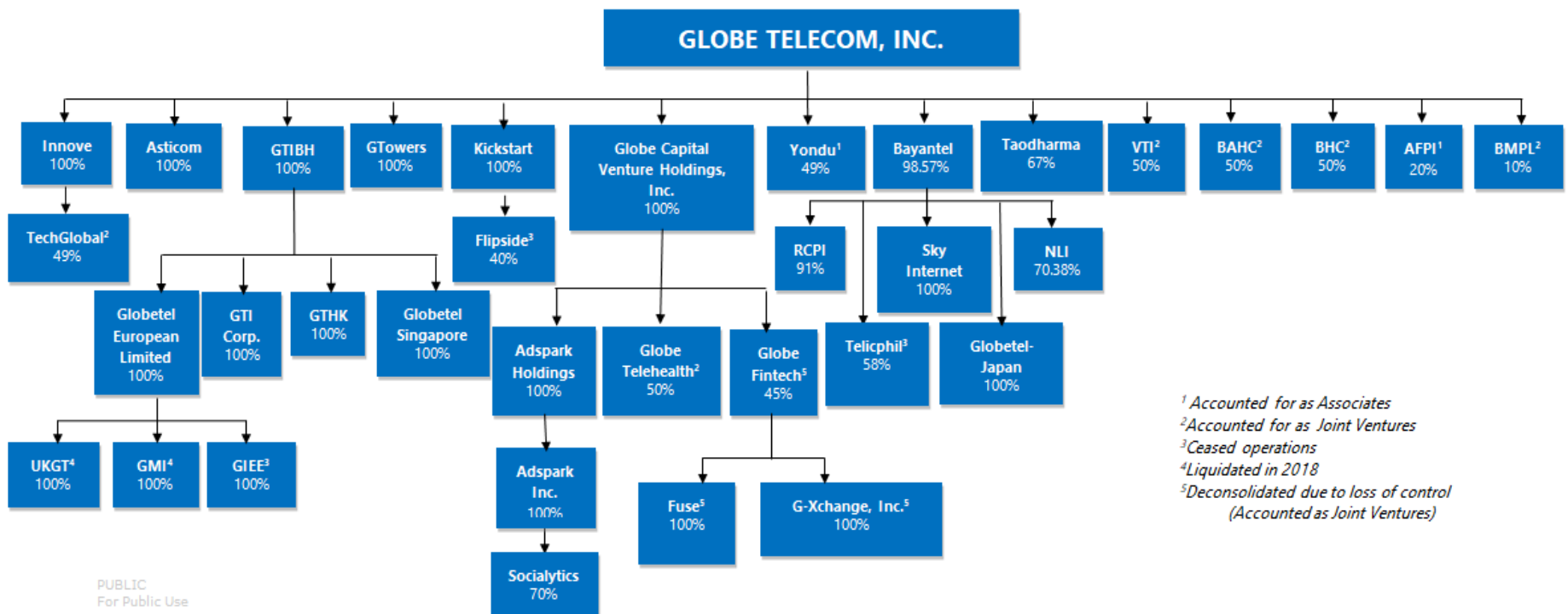
| Items                                                                       | Amount<br>(In thousands) |
|-----------------------------------------------------------------------------|--------------------------|
| <b>Unappropriated Retained Earnings, beginning</b>                          | <b>₱16,620,797</b>       |
| Adjustments                                                                 | (5,373,873)              |
| <b>Unappropriated Retained Earnings, as adjusted, beginning</b>             | <b>11,246,924</b>        |
| <b>Net income during the period closed to Retained Earnings</b>             | <b>15,303,534</b>        |
| <b>Less: Non-actual/unrealized income net of tax</b>                        |                          |
| Fair value gain on derivative financial instruments                         | (297,132)                |
| Unrealized foreign exchange gain from prior period realized during the year | 32,800                   |
| Recognized deferred tax asset                                               | (2,583,761)              |
| <b>Net income actually earned/realized during the period</b>                | <b>12,455,441</b>        |
| <b>Add (Less):</b>                                                          |                          |
| Dividend during the period                                                  | (12,666,391)             |
| Effects of transition adjustments                                           | (438,423)                |
| Forfeiture of stock options                                                 | 5,481                    |
| <b>Unappropriated Retained Earnings, as adjusted, ending</b>                | <b>₱10,603,032</b>       |



## Schedule 4

### MAP OF THE RELATIONSHIP OF THE COMPANIES WITHIN THE GROUP AS OF DECEMBER 31, 2018

## Globe Telecom, Inc. and Subsidiaries



<sup>1</sup> Accounted for as Associates

<sup>2</sup> Accounted for as Joint Ventures

<sup>3</sup> Ceased operations

<sup>4</sup> Liquidated in 2018

<sup>5</sup> Deconsolidated due to loss of control  
(Accounted as Joint Ventures)

**Schedule 5**
**SCHEDULE OF PREFERRED SHARES OFFERING PROCEEDS  
AS OF DECEMBER 31, 2018**

|                                                    |           |
|----------------------------------------------------|-----------|
| <b>Preferred Shares Offering Proceeds</b>          | <b>P-</b> |
| <b>Not Applicable</b>                              |           |
| <b>Balance of Proceeds as at December 31, 2018</b> | <b>P-</b> |



**SCHEDULE 6A – FINANCIAL ASSETS**  
**DECEMBER 31, 2018**

| Name of Issuing entity and association of each<br>issue | Number of shares<br>or principal<br>amount of bonds<br>and notes | Amount shown<br>in the balance<br>sheet | Income<br>received and<br>accrued |
|---------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------|-----------------------------------|
|---------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------|-----------------------------------|

**Not Applicable**

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**SCHEDULE 6B – Amounts Receivable from Directors, Officers, Employees, Related Parties and principal Stockholders (Other than Related parties)**

| Name and Designation of debtor  | Balance at the beginning of period<br>(January 1, 2018) | Additions           | Amounts collected   | Current             | Not-current | Balance at the end of period<br>(December 31, 2018) |
|---------------------------------|---------------------------------------------------------|---------------------|---------------------|---------------------|-------------|-----------------------------------------------------|
| Education Loan                  | ₱67,683,028                                             | ₱132,200,527        | ₱121,601,952        | ₱78,281,603         |             | ₱78,281,603                                         |
| Hospitalization Loan            | 42,044,290                                              | 15,836,915          | 43,147,091          | 14,734,113          |             | 14,734,113                                          |
| Housing and Renovation Loan     | 34,153,646                                              | 56,574,240          | 47,691,724          | 43,036,162          |             | 43,036,162                                          |
| Medical and Health Related Loan | 11,023,221                                              | 18,563,735          | 2,060,579           | 27,526,378          |             | 27,526,378                                          |
| Others                          | 402,853                                                 | 23,611,208          | 21,899,094          | 2,114,967           |             | 2,114,967                                           |
| <b>Total</b>                    | <b>₱155,307,038</b>                                     | <b>₱246,786,625</b> | <b>₱236,400,440</b> | <b>₱165,693,223</b> |             | <b>₱165,693,223</b>                                 |



**Schedule 6C - Trade & Other Receivables Eliminated During Consolidation**

| Creditor         | Creditor's Relationship | Account Type          | Beginning Balance | Net Movement  | Outstanding Balance |
|------------------|-------------------------|-----------------------|-------------------|---------------|---------------------|
|                  |                         |                       | (January 1, 2018) |               | (December 31, 2018) |
| Globe            | Parent                  | Traffic receivable    | 274,731,510       | 55,543,864    | 330,275,374         |
|                  | Parent                  | Trade Receivables     | 1,922,341         | 1,288,821     | 3,211,162           |
|                  | Parent                  | Other Receivables     | 6,880,794,492     | 621,092,257   | 7,501,886,749       |
|                  | Parent                  | Dividends Receivables | -                 | 1,516,335,234 | 1,516,335,234       |
| Innove           | Subsidiary              | Traffic receivable    | 122,998,274       | 5,846,187     | 128,844,461         |
|                  | Subsidiary              | Trade Receivables     | 47,113,574        | 46,707,232    | 93,820,806          |
|                  | Subsidiary              | Other Receivables     | (154,158,707)     | 729,679,272   | 575,520,565         |
|                  | Co-Subsidiary           | Trade Receivables     | 37,698,717        | 19,332,435    | 57,031,152          |
|                  | Co-Subsidiary           | Other Receivables     | 44,920,505        | 69,866,528    | 114,787,033         |
|                  | Co-Subsidiary           | Traffic receivable    | 7,740,297         | 3,171,624     | 10,911,921          |
| Asticom          | Subsidiary              | Trade Receivables     | 209,521,834       | 92,330,652    | 301,852,486         |
|                  | Co-Subsidiary           | Trade Receivables     | 19,740,084        | (5,266,463)   | 14,473,621          |
| BTI              | Subsidiary              | Other Receivables     | 265,148,056       | 1,416,609,137 | 1,681,757,193       |
|                  | Subsidiary              | Traffic receivable    | 114,614,359       | 20,028,052    | 134,642,411         |
|                  | Subsidiary              | Trade Receivables     | 40,499,530        | (7,600,830)   | 32,898,700          |
|                  | Co-Subsidiary           | Trade Receivables     | 48,472,211        | (8,292,813)   | 40,179,398          |
|                  | Co-Subsidiary           | Traffic receivable    | 20,614,019        | (5,644,139)   | 14,969,880          |
|                  | Co-Subsidiary           | Other Receivables     | 5,629,277,798     | 175,534,801   | 5,804,812,599       |
| <i>(forward)</i> |                         |                       |                   |               |                     |



| Creditor     | Creditor's Relationship to the Reporting Co. (Subsidiary or Parent) | Account Type      | Beginning Balance     | Net Movement         | Outstanding Balance   |
|--------------|---------------------------------------------------------------------|-------------------|-----------------------|----------------------|-----------------------|
|              |                                                                     |                   | (January 1, 2018)     |                      | (December 31, 2018)   |
| GCVH         | Subsidiary                                                          | Trade Receivables | 379,358,318           | (88,029,675)         | 291,328,643           |
|              | Subsidiary                                                          | Other Receivables | 124,100,764           | (4,336,397)          | 119,764,367           |
|              | Co-Subsidiary                                                       | Other Receivables | 24,598,558            | (16,114,278)         | 8,484,280             |
|              | Co-Subsidiary                                                       | Trade Receivables | 27,650,437            | 23,725,401           | 51,375,838            |
| GTI          | Subsidiary                                                          | Other Receivables | 79,487,814            | 27,710,975           | 107,198,789           |
|              | Co-Subsidiary                                                       | Other Receivables | 432,703,538           | 105,714,399          | 538,417,937           |
| TAOD         | Subsidiary                                                          | Other Receivables | 741,624               | 124,882              | 866,506               |
| <b>TOTAL</b> |                                                                     |                   | <b>14,680,289,947</b> | <b>4,795,357,158</b> | <b>19,475,647,105</b> |



**SCHEDULE 6D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2018**

| Description                                 | Beginning balance<br>(Jan. 01, 2018) | Additions at<br>cost | Charged to cost<br>and expenses | Charged to other<br>accounts | Other charges<br>additions/<br>(deductions) | Ending balance<br>(Dec. 31, 2018) |
|---------------------------------------------|--------------------------------------|----------------------|---------------------------------|------------------------------|---------------------------------------------|-----------------------------------|
| <i>(In Thousand Pesos)</i>                  |                                      |                      |                                 |                              |                                             |                                   |
| Application Software and Licenses           | ₱12,106,329                          | ₱490,569             | (₱5,213,058)                    | ₱3,987,432                   | (₱4,390)                                    | ₱11,366,882                       |
| Goodwill                                    | 1,283,042                            | -                    | (142,794)                       | -                            | -                                           | 1,140,248                         |
| Other Intangible Assets                     | 1,494,335                            | -                    | (303,196)                       | -                            | -                                           | 1,191,139                         |
| <b>Total Intangible Assets and Goodwill</b> | <b>₱14,883,706</b>                   | <b>₱490,569</b>      | <b>(₱5,659,048)</b>             | <b>₱3,987,432</b>            | <b>(₱4,390)</b>                             | <b>₱13,698,269</b>                |



**SCHEDULE 6E – LONG TERM DEBT**  
**DECEMBER 31, 2018**

| Title of issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of Long-Term Debt" in related statement of financial position | Amount shown under caption "Long-Term Debt" in related statement of financial position |                |                |
|---------------------------------------|--------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------|----------------|
|                                       |                                |                                                                                                           | Amount                                                                                 | Interest rates | Maturity dates |
| Term Loans:                           |                                |                                                                                                           |                                                                                        |                |                |
| Dollar                                | \$474,600,172                  | ₱621,240,566                                                                                              | ₱22,935,613,135                                                                        | 2.08% to 5.00% | 2019-2027      |
| Peso                                  | ₱115,000,000,000               | 10,645,538,345                                                                                            | 101,642,214,941                                                                        | 2.96% to 7.11% | 2019-2031      |
| Retail Bonds                          | ₱12,500,000,000                | 5,491,416,649                                                                                             | 6,945,873,374                                                                          | 4.89% to 6.00% | 2019-2023      |
|                                       |                                | ₱16,758,195,560                                                                                           | ₱131,523,701,450                                                                       |                |                |



**SCHEDULE 6F – INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2018**

| Name of Related Party | Balances at beginning of period | Balance at end of period |
|-----------------------|---------------------------------|--------------------------|
| Not Applicable        |                                 |                          |



**SCHEDULE 6G – GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2018**

| Name of issuing<br>entity of<br>securities<br>guaranteed by<br>the company for<br>which this<br>statement is filed | Title of issue<br>of each class of<br>securities<br>guaranteed | Total amount<br>guaranteed<br>and<br>outstanding | Amount<br>owned by<br>person for<br>which this<br>statement is<br>filed | Nature of<br>guarantee |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------|------------------------|
| Not Applicable                                                                                                     |                                                                |                                                  |                                                                         |                        |

**SCHEDULE 6H - CAPITAL STOCK**  
**DECEMBER 31, 2018**

| <b>Title of issue</b>         | <b>Number of<br/>shares<br/>authorized</b> | <b>Number of<br/>shares issued<br/>and outstanding<br/>as shown under<br/>related balance<br/>sheet caption</b> | <b>Number of<br/>shares reserved<br/>for options,<br/>warrants,<br/>conversion and<br/>other rights</b> | <b>Number of<br/>shares held by<br/>related parties</b> | <b>Directors, officers<br/>and employees</b> | <b>Others</b> |
|-------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------|---------------|
| Common                        | 148,934,373                                | 133,053,248                                                                                                     | 8,936,062                                                                                               | 103,816,373                                             | 429,409                                      | 28,807,466    |
| Voting preferred stock        | 160,000,000                                | 158,515,021                                                                                                     | -                                                                                                       | 158,515,016                                             | 5                                            | -             |
| Non-voting preferred<br>stock | 40,000,000                                 | 20,000,000                                                                                                      | -                                                                                                       | 27,800                                                  | 27,500                                       | 19,944,700    |