

# COVER SHEET

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G L O B E T E L E C O M , I N C .

(Company's Full Name)

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B O N I F A C I O G L O B A L C I T Y T A G U I G

(Business Address: No. Street City / Town / Province)

ALBERTO M. DE LARRAZABAL

Contact Person

797-4889

Company Telephone Number

1 2 3 1  
Month Day  
Fiscal Year

1 7 C  
FORM TYPE

0 4 1 6  
Month Day  
Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. Of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-C

### CURRENT REPORT UNDER SECTION 17 OF THE SECURITIES REGULATIONS CODE (SRC) AND SRC RULE 17(a)-1(b)(3) THEREUNDER

1. **11 March 2014**  
Date of Report (Date of earliest event reported)
2. **1177** 3. **000-768-480-000**  
SEC Identification Number BIR Tax Identification Number
4. **GLOBE TELECOM, INC.**  
Exact Name of registrant as specified in its charter
5. **PHILIPPINES** 6.  (SEC Use Only)  
Province, country or other jurisdiction of Industry Classification Code  
incorporation
7. **27/F, The Globe Tower, 32nd Street corner 7th Avenue,** **1634**  
**Bonifacio Global City, Taguig**  
Address of principal office Postal code
8. **(02) 797-2000**  
Registrant's telephone number, including area code
9. **5/F, Globe Telecom Plaza (Pioneer Highlands), Pioneer corner Madison Sts.,**  
**Mandaluyong City**  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (as of December 31, 2013)
<b>COMMON SHARES</b>	132,595,709
<b>TOTAL DEBT (in Millions of Pesos)</b>	69,301

Indicate the item numbers reported herein : **Please refer to attached**

**Re: Globe Telecom, Inc. and Subsidiaries FY 2013 Consolidated Financial  
Statements**

Pursuant to the requirements of the Securities Regulations Code, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date : **11 March 2014**

**GLOBE TELECOM, INC.**  
\_\_\_\_\_  
Registrant  
**ALBERTO M. DE LARRAZABAL**  
Chief Financial Officer



 **Globe Telecom, Inc.**  
The Globe Tower  
32nd Street corner 7th Avenue  
Bonifacio Global City  
Taguig, Philippines  
  
 +632.7972000  
 [www.globe.com.ph](http://www.globe.com.ph)

March 11, 2014

**Securities and Exchange Commission**  
SEC Building, Mandaluyong City

Attention: Mr. Vicente Graciano P. Felizmenio, Jr.  
*Director, Markets & Securities Regulation Department*

**Philippine Stock Exchange, Inc.**  
3/F Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue, Makati City

Attention: Ms. Janet A. Encarnacion  
*Head, Disclosure Department*

**Philippine Dealing and Exchange Corporation**  
37/F Tower 1, The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas, Makati City


Attention: Ms. Ma. Concepcion M. Magdaraog  
*Head, Issuer Compliance and Disclosure Department*

Gentlemen:

Attached is the audited consolidated financial statements of Globe Telecom, Inc. and its Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial years ended December 31, 2013, 2012, and 2011, and a summary of significant accounting policies and other explanatory information.

Thank you.

Very truly yours,

  
**ALBERTO M. DE LARRAZABAL**  
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Globe Telecom, Inc.  
The Globe Tower  
32nd Street corner 7th Avenue  
Bonifacio Global City, Taguig

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

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

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

### *Auditors' Responsibility*

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

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



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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Globe Telecom, Inc. and Subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Gemilo J. San Pedro

Partner

CPA Certificate No. 32614

SEC Accreditation No. 0094-AR-3 (Group A),

February 4, 2013, valid until February 3, 2016

Tax Identification No. 102-096-610

BIR Accreditation No. 08-001998-34-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225213, January 2, 2014, Makati City

February 10, 2014



**GLOBE TELECOM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		December 31	January 1
		2012	2012
	Notes	(As restated, see Note 2.4)	(As restated, see Note 2.4)
		2013	

See accompanying Notes to Consolidated Financial Statements.



**GLOBE TELECOM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31				
	Notes	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
<i>(In Thousand Pesos, Except Per Share Figures)</i>				
<b>REVENUES</b>				
Service revenues	16, 29	<b>₱90,500,137</b>	₱82,742,565	₱77,764,964
Nonservice revenues		<b>4,640,848</b>	3,703,584	3,753,283
		<b>95,140,985</b>	86,446,149	81,518,247
<b>INCOME</b>				
Interest income	19, 25.5, 29	<b>688,249</b>	579,851	297,388
Gain on disposal of property and equipment - net	7	<b>64,333</b>	42,447	319,250
Other income - net	20, 25.1, 29	<b>475,246</b>	716,371	574,768
		<b>1,227,828</b>	1,338,669	1,191,406
<b>COSTS AND EXPENSES</b>				
General, selling and administrative	21	<b>37,318,839</b>	33,602,411	29,413,606
Depreciation and amortization	7, 8, 9, 29			
Incremental effect of network modernization		<b>9,065,966</b>	5,080,471	—
Others		<b>18,411,528</b>	18,502,946	18,941,227
Cost of sales	5	<b>9,953,106</b>	7,678,359	5,887,589
Interconnect costs		<b>9,280,229</b>	8,859,309	9,953,663
	14, 22, 25,			
Financing costs	29	<b>2,911,785</b>	2,362,609	2,509,505
Impairment losses and others	23	<b>2,482,628</b>	1,863,584	1,918,583
Equity in net losses of joint ventures	10, 29	<b>79,959</b>	83,582	27,345
		<b>89,504,040</b>	78,033,271	68,651,518
<b>INCOME BEFORE INCOME TAX</b>		<b>6,864,773</b>	9,751,547	14,058,135
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	24			
Current		<b>4,995,416</b>	4,355,699	5,049,479
Deferred		<b>(3,090,888)</b>	(1,449,406)	(795,895)
		<b>1,904,528</b>	2,906,293	4,253,584
<b>NET INCOME</b>		<b>4,960,245</b>	6,845,254	9,804,551
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	17			
<b>Item that will not be reclassified into profit or loss:</b>				
Remeasurement losses on defined benefit plan		<b>(492,009)</b>	(289,283)	(399,219)
Income tax effect		<b>147,603</b>	86,785	119,766
		<b>(344,406)</b>	(202,498)	(279,453)
<b>Items that will be reclassified into profit or loss:</b>				
Transactions on cash flow hedges - net		<b>223,182</b>	45,529	(53,194)
Changes in fair value of available-for-sale investment in equity securities		<b>(22,500)</b>	43,974	1,269
Exchange differences arising from translations of foreign investments		<b>(2,357)</b>	4,470	(625)
Income tax effect		<b>(66,955)</b>	(13,659)	15,958
		<b>131,370</b>	80,314	(36,592)
		<b>(213,036)</b>	(122,184)	(316,045)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱4,747,209</b>	₱6,723,070	₱9,488,506
<b>Earnings Per Share</b>	27			
Basic		<b>₱37.25</b>	₱51.45	₱73.81
Diluted		<b>₱37.22</b>	₱51.38	₱73.57
Cash dividends declared per common share	17	<b>₱67.00</b>	₱65.00	₱62.00

See accompanying Notes to Consolidated Financial Statements.



# GLOBE TELECOM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended December 31, 2013						
Notes	Capital Stock (Note 17)	Additional Paid-in Capital	Cost of Share-Based Payments (Note 16.5)	Other Reserves (Note 17)	Retained Earnings	Total
<i>(In Thousand Pesos)</i>						
As of January 31, 2013, as previously presented	₱7,412,866	₱26,683,110	₱472,911	(₱44,588)	₱12,230,385	₱46,754,684
Effect of adoption of amendments to PAS 19	2.4	—	—	(481,951)	(574,742)	(1,056,693)
As of January 1, 2013, as restated	7,412,866	26,683,110	472,911	(526,539)	11,655,643	45,697,991
Total comprehensive income for the year	—	—	—	(213,036)	4,960,245	4,747,209
Dividends on:	17.3					
Common stock	—	—	—	—	(8,876,764)	(8,876,764)
Preferred stock	—	—	—	—	(23,838)	(23,838)
Cost of share-based payments	18.1	—	50,000	—	—	50,000
Exercise of stock options	17.2	9,494	296,926	(261,767)	—	44,653
As of December 31, 2013	₱7,422,360	₱26,980,036	₱261,144	(₱739,575)	₱7,715,286	₱41,639,251

For the Year Ended December 31, 2012						
Notes	Capital Stock	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 17)	Retained Earnings	Total
<i>(In Thousand Pesos)</i>						
As of January 1, 2012, as previously presented	₱7,410,226	₱26,557,250	₱573,436	(₱124,902)	₱14,012,146	₱48,428,156
Effect of adoption of amendments to PAS 19	2.4	—	—	(279,453)	(562,984)	(842,437)
As of January 1, 2012, as restated	7,410,226	26,557,250	573,436	(404,355)	13,449,162	47,585,719
Total comprehensive income for the year, as previously presented	—	—	—	80,314	6,857,012	6,937,326
Effect of adoption of amendments to PAS 19	2.4	—	—	(202,498)	(11,758)	(214,256)
Total comprehensive income for the year, as restated	—	—	—	(122,184)	6,845,254	6,723,070
Dividends on:	17.3					
Common stock	—	—	—	—	(8,605,628)	(8,605,628)
Preferred stock	—	—	—	—	(33,145)	(33,145)
Cost of share-based payments	18.1	—	11,502	—	—	11,502
Exercise of stock options	17.2	2,640	125,860	(112,027)	—	16,473
As of December 31, 2012, as restated	₱7,412,866	₱26,683,110	₱472,911	(₱526,539)	₱11,655,643	₱45,697,991

(Forward)





For the Year Ended December 31, 2011						
Notes	Capital Stock	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 17)	Retained Earnings	Total
<i>(In Thousand Pesos)</i>						
As of January 1, 2011, as previously presented	₱7,409,223	₱26,536,781	₱544,794	(₱88,310)	₱12,466,640	₱46,869,128
Effect of adoption of amendments to PAS 19	2.4	—	—	—	(535,730)	(535,730)
As of January 1, 2011, as restated	7,409,223	26,536,781	544,794	(88,310)	11,930,910	46,333,398
Total comprehensive income for the year, as previously presented	—	—	—	(36,592)	9,831,805	9,795,213
Effect of adoption of amendments to PAS 19	2.4	—	—	(279,453)	(27,254)	(306,707)
Total comprehensive income for the year, as restated	—	—	—	(316,045)	9,804,551	9,488,506
Dividends on:	17.3					
Common stock	—	—	—	—	(8,205,605)	(8,205,605)
Preferred stock	—	—	—	—	(80,694)	(80,694)
Cost of share-based payments	18.1	—	49,338	—	—	49,338
Collection of subscription receivables		776	—	—	—	776
Exercise of stock options	17.2	227	20,469	(20,696)	—	—
As of December 31, 2011, as restated	₱7,410,226	₱26,557,250	₱573,436	(₱404,355)	₱13,449,162	₱47,585,719

See accompanying Notes to Consolidated Financial Statements.



**GLOBE TELECOM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31				
		2012	2011	
	Notes	(As restated, see Note 2.4)	(As restated, see Note 2.4)	
2013				
(In Thousand Pesos)				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>₱6,864,773</b>	<b>₱9,751,547</b>	<b>₱14,058,135</b>
Adjustments for:				
Depreciation and amortization	7, 8, 9	<b>27,477,494</b>	23,583,417	18,941,227
Interest expense	22	<b>2,091,915</b>	2,104,792	1,989,451
Interest income	19	<b>(688,249)</b>	(579,851)	(297,388)
Foreign exchange losses (gains) - net	20, 22	<b>486,308</b>	(318,334)	308,650
Provisions for (reversals of) claims and assessments	13, 23	<b>88,333</b>	56,327	(47,916)
Equity in net losses of a joint venture	10	<b>79,959</b>	83,582	27,345
Gain on disposal of property and equipment	7	<b>(64,333)</b>	(42,447)	(319,250)
Loss (gain) on derivative instruments	20, 22	<b>59,282</b>	9,593	(25,495)
Cost of share-based payments	16, 18	<b>50,000</b>	11,502	49,338
Impairment losses on property and equipment and intangible assets	23	<b>26,312</b>	259,262	128,614
Dividend income		—	—	(503)
Operating income before working capital changes		<b>36,471,794</b>	34,919,390	34,812,208
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		<b>(3,607,858)</b>	(2,235,848)	(1,678,456)
Inventories and supplies		<b>(1,468,350)</b>	(164,986)	(67,358)
Prepayments and other current assets		<b>3,547,877</b>	(6,996,121)	(774,230)
Increase (decrease) in:				
Accounts payable and accrued expenses		<b>2,459,141</b>	2,578,709	2,212,522
Unearned revenues		<b>256,741</b>	28,761	71,393
Other long-term liabilities		<b>677,032</b>	(106,783)	(180,080)
Cash generated from operations		<b>38,336,377</b>	28,023,122	34,395,999
Income tax paid		<b>(5,103,438)</b>	(3,802,665)	(4,508,758)
Net cash provided by operating activities		<b>33,232,939</b>	24,220,457	29,887,241
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Property and equipment	7, 30	<b>(28,999,480)</b>	(20,124,476)	(18,007,055)
Intangible assets	9	<b>(101,956)</b>	(152,056)	(145,208)
Investment in joint ventures	10	<b>(59,010)</b>	(20,990)	(79,010)
Proceeds from sale of property and equipment		<b>105,760</b>	70,070	180,939
Decrease (increase) in other noncurrent assets		<b>1,418,642</b>	(4,854,588)	(360,944)
Interest received		<b>268,070</b>	465,711	259,992
Dividend received		—	—	503
Net cash used in investing activities		<b>(27,367,974)</b>	(24,616,329)	(18,150,783)

(Forward)



Years Ended December 31				
	Notes	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>				
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings:	14			
Long-term		<b>₱16,695,035</b>	₱25,847,770	₱8,000,000
Short-term		<b>3,428,880</b>	5,052,430	1,738,600
Repayments of borrowings:	14			
Long-term		<b>(13,613,525)</b>	(12,810,082)	(11,552,501)
Short-term		<b>(432,070)</b>	(4,694,020)	–
Payments of dividends to stockholders:	17			
Common		<b>(8,876,764)</b>	(8,605,628)	(8,205,605)
Preferred		<b>(56,983)</b>	(35,295)	(45,399)
Interest paid		<b>(2,665,459)</b>	(2,573,745)	(2,456,763)
Collection of subscriptions receivable and exercise of stock options		<b>44,653</b>	16,473	776
Net cash provided by (used in) financing activities		<b>(5,476,233)</b>	2,197,903	(12,520,892)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>388,732</b>	1,802,031	(784,434)
<b>NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS</b>		<b>272,248</b>	(201,322)	74,494
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>6,759,755</b>	5,159,046	5,868,986
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	28, 30	<b>₱7,420,735</b>	₱6,759,755	₱5,159,046

*See accompanying Notes to Consolidated Financial Statements.*



## **GLOBE TELECOM, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

Globe Telecom, Inc. (hereafter referred to as “Globe Telecom”) is a stock corporation organized under the laws of the Philippines, 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 Handyphone (GHP), Touch Mobile (TM) and Tattoo brands using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom’s principal executive 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. (STI) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

Globe Telecom owns 100% of Innove Communications, Inc. (Innove). Innove is 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 offers a broad range of broadband internet and wireline voice and data communication services, as well as domestic and international long distance communication services or carrier services. 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.

Globe Telecom owns 100% of G-Xchange, Inc. (GXI). GXI 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 and delivery 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. GXI is registered with the Bangko Sentral ng Pilipinas (BSP) as a remittance agent and electronic money issuer. GXI handles the mobile payment and remittance service using Globe Telecom’s network as transport channel under the GCash brand. The service, which is integrated into the cellular services of Globe Telecom and Innove, enables easy and convenient person-to-person fund transfers via short messaging services (SMS) and allows Globe Telecom and Innove subscribers to easily and conveniently put cash into and get cash out of the GCash system.

Globe Telecom owns 100% of Entertainment Gateway Group Corporation (EGGC) and EGGstreme (Hong Kong) Limited (EHL) (collectively referred here as “EGG Group”). EGG Group is engaged in the development and creation of wireless products and services accessible through telephones 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. EGGC is registered with the Department of Transportation and Communication (DOTC) as a content provider. EHL was liquidated on February 1, 2013. Accordingly, EHL was dissolved and the cost of investment amounting to ₱11.48 million was derecognized.



Globe Telecom owns 100% of GTI Business Holdings, Inc. (GTI). The primary purpose of this company is to invest, purchase, subscribe for or otherwise acquire and own, hold, sell or otherwise dispose of real and personal property of every kind and description, provided that GTI shall not engage in the business of an open-ended investment company as defined in the Investment Company Act (Republic Act 2629). GTI was incorporated on November 25, 2008. In July 2009, GTI incorporated its wholly owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the State of Delaware for the purpose of engaging in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. GTIC has started commercial operations on April 1, 2011. In December 2011, GTI incorporated another wholly owned subsidiary, Globe Telecom HK Limited (GTHK), a limited company organized under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). GTHK has started commercial operations on August 1, 2012. On May 10, 2013, GTI incorporated wholly owned subsidiary, Globetel European Limited (GTEU) and the latter's wholly owned subsidiary, UK Globetel Limited (UKGT). It was incorporated to act as holding company for the operating companies of Globe Telecom, which proposed to establish operations in Europe, marketing and selling mobile telecommunications services, as a mobile network operator, or through any other appropriate vehicle, to Filipino individuals and businesses located within, and to Filipino visitors, initially, in the United Kingdom, Spain and Italy. These entities are private limited companies under the Companies Act of 2006, wherein the registered address is in England and Wales, and incorporated to market and sell mobile telecommunications, as a mobile virtual network operator, to Filipino individuals and businesses located within the United Kingdom and to Filipino visitors in the United Kingdom. Its commercial operations commenced on July 22, 2013.

On July 22, 2013 and October 4, 2013 respectively, GTEU incorporated additional two European wholly owned subsidiaries which are Globe Mobile Italy S.r.l. (GMI), a limited liability company, wherein the registered address is in Milan, Italy and Globetel Internacional European España, S.L.

On March 28, 2012, Globe Telecom incorporated Kickstart Ventures, Inc. (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. Kickstart has started commercial operations on March 29, 2012.

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## **2. Summary of Significant Accounting and Financial Reporting Policies**

### **2.1 Basis of Financial Statement Preparation**

The accompanying consolidated financial statements of Globe Telecom, Inc. and Subsidiaries, collectively referred to as the "Globe Group", have been prepared under the historical cost convention method, except for derivative financial instruments and available-for-sale (AFS) investments that are measured at fair value.

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), Globe Telecom's functional currency, and rounded to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Globe Group presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial



statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of amendments to PAS 19, *Employee Benefits* (see Note 2.4).

On February 10, 2014, the Board of Directors (BOD) approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013.

## 2.2 Statement of Compliance

The consolidated financial statements of the Globe Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

## 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	Percentage of Ownership	
			2013	2012
Innove	Philippines	Wireless and wireline voice and data communication services	100%	100%
GXI	Philippines	Software development for telecommunications applications and money remittance services	100%	100%
Egg Group				
EGGC	Philippines	Mobile content and application development services	100%	100%
EHL	Hong Kong	Mobile content and application development services	—	100%
GTI	Philippines	Investment and holding company	100%	100%
GTIC	United States	Wireless and data communication services	100%	100%
GTHK	Hong Kong	Exclusive distributorship of Globe Telecom products in the international market (except the United States)	100%	100%
Globetel European Limited*	London	Investment and holding company	100%	—
UK Globetel Limited*	London	Wireless and data communication services	100%	—
Globe Mobile Italy S.R.L. *	Italy	Wireless and data communication services	100%	—
Globetel Internacional European Espana, S.L. *	Spain	Wireless and data communication services	100%	—
Kickstart	Philippines	Investment, research, technology development and commercializing for business ventures	100%	100%

*\*Globetel European Limited started commercial operations on the same date of incorporation. UK Globetel Limited and Globe Mobile Italy S.R.L. started commercial operations on July 22 and November 24, 2013, respectively. Globetel Internacional European Espana, S.L. has not yet commenced its operations.*



Subsidiaries are consolidated from the date on which control is transferred to the Globe Group and cease to be consolidated from the date on which control is transferred out of the Globe Group.

Control is achieved when the Globe Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Globe Group controls an investee if and only if the Globe Group has: (a) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee); (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the Globe Group has less than a majority of the voting or similar rights of an investee, the Globe Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the Globe Group'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.

The financial statements of the subsidiaries are prepared for the same reporting year as Globe Telecom using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated in full during consolidation in accordance with the accounting policy on consolidation.

#### 2.4 Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Globe Group's consolidated financial statements as of and for the year ended December 31, 2012, except for the adoption of new and amended standards as of January 1, 2013.

The Globe Group applied for the first time the amendments to PAS 19, *Employee Benefits*, that require restatement of previous consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not significantly impact the consolidated financial statements of the Globe Group.

The nature and the impact of each new standard/amendment are described below:

- *PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These Amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, certain minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period.



The Globe Group has offsetting arrangements with their derivative counterparties that are affected by the amendments to PFRS 7. However, the amendments affected presentation only and had no impact on the Globe Group's financial position and performance. Additional disclosures required under the amendment to PFRS 7 are disclosed in Note 28.11.

- **PFRS 10, *Consolidated Financial Statements***

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*.

PFRS 10 establishes a single control model that applies to all entities including special purpose entities. PFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in PFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The Globe Group has concluded that after the adoption of PFRS 10: (a) all existing subsidiaries shall remain to be fully consolidated with the Globe Group's consolidated financial statements as management control over these entities remain the same; and (b) no new unconsolidated entity that will have to be consolidated.

- **PFRS 11, *Joint Arrangements***

This Standard replaces PAS 31, and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It also removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The adoption of the standard did not have an impact to Globe Group as they are already accounting for their joint ventures under the equity method.

- **PFRS 12, *Disclosure of Interests in Other Entities***

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). Except for additional disclosures included in the consolidated financial statements, the adoption of the standard has no impact on the Globe Group's financial position or performance. Additional disclosures required under the PFRS 12 are disclosed in Note 10.

- **PFRS 13, *Fair Value Measurement***

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Globe Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Globe Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Globe Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 28.12.3.





- *Amendments to PAS 1, Financial Statement Presentation, Presentation of Items of Other Comprehensive Income*  
The Amendment changed the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. Other than the change in presentation, the amendment did not have significant impact on the consolidated financial statements.
- *PAS 19, Employee Benefits (Revised PAS 19)*  
For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Globe Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Globe Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any significant impact to the Globe Group’s financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of the adoption on the consolidated financial statements are as follows:

	As at December 31, 2012	As at January 1, 2012
	<i>(In Thousand Pesos)</i>	
Decrease in:		
<u>Consolidated statements of financial position</u>		
Net defined benefit asset	(₱1,509,561)	(₱1,203,654)
Deferred tax liability	(452,868)	(361,217)
Other comprehensive income	(481,951)	(279,453)
Retained earnings	(574,742)	(562,984)



	For the Years Ended December 31	
	2012	2011
	(In Thousand Pesos)	
Increase (decrease) in:		
<u>Consolidated statements of comprehensive income</u>		
General, selling and administrative	(₱1,916)	₱109,143
Financing costs	18,713	(70,209)
Income before income tax	(16,797)	(38,934)
Provision for income tax - deferred	5,039	11,680
Net income	(11,758)	(27,254)
Remeasurement losses on defined benefit plan	(289,283)	(399,219)
Income tax effect	86,785	119,766
Other comprehensive income, net of tax	(202,498)	(279,453)
Total comprehensive income	(₱214,256)	(₱306,707)
Basic earnings per share	(₱0.09)	(₱0.21)
Diluted earnings per share	(₱0.09)	(₱0.20)

The adoption did not have significant impact on the consolidated statement of cash flows.

#### *Change of Presentation*

Upon adoption of the Revised PAS 19, the presentation of the statement of comprehensive income was updated to reflect these changes. Net interest is now shown under the finance cost (previously included in staff costs under “General, selling and administrative expenses” account). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability (net defined benefit asset). In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- *PAS 27, Separate Financial Statements (Revised)*  
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the entities in the Globe Group.
- *PAS 28, Investments in Associates and Joint Ventures (Revised)*  
As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the standard did not have an impact to the Globe Group as they are already accounting for their joint ventures under the equity method.

#### *Annual Improvements to PFRS (2009 to 2011 cycle)*

The Annual Improvements to PFRS (2009 to 2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are to be applied retrospectively. Earlier application is permitted. Except as otherwise stated, the adoption of these improvements have no significant impact on the consolidated financial statements.

- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*  
The Amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements.



An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Globe Group has not included comparative information in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments affect presentation only and have no impact on the Globe Group's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*  
The Amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Globe Group's financial position or performance.
- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*  
The Amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Globe Group's financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on Globe Group's financial position or performance.

## 2.5 Future Changes in Accounting Policies

The Globe Group will adopt the following new and amended standards enumerated below when these become effective. Except as otherwise indicated, the Globe Group does not expect the adoption of these new and amended PAS and PFRS to have significant impact on the consolidated financial statements.

### *Effective January 1, 2014*

- *Amendments to PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*  
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on Globe Group's financial position or performance.



- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*  
They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to Globe Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- *Philippine Interpretation IFRIC 21, Levies*  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Globe Group does not expect that IFRIC 21 will have material financial impact in the consolidated financial statements.
- *Amendments to PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Globe Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.
- *Amendments to PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Globe Group’s financial position or performance.

*Effective January 1, 2015*

- *Amendments to PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*  
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

*Annual Improvements to PFRS (2010-2012 cycle)*

The Annual Improvements to PFRS (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*  
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment has no significant impact on the financial position or performance of the Globe Group.



- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). Globe Group shall consider this amendment for future business combinations.

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Globe Group's financial position or performance.

- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Globe Group's financial position or performance.

- *PAS 24, Related Party Disclosures - Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The



amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Globe Group's financial position or performance.

- *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Globe Group's financial position or performance.

*Annual Improvements to PFRS (2011-2013 cycle)*

The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- *PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Globe Group's financial position or performance.

- *PAS 40, Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment states that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Globe Group's financial position or performance.



*Effectivity not yet determined*

- *PFRS 9, Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Globe Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

## 2.6 Significant Accounting Policies

### *2.6.1 Revenue Recognition*

The Globe Group provides mobile and wireline voice, data communication and broadband internet services which are both provided under postpaid and prepaid arrangements.



The Globe Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent (see Note 3.1.5).

Revenue is recognized when the delivery of the products or services has occurred and collectability is reasonably assured.

Revenue is stated at amounts invoiced and accrued to customers, taking into consideration the bill cycle cut-off (for postpaid subscribers), the amount charged against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax (VAT) and overseas communication tax. Inbound traffic charges, net of discounts, are accrued based on actual volume of traffic monitored by Globe Group's network and in the traffic settlement system.

#### 2.6.1.1 *Service Revenues*

##### 2.6.1.1.1 *Subscribers*

Revenues from subscribers principally consist of: (1) fixed monthly service fees for postpaid wireless, wireline voice, broadband internet, data subscribers and wireless prepaid subscription fees for promotional offers; (2) usage of airtime and toll fees for local, domestic and international long distance calls in excess of consumable fixed monthly service fees, less (a) bonus airtime and short messaging services (SMS) on free Subscribers' Identification Module (SIM), and (b) prepaid reload discounts, (3) revenues from value-added services (VAS) such as SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), multimedia messaging services (MMS), content and infotext services, net of payout to content providers; (4) mobile data services, (5) inbound revenues from other carriers which terminate their calls to the Globe Group's network less discounts; (6) revenues from international roaming services; (7) usage of broadband and internet services in excess of fixed monthly service fees; and (8) one-time service connection fees (for wireline voice and data subscribers).

Postpaid service arrangements include fixed monthly service fees, which are recognized over the subscription period on a pro-rata basis. Monthly service fees billed in advance are initially deferred and recognized as revenue during the period when earned. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the bill cycles of subscribers. As a result of bill cycle cut-off, monthly service revenues earned but not yet billed at the end of the month are estimated and accrued. These estimates are based on actual usage less estimated consumable usage using historical ratio of consumable usage over billable usage.

Proceeds from over-the-air reloading channels and the sale of prepaid cards are deferred and shown as "Unearned revenues" in the consolidated statement of financial position. Revenue is recognized upon actual usage of airtime value net of discounts on promotional calls and net of free airtime value or SMS and bonus reloads. Unused load value is recognized as revenue upon expiration.

The Globe Group offers loyalty programs which allow its subscribers to accumulate points when they purchase services from the Globe Group. The points can then be redeemed for free services, discounts and raffle coupons, subject to a minimum number of points being obtained. The consideration received or receivable is allocated between the sale of services and award credits. The portion of the





consideration allocated to the award credits is accounted for as unearned revenues. This will be recognized as revenue upon the award redemption.

#### *2.6.1.1.2 Traffic*

Inbound revenues refer to traffic originating from other telecommunications providers terminating to the Globe Group's network, while outbound charges represent traffic sent out or mobile content delivered using agreed termination rates and/or revenue sharing with other foreign and local carriers and content providers. Adjustments are made to the accrued amount for discrepancies between the traffic volume per Globe Group's records and per records of the other carriers as these are determined and/or mutually agreed upon by the parties. Outstanding inbound revenues are shown as traffic settlements receivable under the "Receivables" account, while unpaid outbound charges are shown as traffic settlements payable under the "Accounts payable and accrued expenses" account in the consolidated statement of financial position unless a legal right of offset exists in which case the net amount is shown either under "Receivables" or "Accounts payable and accrued expenses" account.

#### *2.6.1.1.3 GCash*

Service revenues of GXI consist of SMS revenue arising from GCash transactions passing through the telecom networks of Globe Telecom. Service revenue also includes transaction fees and discounts earned from arrangements with partners and from remittances made through GCash partners using the Globe Group's facilities. The Globe Group earns service revenue from one-time connection fee received from new partners. Depending on the arrangement with partners and when the fee is nonconsumable, outright service revenue is recognized upon cash receipt.

#### *2.6.1.2 Nonservice Revenues*

Proceeds from sale of handsets, devices and accessories, tattoo prepaid kits, SIM packs, modems and accessories, spare parts and supplies, callcards and others are recognized as revenue upon delivery of the items and the related cost or net realizable value are presented as "Cost of sales" in the consolidated statement of comprehensive income.

#### *2.6.1.3 Others*

Interest income is recognized as it accrues using the effective interest method.

Lease income from operating lease is recognized on a straight-line basis over the lease term.

Dividend income is recognized when the Globe Group's right to receive payment is established.

#### *2.6.2 Subscriber Acquisition and Retention Costs*

The related costs incurred in connection with the acquisition of wireless and wireline voice subscribers are charged against current operations, while the related acquisition costs of data communication and broadband internet subscribers are capitalized. Subscriber acquisition costs primarily include commissions, handset, phonekit, modems, mobile internet kit subsidies, device subsidies and selling expenses. Subsidies represent the difference between the cost of handsets, devices and accessories, tattoo prepaid kits, SIM packs, modems and accessories, spare parts and supplies, callcards and others (included in the "Cost of sales" and "Impairment losses and others" account), and the price offered to the subscribers (included in the "Nonservice revenues" account). The data communication and broadband internet costs represent the acquisition cost of modems (included in the "Property and Equipment" account)



which are depreciated over a period of two years (included in the “depreciation and amortization” account). Retention costs for existing postpaid subscribers are in the form of free handsets, devices and bill credits. Retention costs are charged against current operations and included under the “General, selling and administrative expenses” account in the consolidated statement of comprehensive income upon delivery or when there is a contractual obligation to deliver. Bill credits are deducted from service revenues upon application against qualifying subscriber bills.

### 2.6.3 *Cash and Cash Equivalents*

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

### 2.6.4 *Financial Instruments*

#### 2.6.4.1 *General*

##### 2.6.4.1.1 *Initial Recognition and Fair Value Measurement*

Financial instruments are recognized in the Globe Group’s consolidated statement 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 (regular way trades) 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. Except for financial instruments at FVPL, the initial measurement of financial assets includes directly attributable transaction costs.

The Globe Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The Globe Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation every reporting date.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Globe Group recognizes the difference between the transaction price and fair value (a “Day 1” profit or loss) in profit or loss. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Globe Group determines the appropriate method of recognizing the “Day 1” profit or loss amount.



#### 2.6.4.1.2 *Financial Assets or Financial Liabilities at FVPL*

This category consists of financial assets or financial liabilities that are held for trading or designated by management as FVPL on initial recognition. Financial assets or financial liabilities are classified as held for sale if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments as defined by PAS 39.

Financial assets or financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value, with changes in fair value being recorded in profit or loss. Interest earned or incurred is recorded as “Interest income or expense”, respectively, while dividend income is recorded when the right to receive payment has been established. Both are recorded in profit or loss.

Financial assets or financial liabilities are classified in this category as designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Globe Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Globe Group is unable to trade these financial assets due to inactive markets and management’s intention to sell them in the foreseeable future significantly changes, the Globe Group may elect to reclassify these financial assets. The reclassification to loans and receivables, AFS or HTM depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation because these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.



#### 2.6.4.1.3 *HTM Investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Globe Group's management has the positive intention and ability to hold to maturity. Where the Globe Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The amortization is included in "Interest income" in the consolidated statement of comprehensive income. The effects of restatement of foreign currency-denominated HTM investments are recognized in profit or loss.

There are no outstanding HTM investments as of December 31, 2013 and 2012.

#### 2.6.4.1.4 *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL.

This accounting policy relates to the consolidated statement of financial position caption "Receivables", which arise primarily from subscriber and traffic revenues and other types of receivables, "Short-term investments", which arise primarily from unquoted debt securities, and other nontrade receivables included under "Prepayments and other current assets" and loans receivables included under "Other noncurrent assets".

Receivables are recognized initially at fair value. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Penalties, termination fees and surcharges on past due accounts of postpaid subscribers are recognized as revenues upon collection. The losses arising from impairment of receivables are recognized in the "Impairment losses and others" account in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on 2.6.4.2 Impairment of Financial Assets).

Short-term investments, other nontrade receivables and loans receivable are recognized initially at fair value, which normally pertains to the consideration paid. Similar to receivables, subsequent to initial recognition, short-term investments, other nontrade receivables and loans receivables are measured at amortized cost using the effective interest method, less any allowance for impairment losses.



#### 2.6.4.1.5 *AFS Investments*

AFS investments are those investments which are designated as such or do not qualify to be classified or designated as at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments.

After initial measurement, AFS investments are subsequently measured at fair value. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. The unrealized gains and losses arising from the fair value changes of AFS investments are included in other comprehensive income and are reported as “Other reserves” (net of tax where applicable) in the equity section of the consolidated statement of financial position. When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized in profit or loss.

When the fair value of AFS investments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS investments are recognized in profit or loss when the right to receive payment has been established.

The losses arising from impairment of such investments are recognized as “Impairment losses and others” in the consolidated statement of comprehensive income.

#### 2.6.4.1.6 *Other Financial Liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Globe Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Globe Group’s debt, accounts payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

#### 2.6.4.1.7 *Derivative Instruments*

##### 2.6.4.1.7.1 *General*

The Globe Group enters into short-term deliverable and nondeliverable currency forward contracts to manage its currency exchange exposure related to short-term foreign currency-denominated monetary assets and liabilities and foreign currency linked revenues.



The Globe Group also enters into long-term currency and interest rate swap contracts to manage its foreign currency and interest rate exposures arising from its long-term loan. Such swap contracts are sometimes entered into in combination with options.

#### *2.6.4.1.7.2 Recognition and Measurement*

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 profit or loss. To qualify for hedge accounting, the hedging relationship must comply with strict 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 profit or loss.

#### *2.6.4.1.7.3 Types of Hedges*

The Globe Group designates derivatives which qualify as accounting hedges as either: (a) a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or (b) 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 and qualifying 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 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.

As of December 31, 2013 and 2012, there were no derivatives designated and accounted for as fair value hedges.



#### *Cash Flow Hedges*

The Company designates as cash flow hedges the following derivatives: (a) interest rate swaps as cash flow hedge of foreign exchange and interest rate risk of United States Dollar (USD) loans, (b) interest rate swaps as cash flow hedge of interest rate risk of a floating rate obligation, and (c) certain foreign exchange forward contracts as cash flow hedge of expected USD revenues.

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 reserves," which is a component of equity. Any hedge ineffectiveness is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized directly in equity 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 from equity to 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 "Other reserves" until the hedged transaction impacts profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in "Other reserves" is immediately recycled in profit or loss.

For cash flow hedges of USD revenues, the effective portion of the hedge transaction coming from the fair value changes of the currency forwards are subsequently recycled from equity to profit or loss and is presented as part of the US dollar-based revenues upon consummation of the transaction or when the hedge become ineffective.

#### *2.6.4.1.7.4 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 profit or loss. For bifurcated embedded derivatives in financial and nonfinancial contracts that are not designated or do not qualify as hedges, changes in the fair values of such transactions are recognized in profit or loss.

#### *2.6.4.1.8 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. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statements of financial position.



#### 2.6.4.2 *Impairment of Financial Assets*

The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

##### 2.6.4.2.1 *Assets Carried at Amortized Cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is to be recognized in profit or loss.

The Globe Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed what should have been its amortized cost at the reversal date.

With respect to receivables, the Globe Group performs a regular review of the risk profile of accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group.

##### 2.6.4.2.1.1 *Subscribers*

Management regularly reviews its portfolio and assesses if there are accounts requiring specific provisioning based on objective evidence of high default probability. Observable data indicating high impairment probability could be deterioration in payment status, declaration of bankruptcy or national/local economic indicators that might affect payment capacity of accounts.

Full allowance for impairment losses, net of average recoveries, is provided for receivables from permanently disconnected wireless, wireline and broadband subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnections generally occur within a predetermined period from due date.





Impairment losses are applied to active wireless, wireline and broadband accounts specifically identified to be doubtful of collection where there is information on financial incapacity after considering the other contractual obligations between Globe Group and the subscriber. Allowance is applied regardless of age bucket of identified accounts.

Application of impairment losses to receivables, net of receivables with applied specific loss, is also determined based on the results of net flow to permanent disconnection methodology.

For wireless, net flow tables are derived from account-level monitoring of subscriber accounts between different age brackets depending on the defined permanent disconnection timeline, from current to 150 days past due and up. The net flow to permanent disconnection methodology relies on the historical data of net flow tables to establish a percentage ("net flow rate") of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result to permanent disconnection. The allowance for impairment losses is then computed based on the outstanding balances of the receivables at the end of reporting date and the net flow rates determined for the current and each delinquency bucket. Full allowance is provided for receivables of active consumer accounts in the 150 days past due and up bucket.

For active wireline voice and broadband subscribers, the allowance for impairment loss is also determined based on the results of net flow rate to permanent disconnection computed from account-level monitoring of accounts from current to 90 days past due and up age bucket except for consumer where impairment rate applied at 90 days past due and up bucket is full allowance net of average recoveries prior to permanent disconnection.

#### 2.6.4.2.1.2 *Traffic*

As per PAS 39, impairment provision is recognized in the light of actual losses incurred by the Globe Group as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated.

For traffic receivables, impairment losses are made for accounts specifically identified to be doubtful of collection regardless of the age of the account. For accounts that have no established recovery rate yet, full provision for ten months and above traffic receivable is being applied. For receivable balances that appear doubtful of collection, allowance is provided after review of the status of settlement with each carrier and roaming partner, taking into consideration normal payment cycles, recovery experience and credit history of the counterparties.

#### 2.6.4.2.1.3 *Other Receivables*

Other receivables from dealers, credit card companies and other parties are provided with allowance for impairment losses if specifically identified to be doubtful of collection regardless of the age of the account.



#### 2.6.4.2.2 *AFS Investments Carried at Cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the asset is reduced through the use of an allowance account.

#### 2.6.4.2.3 *AFS Investments Carried at Fair Value*

If an AFS investment carried at fair value is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in profit or loss. Reversals of impairment losses on debt instruments are made through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### 2.6.4.3 *Derecognition of Financial Instruments*

#### 2.6.4.3.1 *Financial Asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

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

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

#### 2.6.4.3.2 *Financial Liability*

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



#### 2.6.5 *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 by 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 consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (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 assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Globe Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.



#### *2.6.6 Inventories and Supplies*

Inventories and supplies are stated at the lower of cost and net realizable value (NRV). NRV for handsets, modems, devices and accessories is the selling price in the ordinary course of business less direct costs to sell; while NRV for SIM packs, call cards, spare parts and supplies consists of the related replacement costs. In determining the NRV, the Globe Group considers any adjustment necessary for obsolescence, which is generally provided 80% for non-moving items after a certain period. Cost is determined using the moving average method.

#### *2.6.7 Non-current Assets Held for Sale*

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets (and the related liabilities) are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

Items of property and equipment and intangible assets once classified as held for sale are not depreciated/amortized.

Assets that ceases to be classified as held for sale are measured at the lower of its carrying value before the assets were classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, and its recoverable amount at the date of the changes to the plan of sale. Adjustment is recognized in profit or loss.

#### *2.6.8 Property and Equipment*

Property and equipment, except land, are carried at cost less accumulated depreciation, amortization and impairment losses. Land is stated at cost less any impairment losses.

The initial cost of an item of property and equipment includes its purchase price and any cost attributable in bringing the property and equipment to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds specifically used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligations (ARO) specifically on property and equipment installed/constructed on leased properties.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Globe Group and the cost of the item can be measured reliably.



Assets under construction (AUC) are carried at cost and 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 and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment.

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation and amortization is consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment losses are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

#### 2.6.9 ARO

The Globe Group is legally required under various contracts to restore leased property to its original condition and to bear the cost of dismantling and deinstallation at the end of the contract period. The Globe Group recognizes the present value of these obligations and capitalizes these costs as part of the carrying value of the related property and equipment accounts, and are depreciated on a straight-line basis over the useful life of the related property and equipment or the contract period, whichever is shorter.

The amount of ARO is recognized at present value and the related accretion is recognized as interest expense.

#### 2.6.10 Investment Property

Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and any impairment losses.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged to profit or loss in the period in which the costs are incurred.

Depreciation of investment property is computed using the straight-line method over its useful life. The EUL and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Transfers are made to investment property, when, and only when, there is a change in use, evidenced by the end of the owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner occupation or commencement of development with the intention to sell.



Investment property is derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal.

Any gain or loss on derecognition of an investment property is recognized in profit or loss in the period of derecognition. In 2012, the Globe Group transferred the investment property to property and equipment due to change in use.

#### 2.6.11 *Intangible Assets*

Intangible assets consist of: 1) costs incurred to acquire application software (not an integral part of its related hardware or equipment) and telecommunications equipment software licenses; 2) intangible assets identified to exist during the acquisition of EGG Group for its existing customer contracts; and 3) exclusive dealership right in Taodharma, Inc. (Taodharma). Costs directly associated with the development of identifiable software that generate expected future benefits to the Globe Group are recognized as intangible assets. All other costs of developing and maintaining software programs are recognized as expense when incurred.

Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortization and any impairment losses. The EUL of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives. The periods and method of amortization for intangible assets with finite useful lives are reviewed annually or more frequently when an indicator of impairment exists.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the asset is derecognized.

#### 2.6.12 *Business Combinations and Goodwill*

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Globe Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Globe Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.



Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Globe Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

#### *2.6.13 Investments in Associate and Joint Ventures*

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.

The Globe Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investments in associate and JV are carried in the consolidated statement 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 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, in other OCI.

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 profit or loss.



#### 2.6.14 *Impairment of Nonfinancial Assets*

For nonfinancial assets, excluding goodwill, an assessment is made at the end of the reporting date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset or CGU to which the asset belongs is written down to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the fair value less cost to sell.

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.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property and equipment, investment property and intangible assets) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### 2.6.15 *Income Tax*

##### 2.6.15.1 *Current Income Tax*

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

##### 2.6.15.2 *Deferred Income Tax*

Deferred income tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of unused MCIT and NOLCO can be used.





Deferred income tax is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in an associate and JV.

Deferred income tax relating to items recognized directly in equity or OCI is included in the related equity or OCI account and not in profit or loss.

The carrying amounts of deferred income tax assets are reviewed every end of 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.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realized or the liabilities are settled based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting date.

Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

#### 2.6.16 *Provisions*

Provisions are recognized when: (a) the Globe Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed every end of the reporting period and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense under "Financing costs" in consolidated statement of comprehensive income.

#### 2.6.17 *Share-based Payment Transactions*

Certain employees (including directors) of the Globe Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions") (see Note 18).

The cost of equity-settled transactions with employees 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 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.

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) (see Note 27).

#### 2.6.18 *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 equity.

#### 2.6.19 *Additional Paid-in Capital*

Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

#### 2.6.20 *Treasury Stock*

Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

#### 2.6.21 *Other Comprehensive Income*

OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

#### 2.6.22 *Pension Cost*

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.



The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. 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. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### 2.6.23 *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. These costs are amortized using the straight-line method over the EUL of the related property and equipment. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. 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. Premiums on long-term debt are included under the "Long-term debt" account in the consolidated statement of financial position and are amortized using the effective interest method.

Other borrowing costs are recognized as expense in the period in which these are incurred.



#### 2.6.24 *Leases*

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

##### 2.6.24.1 *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 statement 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 statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

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 profit or loss on a straight-line basis over the lease term.

##### 2.6.24.2 *Globe Group as Lessor*

Finance leases, where the Globe Group transfers substantially all the risk and rewards incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under "Prepayments and other current assets" account. A lease receivable is recognized equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in the "Interest income" account in the consolidated statement of comprehensive income.

Leases where the Globe Group does not transfer substantially all the risk and rewards of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.



#### 2.6.25 *General, Selling and Administrative Expenses*

General, selling and administrative expenses, except for rent, are charged against current operations as incurred (see Note 2.6.24.1).

#### 2.6.26 *Foreign Currency Transactions*

The functional and presentation currency of the Globe Group is the Philippine Peso, except for EHL whose functional currency is the Hong Kong Dollar (HKD) and GTHK and GTIC US whose functional currency is the USD and GTEU, GT UK and GT Italy whose functional currency is Euro. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other OCI.

As at the reporting date, the assets and liabilities of EHL, GTIC US and GTHK, GTEU, GT UK and GT Italy are translated into the presentation currency of the Globe Group at the rate of exchange prevailing at the end of reporting period and its profit or loss is translated at the monthly weighted average exchange rates during the year. The exchange differences arising on the translation are taken directly to a separate component of equity under "Other reserves" account. Upon disposal of EHL, GTIC US, GTHK, GTEU, GT UK and GT Italy, the cumulative translation adjustments shall be recognized in profit or loss.

#### 2.6.27 *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 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.

#### 2.6.28 *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; (2) wireline communication services; and (3) others. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.



#### 2.6.29 *Contingencies*

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

#### 2.6.30 *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.

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### 3. **Management's Significant Accounting Judgments and Use of Estimates**

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying 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 estimates.

Judgments and estimates 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.

#### 3.1 Judgments

##### 3.1.1 *Leases*

###### 3.1.1.1 *Operating Lease Commitments as Lessor*

The Globe Group has entered into a lease agreements as a lessor. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. The Globe Group has determined that it retains all the significant risks and rewards of ownership of the properties and so accounts for the agreement as an operating lease (see Note 25.1.1).

###### 3.1.1.2 *Operating Lease Commitments as Lessee*

The Globe Group has entered into various lease agreements as a lessee where it has determined that the lessors retain all the significant risks and rewards of ownership of the properties and, as such, accounts for the agreements as operating lease (see Note 25.1.1).

###### 3.1.1.3 *Finance Lease*

The Globe Group has entered into a finance lease agreement related to hardware infrastructure and information equipment. They have determined, based on the evaluation of the terms and conditions of the arrangement, that they 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 25.1.2).



### 3.1.2 *Fair Value of Financial Instruments*

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. 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. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 3.1.3 *Financial Assets not Quoted in an Active Market*

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

### 3.1.4 *Allocation of Goodwill to Cash-Generating Units*

The Globe Group allocated the carrying amount of goodwill to the mobile content and application development services business CGU, for the Globe Group believes that this CGU represents 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.

### 3.1.5 *Determination of Whether the Globe Group is Acting as a Principal or an Agent*

The Globe Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Globe Group has primary responsibility for providing the goods and services;
- whether the Globe Group has inventory risk;
- whether the Globe Group has discretion in establishing prices; and,
- whether the Globe Group bears the credit risk.

If the Globe Group has determined it is acting as a principal, the Group recognizes revenue on a gross basis, with the amount remitted to the other party being accounted for as part of costs and expenses.

If the Globe Group has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Globe Group assessed its revenue arrangements and concluded that it is acting as a principal in some arrangements and as an agent in other arrangements.

### 3.1.6 *Provisions and Contingencies*

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 Globe Group's defense in these matters and is based upon an analysis of potential results. Globe Group currently does not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 26).



### 3.1.7 *Classification of Noncurrent Assets Held for Sale*

The Globe Group classified certain non-current assets as held-for-sale in 2010. PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, requires that the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, with certain exceptions. Globe Group has determined that circumstances have occurred which will qualify as exception to the timing of the recognition of the sale in previous years.

In 2013, the Globe Group ceased to classify these assets as held for sale due to the substantial delay in the completion of the transaction. The Globe Group recognized a catch up depreciation amounting to ₱397.00 million for the year ended December 31, 2013 (see Note 25.8).

As of December 31, 2012, the Globe Group retained the classification of its non-current assets as held for sale, including the related liabilities. Globe Group expects no changes in the terms of agreement and on the valuation as the considerations have already been fixed, and remains to be committed to its plan to sell the assets.

### 3.1.8 *Assessment of Investment in Bayan Telecommunications Inc. (BTI) and Receivables from BTI*

The Globe Group purchased BTI's outstanding debts from its creditors and was recognized at transaction price which was considered its fair value. The total debt of BTI is comprised of sustainable Tranche A and unsustainable Tranche B. A portion of the debt (Tranche B) was converted into equity and was valued at nil while the total consideration at point of tender was assigned to the collectible portion of Tranche A (see Notes 6, 11 and 16.6).

Critical judgment was exercised to assess the facts and circumstances indicating the elements of control or level of influence of Globe Group over BTI. The Globe Group determines that it has significant influence in the financial and operating policy decisions of BTI but not control over those policies. The converted portion of debt (Tranche B) to the Globe Group's interest is recognized as investment in associate and is accounted for using the equity method.

The collectible portion of Tranche A is determined to be a financial asset classified as "Loans receivable" and not as trading assets nor designated at FVPL or AFS since this has fixed or determinable payments that are not quoted in an active market and is measured at amortized cost using the effective interest rate reasonably determined by the Globe Group.

## 3.2 Estimates

### 3.2.1 *Revenue Recognition*

The Globe Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

The Group estimates the fair value of points awarded under its Loyalty programmes, which are within the scope of Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, by applying estimation procedures using historical data and trends. The points expected to be redeemed is estimated based on the remaining points, the run-rate redemption by the subscribers and the points to peso conversion. As of December 31, 2013 and 2012, the estimated liability for unredeemed points included in "Unearned revenues" amounted to ₱323.38 million and ₱244.25 million, respectively.





### 3.2.2 Allowance for Impairment Losses on Receivables

The Globe Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Globe Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group. The amount and timing of recorded expenses for any period would differ if the Globe Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Impairment losses on receivables for the years ended December 31, 2013, 2012 and 2011 amounted to ₱2,046.52 million, ₱1,377.32 million and ₱1,599.97 million, respectively (see Note 23). Receivables, net of allowance for impairment losses, amounted to ₱15,200.92 million and ₱12,105.44 million as of December 31, 2013 and 2012, respectively (see Note 4).

### 3.2.3 Obsolescence and Market Decline

The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided 80% 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 judgments were made or different estimates were utilized. An increase in allowance for obsolescence and market decline would increase recorded operating expenses and decrease current assets.

Inventory obsolescence and market decline for the years ended December 31, 2013, 2012 and 2011 amounted to ₱321.46 million, ₱170.68 million and ₱237.92 million, respectively (see Note 23).

Inventories and supplies, net of allowances, amounted to ₱3,544.89 million and ₱2,076.18 million as of December 31, 2013 and 2012, respectively (see Note 5).

### 3.2.4 ARO

The Globe Group is legally required under various contracts to restore leased property to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an in-house estimate, which incorporates estimates of asset retirement costs and interest rates. The Globe Group recognizes the present value of these obligations and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are being depreciated and amortized on a straight-line basis over the EUL of the related asset or the lease term, whichever is shorter.

The present value of dismantling costs is computed based on an average credit-adjusted risk-free rate of 6.67% and 6.85% in 2013 and 2012, respectively. Assumptions used to compute ARO are reviewed and updated annually.



The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase recorded operating expenses and increase noncurrent liabilities.

The Globe Group updated its assumptions on timing of settlement and estimated cash outflows arising from ARO on its leased premises. As a result of the changes in estimates, the Globe Group adjusted downward its ARO liability (included under “Other long-term liabilities” account) by ₱16.03 million and ₱26.80 million in 2013 and 2012, respectively, against the book value of the assets on leased premises (see Note 15).

As of December 31, 2013 and 2012, ARO amounted to ₱1,724.30 million and ₱1,594.63 million, respectively (see Note 15).

### 3.2.5 *EUL of Property and Equipment, Investment Property and Intangible Assets*

Globe Group reviews annually the EUL of these assets based on expected asset utilization as anchored on business plans and strategies that also consider expected 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, investment property and intangible assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The EUL of property and equipment of the Globe Group are as follows:

	Years
Telecommunications equipment:	
Tower	20
Switch	7 and 10
Outside plant, cellsite structures and improvements	10-20
Distribution dropwires and other wireline assets	2-10
Cellular equipment and others	3-10
Buildings	20
Leasehold improvements	5 years or lease term, whichever is shorter
Investments in cable systems	15
Office equipment	3-5
Transportation equipment	3-5

The EUL of investment property is twenty (20) years.

Intangible assets comprising of licenses and application software are amortized over the EUL of the related hardware or equipment ranging from three (3) to ten (10) years or life of the telecommunications equipment where it is assigned.

In 2013 and 2012, the Globe Group changed the EUL of certain wireless and wireline telecommunications equipment and licenses resulting from new information affecting the expected utilization of these assets. The net effect of the change in EUL resulted in higher depreciation of ₱7,829.72 million and ₱4,245.30 million in 2013 and 2012, respectively.



As of December 31, 2013 and 2012, the aggregate carrying value of property and equipment, investment property and intangible assets amounted to ₱114,264.73 million and ₱105,216.32 million, respectively (see Notes 7, 8 and 9).

### 3.2.6 *Estimation of Residual Value*

The Globe Group estimates a residual value (RV) for assets subjected to accelerated depreciation caused by network transformation. The group continues to retain the RV based on the progress of disposal of decommissioned assets as of December 31, 2013.

The Globe Group regularly assesses the need to adjust the RV on a periodic basis.

### 3.2.7 *Asset Impairment*

#### 3.2.7.1 *Impairment of Nonfinancial Assets Other Than Goodwill*

The Globe Group assesses impairment of assets (property and equipment, investment property, intangible assets and investments in associate and joint ventures) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Globe Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

For impairment loss on specific assets or investments, the recoverable amount represents the fair value less cost to sell.

For the Globe Group, the CGU is the combined mobile and wireline asset groups of Globe Telecom and Innove. This asset grouping is predicated upon the requirement contained in Executive Order (EO) No.109 and Republic Act (RA) No.7925 requiring licensees of Cellular Mobile Telephone System (CMTS) and International Digital Gateway Facility (IGF) services to provide 400,000 and 300,000 Local Exchange Carrier lines, respectively, as a condition for the grant of such licenses.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Globe Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.



The aggregate carrying value of property and equipment, investment property, intangible assets, and investments in associate and joint ventures amounted to ₱114,427.49 million and ₱105,399.52 million as of December 31, 2013 and 2012, respectively (see Notes 7, 8, 9 and 10).

#### 3.2.7.2 *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 are derived from the budget 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, 2013 and 2012, the carrying value of goodwill amounted to ₱327.13 million (see Note 9).

Goodwill acquired through business combination with EGG Group was allocated to the mobile content and applications development services business CGU, which is part of the "Others" reporting segment (see Note 29).

The recoverable amount of the CGU, which exceeds the carrying amount of the related goodwill by ₱3,967.15 million and ₱962.34 million, as of December 31, 2013 and 2012, respectively, has been determined based on value in use calculations using cash flow projections from financial budgets covering a five-year period. The pretax discount rate applied to cash flow projections was 9.40 % in 2013 and 11% in 2012, and cash flows beyond the five-year period are extrapolated using a 3% long-term growth rate in 2013 and 2012.

#### 3.2.8 *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 (see Note 24).

As of December 31, 2013 and 2012, Innove, GXI and EGG Group has net deferred income tax assets amounting to ₱840.73 million and ₱1,016.86 million, respectively.

As of December 31, 2013, Globe Telecom has net deferred income tax assets amounting to ₱1,076.15 million and net deferred income tax liabilities amounting to ₱2,271.35 million as of December 31, 2012 (see Note 24). Globe Telecom and Innove have no unrecognized deferred income tax assets as of December 31, 2013 and 2012.

As of December 31, 2012, GXI recognized deferred income tax assets from NOLCO amounting to ₱16.02 million (see Note 24).

#### 3.2.9 *Financial Assets and Financial Liabilities*

Globe Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Globe Group utilized different valuation methodologies. Any changes in fair value of these financial assets and financial liabilities would affect the consolidated statements of comprehensive income and consolidated statements of changes in equity.



Financial assets comprising AFS investments and derivative assets carried at fair values as of December 31, 2013 and 2012, amounted to ₱723.11 million and ₱141.87 million, respectively, and financial liabilities comprising of derivative liabilities carried at fair values as of December 31, 2013 and 2012, amounted to ₱219.69 million and ₱240.65 million, respectively (see Note 28.12).

### 3.2.10 *Estimation of Losses and Recognition of Claims from Insurer*

The Globe Group assesses the extent of losses arising from natural calamities. Certain methodology and reasonable estimates are exercised considering all factors including insurance coverage, type of losses sustained. The Globe Group determines the recoverability of losses from insured assets.

Provision for impairment of assets recognized in 2013 amounted to ₱139.00 million.

### 3.2.11 *Pension and Other Employee Benefits*

The cost of defined benefit pension plans and as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and expected return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rates for males and females and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

The net pension liability as at December 31, 2013 and 2012 amounted to ₱1,607.30 million and ₱843.91 million, respectively. Further details are provided in Note 18.

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.

Cost of share-based payments in 2013, 2012 and 2011 amounted to ₱50.00 million, ₱11.50 million and ₱49.34 million, respectively (see Notes 16.5 and 18.1).

The Globe Group also estimates other employee benefit obligations and expenses, including cost of paid leaves based on historical leave availments of employees, subject to the Globe Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits (included in the "Accounts payable and accrued expenses" account and in the "Other long-term liabilities" account in the consolidated statements of financial position) as of December 31, 2013 and 2012 amounted to ₱545.36 million and ₱484.60 million, respectively (see Notes 12 and 15).



While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

#### 4. Receivables

This account consists of receivables from:

	Notes	2013	2012
<i>(In Thousand Pesos)</i>			
Subscribers	16, 28.2.2	<b>₱15,616,059</b>	₱11,508,305
Traffic settlements - net	12, 16, 28.2.2	<b>1,503,841</b>	2,611,358
Dealers	28.2.2	<b>1,210,535</b>	844,838
Others	28.2.2	<b>1,060,533</b>	679,008
		<b>19,390,968</b>	15,643,509
Less allowance for impairment losses:			
Subscribers	28.2.2	<b>3,970,421</b>	3,317,014
Traffic settlements and others	28.2.2	<b>219,624</b>	221,058
		<b>4,190,045</b>	3,538,072
		<b>₱15,200,923</b>	₱12,105,437

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided under postpaid arrangements.

Amounts collected from wireless subscribers under prepaid arrangements are reported under “Unearned revenues” in the consolidated statements of financial position and recognized as revenues upon actual usage of airtime value or upon expiration of the prepaid credit. The unearned revenues from these subscribers amounted to ₱2,436.26 million and ₱2,258.65 million as of December 31, 2013 and 2012, respectively.

Traffic settlements receivable are presented net of traffic settlements payable from the same carrier amounting to ₱2,249.60 million and ₱3,503.52 million as of December 31, 2013 and 2012, respectively.

Receivables are noninterest-bearing and are generally collectible in the short-term.

#### 5. Inventories and Supplies

This account consists of:

	2013	2012
<i>(In Thousand Pesos)</i>		
At cost:		
Modems and accessories	<b>₱112,668</b>	₱—
Spare parts and supplies	<b>3,110</b>	6,142
Call cards and others	<b>2,805</b>	508
SIM cards and SIM packs	<b>61</b>	29
	<b>118,644</b>	6,679
At NRV:		
Handsets, devices and accessories	<b>2,562,689</b>	1,139,463
Nomadic broadband device	<b>390,646</b>	62,639

(Forward)



	2013	2012
	<i>(In Thousand Pesos)</i>	
Spare parts and supplies	<b>₱313,092</b>	₱246,103
SIM cards and SIM packs	<b>111,252</b>	36,160
Modems and accessories	<b>44,824</b>	375,037
Call cards and others	<b>3,740</b>	210,095
	<b>3,426,243</b>	2,069,497
	<b>₱3,544,887</b>	₱2,076,176

Inventories recognized as expense during the year amounting to ₱10,274.57 million, ₱7,849.04 million and ₱6,142.34 million in 2013, 2012 and 2011, respectively, are included as part of “Cost of sales” and “Impairment losses and others” accounts (see Note 23) in the consolidated statements of comprehensive income. An insignificant amount is included under “General, selling and administrative expenses” as part of “Utilities, supplies and other administrative expenses” account (see Note 21).

Cost of sales incurred consists of:

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Handsets, devices and accessories	<b>₱8,028,405</b>	₱6,565,510	₱4,928,921
Nomadic broadband device	<b>1,314,176</b>	561,310	545,354
SIM cards and SIM packs	<b>349,558</b>	245,462	245,418
Call cards and others	<b>251,692</b>	228,198	77,033
Spare parts and supplies	<b>8,014</b>	4,472	1,440
Modems and accessories	<b>1,261</b>	73,407	89,423
	<b>₱9,953,106</b>	₱7,678,359	₱5,887,589

There are no unusual purchase commitments and accrued net losses as of December 31, 2013 and 2012.

## 6. Prepayments and Other Current Assets

This account consists of:

	Notes	2013	2012
		<i>(In Thousand Pesos)</i>	
Current portion of loan receivable from:			
Globe Group retirement plan (GGRP)	11, 16.3, 18.2	<b>₱968,000</b>	₱—
BTI	11	<b>481,366</b>	347,910
Bethlehem Holdings, Inc. (BHI)	11, 25.5	<b>158,620</b>	—
Advance payments to suppliers and contractors	25.3	<b>5,223,600</b>	8,815,534
Prepayments	25.1	<b>949,203</b>	1,050,731
Deferred input VAT	11	<b>466,982</b>	527,276
Input VAT - net		<b>450,525</b>	638,626
Creditable withholding tax		<b>225,079</b>	300,680
Miscellaneous receivables - net	16, 28.12	<b>220,025</b>	425,426
Other current assets	28.12	<b>319,423</b>	202,065
		<b>₱9,462,823</b>	₱12,308,248



The “Prepayments” account includes prepaid insurance, rent, maintenance, and National Telecommunications Commissions (NTC) spectrum users’ fee among others.

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. However, these can be applied on future output VAT liabilities.

As of December 31, 2013, Innove, GXI, GTI and KVI reported net input VAT amounting to ₱450.53 million, net of output VAT of ₱125.84 million. As of December 31, 2012, Innove and GXI reported net input VAT amounting to ₱638.63 million, net of output VAT of ₱110.94 million.

## 7. Property and Equipment

The rollforward analysis of this account follows:

2013								
	Tele-communications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
<i>(In Thousand Pesos)</i>								
<b>Cost</b>								
At January 1	₱202,201,632	₱28,852,761	₱14,144,444	₱7,951,568	₱2,311,840	₱1,573,994	₱17,596,471	₱274,632,710
Additions	13,784,885	348,336	251,136	284,219	257,635	—	20,754,416	35,680,627
Retirements/disposals	(22,281,856)	(3,649)	—	(32,931)	(243,245)	—	(1,015)	(22,562,696)
Reclassifications/adjustments	5,490,808	5,608,051	4,584,328	1,021,129	11,794	26,419	(18,031,409)	(1,288,880)
At December 31	199,195,469	34,805,499	18,979,908	9,223,985	2,338,024	1,600,413	20,318,463	286,461,761
<b>Accumulated Depreciation and Amortization</b>								
At January 1	143,047,869	14,551,973	6,485,043	6,834,232	1,680,991	—	—	172,600,108
Depreciation and amortization								
Incremental effect of network modernization	7,747,607	23,880	1,259	56,978	—	—	—	7,829,724
Others	12,938,614	1,436,398	1,394,939	833,998	247,540	—	—	16,851,489
Retirements/disposals	(22,239,228)	(3,386)	—	(32,139)	(229,768)	—	—	(22,504,521)
Reclassifications/adjustments	(14,316)	(5,290)	808,019	(148,769)	1,443	—	—	641,087
At December 31	141,480,546	16,003,575	8,689,260	7,544,300	1,700,206	—	—	175,417,887
<b>Impairment Losses</b>								
At January 1	138,069	—	—	3,182	—	—	468,987	610,238
Additions (reversals)	123,852	—	—	—	—	—	(97,540)	26,312
Write-off/adjustments	(18,099)	—	—	—	—	—	1,351	(16,748)
At December 31	243,822	—	—	3,182	—	—	372,798	619,802
<b>Net Book Value at December 31</b>	<b>₱57,471,101</b>	<b>₱18,801,924</b>	<b>₱10,290,648</b>	<b>₱1,676,503</b>	<b>₱637,818</b>	<b>₱1,600,413</b>	<b>₱19,945,665</b>	<b>₱110,424,072</b>

2012								
	Tele-communications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
<i>(In Thousand Pesos)</i>								
<b>Cost</b>								
At January 1	₱187,924,112	₱27,374,020	₱13,129,153	₱7,333,754	₱2,206,974	₱1,527,375	₱11,955,324	₱251,450,712
Additions	5,026,981	58,025	351,345	212,107	257,696	—	20,751,350	26,657,504
Retirements/disposals	(1,030,704)	(1,960)	—	(139,907)	(154,746)	—	(5,600)	(1,332,917)
Reclassifications/adjustments	10,281,243	1,422,676	663,946	545,614	1,916	46,619	(15,104,603)	(2,142,589)
At December 31	202,201,632	28,852,761	14,144,444	7,951,568	2,311,840	1,573,994	17,596,471	274,632,710

(Forward)





	2012							
	Tele-communications Equipment	Buildings and Leasehold Improvements	Investments in Cable Systems	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
	<i>(In Thousand Pesos)</i>							
<b>Accumulated Depreciation and Amortization</b>								
At January 1	₱125,417,729	₱13,087,427	₱5,569,643	₱6,152,934	₱1,582,493	₱—	₱—	₱151,810,226
Depreciation and amortization								
Incremental effect of network modernization	4,202,766	8	5,043	37,488	—	—	—	4,245,305
Others	14,185,102	1,264,176	858,464	815,831	241,031	—	—	17,364,604
Retirements/disposals	(999,456)	(1,797)	—	(139,841)	(142,533)	—	—	(1,283,627)
Reclassifications/adjustments	241,728	202,159	51,893	(32,180)	—	—	—	463,600
At December 31	143,047,869	14,551,973	6,485,043	6,834,232	1,680,991	—	—	172,600,108
<b>Impairment Losses</b>								
At January 1	159,837	—	—	3,182	—	—	209,687	372,706
Additions	—	—	—	—	—	—	259,262	259,262
Write-off/adjustments	(21,768)	—	—	—	—	—	38	(21,730)
At December 31	138,069	—	—	3,182	—	—	468,987	610,238
<b>Net Book Value at</b>								
<b>December 31</b>	<b>₱59,015,694</b>	<b>₱14,300,788</b>	<b>₱7,659,401</b>	<b>₱1,114,154</b>	<b>₱630,849</b>	<b>₱1,573,994</b>	<b>₱17,127,484</b>	<b>₱101,422,364</b>

In the last quarter of 2011, Globe Group has announced to undertake a network and IT transformation program for an estimated investment of USD790.00 million over the next two to three years. External partners were engaged in 2011 to help manage the modernization effort. In the first quarter of 2012, the EUL of certain wireless and wireline telecommunications equipment were changed as a result of continuing upgrade and migration to a modernized network. The net effect of the change in EUL resulted in higher depreciation expense of ₱7,829.72 million and ₱4,245.30 million for the years ended December 31, 2013 and 2012, respectively.

Assets under construction include intangible components of a network system which are to be reclassified to depreciable intangible assets only when assets become available for use (see Note 9).

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 in the network amounted to ₱129,699.68 million and ₱87,165.41 million as of December 31, 2013 and 2012, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of property and equipment and bring it to its intended location and working condition. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 2.83%, 3.01% and 3.19% capitalization rates in 2013, 2012 and 2011, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱823.90 million, ₱808.25 million and ₱591.66 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 22).

In 2011, the Globe Group entered into an asset exchange transaction with an equipment supplier whereby Globe Group conveyed and transferred ownership of certain hardware equipment and licenses nearing end of economic life and then later purchased upgraded equipment from the same equipment supplier. This transaction resulted in a gain amounting to ₱244.37 million (included under "Gain on disposal of property and equipment - net" in the consolidated statements of comprehensive income), equivalent to the difference between the fair value of the new equipment and the carrying amount of the old platforms and equipment at the time the transaction was consummated.



The Company is currently recovering decommissioned network assets affected by the conversion to new upgraded equipment from its continuing network modernization project, including computer related assets, from its IT transformation project.

The carrying value of the hardware infrastructure and information equipment held under finance lease (included under “Telecommunications equipment” and “Asset under construction”) at December 31, 2013 and 2012 amounted to ₱753.85 million and ₱738.09 million, respectively (see Note 25.1.2).

## 8. Investment Property

The rollforward analysis of this account as of December 31, 2012 follows (in thousand Pesos):

<b>Cost</b>	
At January 1 and December 31	₱390,641
Reclassification (Note 7)	(390,641)
At December 31	—
<b>Accumulated Depreciation</b>	
At January 1	198,996
Depreciation	6,457
Reclassification (Note 7)	(205,453)
At December 31	—
<b>Net Book Value at December 31</b>	<b>₱—</b>

Investment property represents the portion of a building that was held for lease to third parties in 2009. In 2012, the Globe Group transferred the remaining book value of the Investment property to Property and equipment (see Note 7).

## 9. Intangible Assets and Goodwill

The rollforward analysis of this account follows:

	2013					
	Licenses and Application Software	Customer Contracts	Exclusive Dealership Right (Note 25.10)	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
<b>Cost</b>						
At January 1	₱11,260,680	₱28,381	₱—	₱11,289,061	₱327,125	₱11,616,186
Additions	30,486	—	67,552	98,038	—	98,038
Retirements/disposals	(351,474)	—	—	(351,474)	—	(351,474)
Reclassifications/adjustments (Note 7)	2,742,187	—	—	2,742,187	—	2,742,187
At December 31	13,681,879	28,381	67,552	13,777,812	327,125	14,104,937
<b>Accumulated Depreciation and Amortization</b>						
At January 1	7,796,686	25,542	—	7,822,228	—	7,822,228
Amortization:						
Incremental effect of network modernization	1,236,242	—	—	1,236,242	—	1,236,242
Others	1,554,065	2,839	3,135	1,560,039	—	1,560,039
Retirements/disposals	(351,474)	—	—	(351,474)	—	(351,474)
Reclassifications/adjustments (Note 7)	(2,758)	—	—	(2,758)	—	(2,758)
At December 31	10,232,761	28,381	3,135	10,264,277	—	10,264,277
<b>Net Book Value at December 31</b>	<b>₱3,449,118</b>	<b>₱—</b>	<b>₱64,417</b>	<b>₱3,513,535</b>	<b>₱327,125</b>	<b>₱3,840,660</b>



	2012				
	Licenses and Application Software	Customer Contracts	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
	<i>(In Thousand Pesos)</i>				
<b>Cost</b>					
At January 1	₱9,063,214	₱28,381	₱9,091,595	₱327,125	₱9,418,720
Additions	152,056	—	152,056	—	152,056
Retirements/disposals	(119)	—	(119)	—	(119)
Reclassifications/adjustments (Note 7)	2,045,529	—	2,045,529	—	2,045,529
At December 31	11,260,680	28,381	11,289,061	327,125	11,616,186
<b>Accumulated Depreciation and Amortization</b>					
At January 1	5,807,340	19,866	5,827,206	—	5,827,206
Amortization:					
Incremental effect of network modernization	835,166	—	835,166	—	835,166
Others	1,126,209	5,676	1,131,885	—	1,131,885
Retirements/disposals	(58)	—	(58)	—	(58)
Reclassifications/adjustments (Note 7)	28,029	—	28,029	—	28,029
At December 31	7,796,686	25,542	7,822,228	—	7,822,228
<b>Net Book Value at December 31</b>	<b>₱3,463,994</b>	<b>₱2,839</b>	<b>₱3,466,833</b>	<b>₱327,125</b>	<b>₱3,793,958</b>

No impairment loss on intangible assets was recognized in 2013, 2012 and 2011.

In the first quarter of 2012, the EUL of certain wireless and wireline licenses were changed as a result of continuing upgrade and migration to a modernized network. The net effect of the change in EUL resulted to higher amortization expense of ₱1,236.24 million and ₱835.17 million for the years ended December 31, 2013 and 2012, respectively.

Intangible assets pertain to (1) telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment; (2) costs of the web application system developed by a third party for Kickstart; (3) intangible assets identified to exist during the acquisition of EGG Group for its existing customer contracts and (4) exclusive dealership right in Taodharma.

## 10. Investments in an Associate and Joint Ventures

This account consists of the following as of December 31:

	Country of Incorporation	Principal Activities	2013	2012
<b>Associate</b>				
BTI	Philippines	Telecommunication services	38%	—
<b>Joint Ventures</b>				
BPI Globe BanKO Inc., A Savings Bank (BPI Globe BanKO)	Philippines	Micro-finance enterprises banking services	40%	40%
Bridge Mobile Pte. Ltd. (BMPL)	Philippines	Mobile technology infrastructure and common service	10%	10%



The movement in investment in an associate and joint ventures are as follows:

	2013	2012
	<i>(In Thousand Pesos)</i>	
<b>Acquisition Cost</b>		
At January 1	<b>₱352,610</b>	₱331,620
Acquisition during the year	<b>59,010</b>	20,990
At December 31	<b>411,620</b>	352,610
<b>Accumulated Equity in Net Losses:</b>		
At January 1	<b>(169,417)</b>	(75,073)
Equity in net losses	<b>(79,959)</b>	(83,582)
	<b>(249,376)</b>	(158,655)
Net foreign exchange difference	<b>510</b>	(10,762)
At December 31	<b>(248,866)</b>	(169,417)
<b>Carrying Value at December 31</b>	<b>₱162,754</b>	₱183,193

#### 10.1 Investment in BTI

On October 1, 2013, Globe acquired 38% interest in BTI following the conversion of its unsustainable debt (Tranche B) into 45 million common shares equity based on the confirmation of the Court dated August 27, 2013 on the Amended Rehabilitation Plan. Globe will further convert its share of the Tranche A debt upon certain regulatory approvals. Globe's acquisition of BTI is intended to augment its current data and DSL businesses using BTI's existing platform. As of December 31, 2013, the equity in BTI was recognized as investment in an associate carried at acquisition cost valued at nil. BTI remains in a capital deficiency after Tranche B conversion with a negative book value of common shares at ₱57.62 per share.

The following is the financial information of BTI which is not considered material associate (amounts in thousands) from October 2013 to December 2013:

Share in net loss - unrecognized	₱574,672
Share in other comprehensive income	31,881
Share in total comprehensive loss - unrecognized	₱606,553

The Globe Group has no share of any contingent liabilities as of December 31, 2013.

#### 10.2 Investment in BPI Globe BankO

On July 17, 2009, Globe acquired a 40% stake in BPI Globe BankO (formerly Pilipinas Savings Bank, Inc. or PS Bank) for ₱141.33 million, pursuant to a Shareholder Agreement with Bank of the Philippine Islands (BPI), AC and PS Bank, and a Deed of Absolute Sale with BPI. BPI Globe BankO will have the capability to provide services to micro-finance institutions and retail clients through mobile and related technology.

On May 10, 2011, the BOD of Globe Telecom approved the additional investment of ₱100.00 million as share for BPI Globe BankO's increase in capitalization to cover its expansion plan for the next three years. Globe Telecom made the initial capital infusion of ₱79.01 million on May 10, 2011, and ₱20.99 million last March 28, 2012. As of December 31, 2013 and 2012, the investment of Globe Telecom in BPI Globe BankO amounted to ₱85.63 million and ₱114.42 million, respectively, representing 40% interest.



### 10.3 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.

Globe Group has a ten percent (10%) stake in BMPL. The other joint venture partners each with equal stake in the alliance include SK Telecom, Co. Ltd., Advanced Info Service Public Company Limited, Bharti Airtel Limited, Maxis Communications Berhad, Optus Mobile Pty. Limited, Singapore Telecom Mobile Pte, Ltd., Taiwan Mobile Co. Ltd., PT Telekomunikasi Selular and CSL Ltd. Under the JV Agreement, each partner shall contribute USD4.00 million based on an agreed schedule of contribution. Globe Telecom may be called upon to contribute on dates to be determined by the JV. As of December 31, 2013 and 2012, Globe Telecom has invested a total of USD2.20 million (₱111.28 million) in the joint venture.

The following is the aggregate financial information of BPI Globe BankO and BMPL, which are not considered material joint ventures:

	2013	2012
	<i>(In Thousand Pesos)</i>	
Share in net loss	<b>(₱79,959)</b>	(₱83,582)
Share in other comprehensive income	<b>510</b>	(10,762)
Share in total comprehensive loss	<b>(₱79,449)</b>	(₱94,344)

The Globe Group has no share of any contingent liabilities of the joint ventures as of December 31, 2013 and 2012.

## 11. Other Noncurrent Assets

This account consists of:

	Notes	2013	2012 (As restated, see Note 2.4)
		<i>(In Thousand Pesos)</i>	
Loan receivable from BTI - net of current portion	6	<b>₱4,556,287</b>	₱4,548,782
Deferred input VAT	6	<b>1,013,833</b>	927,096
Miscellaneous deposits	25.1	<b>694,487</b>	609,060
	25.10, 28.10,		
AFS investment in equity securities	28.12	<b>222,712</b>	141,446
Loan receivable from BHI	6, 16.3, 25.5	—	295,000
Loan receivable from GGRP	16.3, 18.2	—	968,000
Others - net		<b>62,486</b>	77,666
		<b>₱6,549,805</b>	₱7,567,050



Loan Receivable from BTI

On November 5, 2012, Globe Telecom obtained internal approvals to commence offers to purchase up to 100% of the financial obligations of BTI and Radio Communications of the Philippines, Inc. (RCPI), a subsidiary of BTI, collectively referred to as “BTI loans”, to their respective financial creditors.

On December 21, 2012, Globe Telecom settled its tender offers for:

- i. 93.66% of the aggregate remaining principal amount of the USD-denominated notes originally due in 2006;
- ii. 98.26% of the aggregate remaining principal amount of peso and USD-denominated BTI loans; and
- iii. 100% of the aggregate remaining principal amount of peso and USD-denominated RCPI loans.

The total consideration for the tender offers is USD/₱310.00 per USD/₱1,000.00 face amount, for a total payment of ₱5,354.76 million, composed of US Dollar and Philippine peso-denominated loans amounting to USD110.55 million and ₱818.74 million, respectively.

The acquired loans were part of the original debt subjected to rehabilitation plan approved on June 28, 2004. The plan was reviewed and evaluated by a court appointed receiver who was tasked to monitor and oversee the implementation of the Plan. The implementing term sheet submitted by the receiver was approved on March 15, 2005.

The restructured loan is divided into sustainable (Tranche A) and unsustainable debt (Tranche B) and is denominated in existing currencies with an option for any of the creditors in Tranche B to convert their USD-denominated restructured debt into PHP at an agreed exchange rate on the date of implementation.

Tranche A is repayable semi-annually on a pari passu basis up to December 31, 2023 based on a table of debt reduction computed at certain percentages of the principal. Tranche B is a non-interest bearing convertible debt and to be repaid only if there are sufficient future cash flows and upon full repayment of Tranche A. At the conclusion of the rehabilitation period, other than as the result of an event of default, Tranche B is to be converted into new BTI shares, considering no conversion had been previously made. The conversion rights in relation to Tranche B are up to a maximum of 40% of the authorized share capital as at the effective date. The loans were initially accounted for at fair value, and the entire acquisition price was allocated to Tranche A.

On May 30, 2013, Globe Telecom and BTI agreed to jointly file a motion with the court having jurisdiction over BTI’s debt to significantly restructure the financial debt in order to prevent the recurrence of default and ensure BTI’s continued viability. The joint motion is intended to achieve a successful rehabilitation at the earliest possible date. The restructuring, including the debt to equity conversion feature would apply to all BTI’s creditors equally upon receipt of certain regulatory approvals, including the confirmation of the court.

On July 1, 2013, Globe Telecom purchased additional BTI bonds with face value of USD2.80 million, part of the BTI loans from their financial creditors, bringing total aggregate principal amount of the USD-denominated notes originally due in 2006 from 93.66% to 95.10% (see Note 11.i).



On August 27, 2013, the joint motion to amend BTI's current debt restructuring plan was granted by the Court. Accordingly, a new Master Restructuring Agreement (MRA) for all BTI creditors will be implemented. This principally involves a total conversion of up to 56.60% of its capital stock. Globe Telecom and BTI were directed to provide separate reports on the implementation procedures of the Amended Rehabilitation Plan and its accompanying MRA within a certain period as mandated by the Court. Likewise, Globe Telecom and BTI were directed by the Court to ensure that the details of the mechanics for converting debt positions are clear and properly communicated to the creditors involved.

Pursuant to the resolution of the Court dated August 27, 2013 confirming the Amended Rehabilitation Plan jointly filed by Globe Telecom and BTI, BTI issued common shares certificate to Globe Telecom on October 1, 2013 for the conversion of its unsustainable debt (Tranche B) into 38% equity (see Note 10.2). Globe Telecom intends to further convert portion of Tranche A debt, which together with the converted Tranche B debt would represent more than 50% of BTI's outstanding shares upon certain regulatory approvals.

On October 29, 2013, Globe filed a report with the court covering the mechanics for converting debt positions as provided for under the MRA.

As of February 10, 2014, the NTC approval for the change in control of BTI is still pending.

As of December 31, 2013 and 2012, loans receivable from BTI amounted to ₱5.04 billion and ₱4.90 billion, respectively, comprising of principal and interest due until 2023, with quarterly interest payments and semi-annual principal payments (see Note 16.6).

## 12. Accounts Payable and Accrued Expenses

This account consists of:

	Notes	2013	2012 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>			
Accrued project costs	25.3	<b>₱16,557,492</b>	₱11,400,188
Accounts payable	16	<b>11,540,568</b>	8,837,714
Accrued expenses	16, 18.2	<b>9,572,302</b>	7,019,084
Traffic settlements - net	4	<b>1,596,233</b>	2,374,154
Output VAT - net		<b>220,235</b>	69,841
Dividends payable	17.3	—	33,145
		<b>₱39,486,830</b>	₱29,734,126

The "Accrued expenses" account includes accruals for services, advertising, manpower and various general, selling and administrative expenses.

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier amounting to ₱2,120.89 million and ₱3,318.91 million as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, Globe Telecom and EGG reported net output VAT amounting to ₱220.24 million, net of input VAT of ₱621.33 million. As of December 31, 2012, Globe Telecom and EGG reported net output VAT amounting to ₱69.84 million, net of input VAT of ₱558.95 million.



### 13. Provisions

The rollforward analysis of this account follows:

	Notes	2013	2012
<i>(In Thousand Pesos)</i>			
At beginning of year		<b>₱203,191</b>	₱166,773
Provisions for claims and assessments	23	<b>93,309</b>	56,327
Payments		<b>(1,800)</b>	(19,909)
At end of year		<b>₱294,700</b>	₱203,191

Provisions relate to various pending unresolved claims and assessments over the Globe Group's mobile and wireline businesses. 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 10, 2014, the remaining pending claims and assessments are still being resolved.

### 14. Notes Payable and Long-term Debt

Notes payable consist of short-term, unsecured US dollar and peso-denominated promissory notes from local banks for working capital requirements amounting to ₱5,219.90 million; which bears interest ranging from 1.12% to 3.00%, ₱2,053.90 million, which bears interest ranging from 1.12% to 1.65% as of December 31, 2013 and 2012, respectively.

Long-term debt consists of:

	2013	2012
<i>(In Thousand Pesos)</i>		
Term Loans:		
Peso	<b>₱28,018,106</b>	₱38,164,986
Dollar	<b>14,321,158</b>	5,829,588
Corporate notes	<b>4,877,621</b>	5,819,400
Retail bonds	<b>16,864,164</b>	9,911,546
	<b>64,081,049</b>	59,725,520
Less current portion	<b>5,980,300</b>	9,294,888
	<b>₱58,100,749</b>	₱50,430,632

The maturities of long-term debt at nominal values, excluding unamortized debt issuance costs, as of December 31, 2013 follow (amounts in thousands):

Due in:	
2014	₱5,990,143
2015	6,136,058
2016	7,386,806
2017	4,763,236
2018 and thereafter	40,207,150
	<b>₱64,483,393</b>





Unamortized debt issuance costs included in the above long-term debt as of December 31, 2013 and 2012 amounted to ₱402.34 million and ₱314.07 million, respectively (see Note 28.2.3).

Total interest expense recognized, excluding the capitalized interest, amounted to ₱2,091.92 million, ₱2,104.79 million and ₱1,989.45 million in 2013, 2012 and 2011, respectively (see Notes 7 and 22).

The interest rates and maturities of the above debt are as follows:

	Maturities	Interest Rates
Term Loans:		
Peso	2014-2022	0.99% to 6.00% in 2013 1.19% to 7.03% in 2012
Dollar	2015-2022	1.27% to 1.80% in 2013 1.83% to 4.19% in 2012
Corporate notes	2014-2016	1.65% to 8.43% in 2013 1.83% to 8.43% in 2012
Retail bonds	2017-2023	4.89% to 6.00% in 2013 5.75% to 6.00% in 2012

#### 14.1 Term Loans and Corporate Notes

The Globe Group's unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated bank loans, bear interest at stipulated and prevailing market rates.

On March 6, 2013, Globe signed a USD75 million 3-year term loan with floating interest rate with Bank of Tokyo - Mitsubishi UFJ, Ltd., Singapore Branch as lender. The purpose of the loan is to fund Globe Telecom's capital expenditures.

On March 22, 2013, Globe signed a USD120 million 7-year term loan with floating interest rate with Metrobank as lender to finance Globe Telecom's capital expenditures

On July 29, 2013, Globe signed a USD40 million 3-year term loan with floating interest rate with Mizuho Bank Ltd. as lender to prepay and refinance certain debts.

On December 4, 2013, Globe signed a ₱7,000.00 million 7-year term loan with fixed interest rate with Land Bank as lender. The proceeds of the loan shall be used to partially finance Globe Telecom's general financing and corporate requirements for capital expenditures.

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.

As of December 31, 2013, the Globe Group is not in breach of any loan covenants.



#### 14.2 Retail Bonds

On January 17, 2012, Globe Group exercised its option to redeem the ₱3,026.00 million fixed rate bonds thru an irrevocable notice issued to its trustee bank. The full settlement happened on February 27, 2012, with redemption cost of ₱60.51 million.

On February 10, 2012, the BOD approved and authorized a corporate bond program to fund the Globe Group's capital expenditures with a principal amount of up to ₱15,000.00 million for issuance in one or more tranches. The Globe Group management has been authorized to determine the final features and other terms and conditions of the offer and issuance of the corporate bonds, including all agreements related to such offer and issuance.

On June 1, 2012, Globe Group 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 shall be used to partially finance Globe Group's capital expenditure requirements in 2012.

The five-year and seven-year retail bonds may be redeemed in whole, but not in part, 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.

On July 17, 2013, the Globe Group 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 shall be used to partially finance the Company'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.

The prepayment feature is assessed as clearly and closely related to the host debt instrument, and hence need not be separately accounted for at FVPL.

The Globe Group has to meet certain bond covenants including a maximum debt-to-equity ratio of 2 to 1. As of December 31, 2013, the Globe Group is not in breach of any bond covenants.

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#### 15. Other Long-term Liabilities

This account consists of:

	Notes	2013	2012 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>			
ARO	3.2.4, 7	<b>₱1,724,304</b>	₱1,594,633
Accrued pension	18.2	<b>1,607,299</b>	843,911
Accrued lease obligations and others	25.1.2	<b>1,017,999</b>	1,342,262
		<b>₱4,349,602</b>	₱3,780,806



The rollforward analysis of the Globe Group's ARO follows:

	Notes	2013	2012
		<i>(In Thousand Pesos)</i>	
At beginning of year		<b>₱1,594,633</b>	₱1,476,597
Capitalized to property and equipment during the year - net of reversal	30	<b>15,675</b>	25,022
Accretion expense during the year	22	<b>130,021</b>	119,814
Adjustments due to changes in estimates	3.2.4	<b>(16,025)</b>	(26,800)
At end of year		<b>₱1,724,304</b>	₱1,594,633

## 16. Related Party Transactions

Parties are considered to be related to Globe Group if it has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the 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 Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

### 16.1 Entities with Joint Control over Globe Group - AC and STI

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

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Traffic settlements receivable - net	<b>₱201,216</b>	₱126,277	₱36,994
Interconnection revenues - net	<b>957,232</b>	966,037	1,136,294

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



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

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Technical assistance fee	<b>₱163,004</b>	<b>₱140,083</b>	<b>₱179,014</b>
Maintenance and restoration costs and other transactions	<b>61,841</b>	64,835	53,996
Software development, supply, license and support	<b>16,681</b>	12,590	25,999

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

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Technical assistance fee	<b>₱35,775</b>	<b>₱45,326</b>	<b>₱54,873</b>
Maintenance and restoration costs and other transactions	<b>20,695</b>	32,372	23,103
Software development, supply, license and support	<b>4,014</b>	35,268	80,377

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

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Subscriber receivables	<b>₱14,761</b>	<b>₱2,143</b>	<b>₱1,718</b>
Service revenues	<b>14,107</b>	14,720	12,640

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

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
General, selling and administrative expenses	<b>₱7,768</b>	<b>₱9,145</b>	<b>₱7,878</b>
Accounts payable and accrued expenses	—	—	234



## 16.2 Joint Ventures in which the Globe Group is a Venturer (see Note 10)

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

## 16.3 Transactions with the Globe Group Retirement Plan (GGRP) (see Note 11)

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

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

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

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

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

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

Loans and receivables consist of interest and dividend receivables, receivable on securities sold to brokers and loan granted by the plan to BHI (see Note 25.5).



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

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

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

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

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

- On August 13 and December 21, 2009, the Globe Group granted five-year loans amounting to ₱250.00 million and ₱45.00 million, respectively, to BHI at 8.275% interest. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM (see Note 25.5).
- On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. As a result, the Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱155.00 million, ₱194.00 million and ₱250.00 million in 2013, 2012 and 2011, respectively.
- On October 1, 2009, the Globe Group entered into a MOA with Altimax for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. As a result, the Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱90.00 million in 2013, 2012 and 2011.

#### 16.4 Transactions with Other Related Parties

Globe Telecom has money market placements and bank balances, and subscriber receivables (included in "Cash and cash equivalents" and "Receivables" accounts in the consolidated statements of financial position, respectively) and earns service revenues (included in the "Service revenues" account in the consolidated statements of comprehensive income) from its other related parties namely, Ayala Land Inc., Ayala Property Management Corporation, Bank of the Philippine Islands, Manila Water Company, Inc., Integrated Microelectronics, Inc., Stream Global Services, Inc., HR Mall Inc., Honda Cars, Inc., Isuzu Automotive Dealership, Inc., Accendo Commercial Corp., Affinity Express Philippines, Inc., Alveo Land Corp., Asian I-Office Properties, Inc., Avida Land Corp., Avida Sales Corporation, Ayala Hotels, Inc., Ayala Plans, Inc., Ayala Systems Technology, Inc., Cebu Holdings, Inc., Makati Development Corp.,



myAyala.com, Inc., North Triangle Depot Commercial Corp., PSI Technologies, Inc., Roxas Land Corp, Serendra, Inc., Station Square East Commercial Corp., Ten Knots Development, KHI ALI Manila, Inc., Lagoon Development Corp., Subic Bay Town Center, Inc., Ayala Aviation Corporation, Laguna AAA Water Corp., Liveit Solution, Inc., Liveit Investments, Ltd., Integreon, Inc., Arvo Commercial Corp., Amaia Land Corp., Michigan Power, Philippine Intergrated Energy Solutions, Inc., Southcrest Hotel Ventures, Inc., Bonifacio Hotels and Crestview E-Office.

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

	Notes	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Cash and cash equivalents	30	<b>₱166,074</b>	₱199,392	₱1,098,168
Service revenues		<b>437,793</b>	344,206	306,846
General, selling and administrative expenses	21	<b>346,280</b>	345,004	288,351
Subscriber receivables (included in "Receivables" account)	4	<b>212,391</b>	102,454	65,694
Property and equipment	7	<b>60,437</b>	71,272	137,209
Accounts payable and accrued expenses	12	<b>72,440</b>	50,008	32,750

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

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

#### 16.5 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	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Short-term employee benefits	21	<b>₱63,172</b>	₱123,700	₱75,343
Share-based payments	18.1	<b>50,000</b>	11,502	49,338
Post-employment benefits	18.2	<b>7,466</b>	12,822	1,736
		<b>₱120,638</b>	₱148,024	₱126,417

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

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

#### 16.6 Transaction with an associate

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



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

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





The summary of balances arising from related party transactions for the relevant financial year (in thousands) follows:

**2013**

	Amount/Volume			Outstanding Balance				Terms	Conditions
	Revenues	Cost and Expenses	Property and Equipment (Note 7)	Cash (Note 30)	Amounts Owed by Related Parties	Other Current Assets	Amounts Owed to Related Parties		
<b>Entities with joint control over</b>									
<b>Globe Group</b>									
AC	₱14,107	₱7,768	₱–	₱–	₱14,761	₱–	₱–	Interest-free, settlement in cash	Unsecured, no impairment
STI	957,232	241,526	–	–	201,216	–	60,484	Interest-free, settlement in cash	Unsecured, no impairment
<b>Jointly controlled entities</b>									
BMPL	–	3,762	–	–	–	–	977	Interest-free, settlement in cash	Unsecured, no impairment
BPI Globe BanKO	541	–	–	–	1,107	–	–	Interest-free, settlement in cash	Unsecured, no impairment
<b>Associate</b>									
BTI	475,822	5,000	–	–	5,037,653	–	9,500	Loan receivable - 20 years, 9.60% to 11.55%; lease capacity provisioning - interest-free	Unsecured, no impairment
<b>Other related parties</b>									
GGRP	–	–	–	–	968,000	–	–	5 years, 7.75%	Unsecured, no impairment
BHI	–	–	–	–	158,620	–	–	5 years, 8.28%	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	–	155,000	–	–	–	–	–	–	–
Altimax	–	90,000	–	–	–	–	–	–	–
Key management personnel	–	–	–	–	–	–	–	Interest-free, settlement in cash	Unsecured, no impairment
Others	437,793	346,280	60,437	166,074	212,391	–	72,440	Interest-free, settlement in cash	Unsecured, no impairment
<b>Total</b>	<b>₱1,885,495</b>	<b>₱849,336</b>	<b>₱60,437</b>	<b>₱166,074</b>	<b>₱6,593,748</b>	<b>₱–</b>	<b>₱143,401</b>		



2012

	Amount/Volume			Outstanding Balance					
	Revenues	Cost and Expenses	Property and Equipment (Note 7)	Cash (Note 30)	Amounts Owed by Related Parties	Other Current Assets	Amounts Owed to Related Parties	Terms	Conditions
<b>Entities with joint control over</b>									
<b>Globe Group</b>									
AC	₱14,720	₱9,145	₱—	₱—	₱2,143	₱—	₱—	Interest-free, settlement in cash	Unsecured, no impairment
STI	966,037	217,508	—	—	126,277	—	112,966	Interest-free, settlement in cash	Unsecured, no impairment
<b>Jointly controlled entities</b>									
BMPL	—	15,491	—	—	—	—	2,208	Interest-free, settlement in cash	Unsecured, no impairment
BPI Globe BanKO	1,584	—	—	—	3,792	—	—	Interest-free, settlement in cash	Unsecured, no impairment
<b>Other related parties</b>									
GGRP	—	—	—	—	968,000	—	—	5 years, 7.75%	Unsecured, no impairment
BHI	—	—	—	—	295,000	—	—	5 years, 8.275%	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	—	194,000	—	—	—	—	—	—	—
Altimax	—	90,000	—	—	—	—	—	—	—
Key management personnel	—	—	—	—	53	—	—	Interest-free, settlement in cash	Unsecured, no impairment
Others	344,206	345,004	71,272	199,392	102,454	6,281	50,008	Interest-free, settlement in cash	Unsecured, no impairment
<b>Total</b>	<b>₱1,326,547</b>	<b>₱871,148</b>	<b>₱71,272</b>	<b>₱199,392</b>	<b>₱1,497,719</b>	<b>₱6,281</b>	<b>₱165,182</b>		



## 17. Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock consists of:

	2013		2012	
	Shares	Amount	Shares	Amount
<i>(In Thousand Pesos and Number of Shares)</i>				
Preferred stock - ₱5 per share	250,000	₱1,250,000	250,000	₱1,250,000
Common stock - ₱50 per share	179,934	8,996,719	179,934	8,996,719

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

	2013		2012	
	Shares	Amount	Shares	Amount
<i>(In Thousand Pesos and Number of Shares)</i>				
Preferred stock	158,515	₱792,575	158,515	₱792,575
Common stock	132,596	6,629,785	132,406	6,620,291
Total capital stock		₱7,422,360		₱7,412,866

### 17.1 Preferred Stock

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 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;
- 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;
- 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 shares are declared upon the sole discretion of the Globe Telecom's BOD.

### 17.2 Common Stock

The rollforward of outstanding common shares are as follows:

	2013		2012		2011	
	Shares	Amount	Shares	Amount	Shares	Amount
<i>(In Thousand Pesos and Number of Shares)</i>						
At beginning of year	132,406	₱6,620,291	132,353	₱6,617,651	132,348	₱6,617,424
Exercise of stock options	190	9,494	53	2,640	5	227
At end of year	132,596	₱6,629,785	132,406	₱6,620,291	132,353	₱6,617,651



### 17.3 Cash Dividends

Information on Globe Telecom's declaration of cash dividends follows:

			Date	
	Per Share	Amount	Record	Payable
(In Thousand Pesos, Except Per Share Figures)				
Preferred stock dividends declared on:				
February 8, 2011	₱0.29	₱45,399	February 22, 2011	March 18, 2011
December 15, 2011	0.22	35,295	December 29, 2011	March 18, 2012
December 11, 2012	0.21	33,145	December 27, 2012	January 24, 2013
November 8, 2013	0.15	23,838	November 22, 2013	December 8, 2013
Common stock dividends declared on:				
February 8, 2011	31.00	4,102,803	February 22, 2011	March 18, 2011
August 8, 2011	31.00	4,102,802	August 22, 2011	September 19, 2011
February 10, 2012	32.50	4,302,737	February 24, 2012	March 16, 2012
August 6, 2012	32.50	4,302,891	August 28, 2012	September 18, 2012
February 5, 2013	33.50	4,435,828	February 19, 2013	March 12, 2013
August 6, 2013	33.50	4,440,936	August 22, 2013	September 22, 2013

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 is 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-annually dividend payments to quarterly dividend distributions. However, on December 10, 2013, the BOD approved to defer the implementation of the quarterly dividend payout to the second semester of 2014.

The dividend distribution 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.

### 17.4 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱6,518.88 million as of December 31, 2013. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, unrealized gains recognized on asset and liability currency translations, unrealized gains on fair value adjustments and deferred income tax assets. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 14).

### 17.5 Other Comprehensive Income

#### Other Reserves

Other Reserves

	For the Year Ended December 31, 2013				
	Cash flow hedges	AFS financial assets	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
	(In Thousand Pesos)				
As of January 1, 2013	(₱121,200)	₱80,275	(₱3,663)	(₱481,951)	(₱526,539)
Fair value changes	406,194	(22,500)	—	—	383,694
Transferred to profit or loss	(183,012)	—	—	—	(183,012)
Remeasurement losses on defined benefit plan	—	—	—	(492,009)	(492,009)
Income tax effect	(66,955)	—	—	147,603	80,648
Exchange differences	—	—	(2,357)	—	(2,357)
As of December 31, 2013	₱35,027	₱57,775	(₱6,020)	(₱826,357)	(₱739,575)



For the Year Ended December 31, 2012 (As restated, see Note 2.4)

	Cash flow hedges	AFS financial assets	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
<i>(In Thousand Pesos)</i>					
As of January 1, 2012	(P153,070)	P36,301	(P8,133)	(P279,453)	(P404,355)
Fair value changes	32,760	43,974	—	—	76,734
Transferred to profit or loss	12,769	—	—	—	12,769
Remeasurement losses on defined benefit plan	—	—	—	(289,283)	(289,283)
Income tax effect	(13,659)	—	—	86,785	73,126
Exchange differences	—	—	4,470	—	4,470
As of December 31, 2012	(P121,200)	P80,275	(P3,663)	(P481,951)	(P526,539)

For the Year Ended December 31, 2011 (As restated, see Note 2.4)

	Cash flow hedges	AFS financial assets	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
<i>(In Thousand Pesos)</i>					
As of January 1, 2011	(P115,834)	P35,032	(P7,508)	P—	(P88,310)
Fair value changes	(239,094)	1,269	—	—	(237,825)
Transferred to profit or loss	185,900	—	—	—	185,900
Remeasurement losses on defined benefit plan	—	—	—	(399,219)	(399,219)
Income tax effect	15,958	—	—	119,766	135,724
Exchange differences	—	—	(625)	—	(625)
As of December 31, 2011	(P153,070)	P36,301	(P8,133)	(P279,453)	(P404,355)

## 18. Employee Benefits

### 18.1 Stock Option Plans

The Globe Group has a share-based compensation plan called the Executive Stock Option Plan (ESOP). The number of shares allocated under the ESOP shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

On October 1, 2009, the Globe Group granted additional stock options to key executives and senior management personnel under the ESOP. The grant requires the grantees to pay a nonrefundable option purchase price of P1,000.00 until October 30, 2009, which is the closing date for the acceptance of the offer. In order to avail of the privilege, the grantees must remain with Globe Telecom or its affiliates from grant date up to the beginning of the exercise period of the corresponding shares.

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2003 to 2009:

Date of Grant	Number of Options Granted	Exercise Price	Exercise Dates	Fair Value of each Option	Fair Value Measurement
April 4, 2003	680,200	P547.00 per share	50% of options exercisable from April 4, 2005 to April 14, 2013; the remaining 50% exercisable from April 4, 2006 to April 14, 2013	P283.11	Black-Scholes option pricing model
July 1, 2004	803,800	P840.75 per share	50% of options exercisable from July 1, 2006 to June 30, 2014; the remaining 50% from July 1, 2007 to June 30, 2014	P357.94	Black-Scholes option pricing model



Date of Grant	Number of Options Granted	Exercise Price	Exercise Dates	Fair Value of each Option	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:

	2013		2012		2011	
	Number of Shares	Weighted Average Exercise Price	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	1,366	₱1,081.01	1,740	₱1,055.03	1,848	₱1,047.80
Exercised	(771)	1,085.79	(359)	952.28	(51)	856.65
Expired/forfeited	(21)	729.82	(15)	1,145.88	(57)	997.06
Outstanding, at end of year	574	₱1,087.76	1,366	₱1,081.01	1,740	₱1,055.03
Exercisable, at end of year	574	₱1,087.76	1,366	₱1,081.01	1,661	₱1,057.94

The average share prices at dates of exercise of stock options as in 2013, 2012 and 2011 amounted to ₱1,586.10, ₱1,213.00 and ₱1,005.55, respectively.

As of December 31, 2013 and 2012, the weighted average remaining contractual life of options outstanding is 3.85 years and 4.68 years, respectively.



The following assumptions were used to determine the fair value of the stock options at effective grant dates:

	October 1, 2009	August 1, 2008	May 17, 2007	March 24, 2006	July 1, 2004	April 4, 2003
Share price	₱995.00	₱1,130.00	₱1,340.00	₱930.00	₱835.00	₱580.00
Exercise price	993.75	1,064.00	1,270.50	854.75	840.75	547.00
Expected volatility	48.49%	31.73%	38.14%	29.51%	39.50%	34.64%
Option life	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividends	6.43%	6.64%	4.93%	5.38%	4.31%	2.70%
Risk-free interest rate	8.08%	9.62%	7.04%	10.30%	12.91%	11.46%

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. Cost of share-based payments for the years ended December 31, 2013, 2012 and 2011 amounted to ₱50.00 million, ₱11.50 million and ₱49.34 million, respectively (see Note 16.5).

### 18.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension 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 Plan 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 is authorized to appoint one or more fund managers to hold, invest and reinvest the assets of the Plan and execute an Investment Agreement with the said fund managers. The Plan is held and invested by the fund managers, in accordance with the guidelines set by the BOT.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of pension expense (included in staff costs under "General, selling and administrative expenses") in the consolidated statements of comprehensive income are as follows:

	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>		
Current service cost	<b>₱348,399</b>	₱282,746	₱199,555
Actual return on plan assets	<b>₱107,268</b>	₱197,785	₱140,792



The accrued pension is as follows:

	2013	2012 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>	
Present value of benefit obligation	<b>₱4,262,206</b>	₱3,437,028
Fair value of plan assets	<b>(2,654,907)</b>	(2,593,117)
Liabilities recognized in the consolidated statements of financial position	<b>₱1,607,299</b>	₱843,911

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*

	2013	2012 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>	
Balance at beginning of year	<b>₱3,437,028</b>	₱2,722,289
Current service cost	<b>348,399</b>	282,746
Interest cost	<b>184,708</b>	165,676
Benefits paid directly by the Group	<b>(957)</b>	—
Benefits paid from plan assets	<b>(165,182)</b>	(116,063)
Transfers in (out)	—	(20,217)
Remeasurements in other comprehensive income:		
Actuarial changes arising from changes in assumptions	<b>271,077</b>	313,924
Actuarial changes arising from experience adjustment	<b>186,916</b>	88,673
Past service cost	<b>217</b>	—
Balance at end of year	<b>₱4,262,206</b>	₱3,437,028

*Fair value of plan assets*

	2013	2012 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>	
Balance at beginning of year	<b>₱2,593,117</b>	₱2,376,680
Benefits paid	<b>(165,182)</b>	(116,063)
Interest income on plan assets	<b>141,597</b>	146,962
Contributions	<b>119,392</b>	92,441
Return on plan assets (excluding amount included in net interest)	<b>(34,017)</b>	113,314
Transfers in (out)	—	(20,217)
Balance at end of year	<b>₱2,654,907</b>	₱2,593,117





The recommended contribution for the Globe Group retirement fund for the year 2014 amounted to ₱378.73 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2013.

The fair value of plan assets by each class as of December 31, 2013 and 2012 follows:

	<b>2013</b>	<b>2012</b>
	<i>(In Thousand Pesos)</i>	
Cash and cash equivalents	<b>₱121,330</b>	<b>₱44,573</b>
Investments in fixed income securities:		
Government	<b>696,382</b>	183,993
Corporate	<b>298,750</b>	1,100,846
Loans	<b>22,801</b>	—
Others	<b>9,033</b>	62,052
Investments in equity securities	<b>1,506,611</b>	1,201,653
	<b>₱2,654,907</b>	<b>₱2,593,117</b>

The assumptions used to determine pension benefits of Globe Group are as follows:

	<b>2013</b>	<b>2012</b>
Discount rate	<b>5.27%</b>	6.25%
Salary rate increase	<b>5.13%</b>	4.50%

The assumptions regarding future mortality rates are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2013 and 2012, 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, 2013, assuming if all other assumptions were held constant:

	Increase (decrease)	Impact on defined benefit obligation Increase (decrease)
		<i>(In Thousand Pesos)</i>
Discount rates	+0.50%	(₱180,415)
	-0.50%	400,155
Future salary increases	+1%	837,919
	-1%	(348,846)
Mortality	+10%	(266)
	-10%	620

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 defined benefit retirement plan is funded by the participating companies, namely Globe, Innove and G-Xchange. 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 as of December 31, 2013 is 22.21 years.

## 19. Interest Income

Interest income is earned from the following sources:

	Notes	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Loans receivable	11, 16.3			
BTI		<b>₱475,822</b>	₱138,385	₱–
GGRP		<b>76,257</b>	76,273	76,056
BHI	25.5	<b>13,721</b>	24,818	24,750
Others		<b>24,431</b>	6,384	–
Short-term placements	30	<b>79,813</b>	316,894	188,557
Cash in banks	30	<b>18,205</b>	17,097	8,025
		<b>₱688,249</b>	<b>₱579,851</b>	<b>₱297,388</b>

## 20. Other Income

This account consists of:

	Notes	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Lease income	25.4, 25.1.1	<b>₱172,499</b>	₱172,499	₱172,499
Foreign exchange gain - net	22, 28.2.1.2	–	318,334	–
Gain on derivative instruments	28	–	–	25,495
Others		<b>302,747</b>	225,538	376,774
		<b>₱475,246</b>	<b>₱716,371</b>	<b>₱574,768</b>

The peso to US dollar exchange rates amounted to ₱44.398, ₱41.078 and ₱43.919 as of December 31, 2013, 2012 and 2011, respectively.

The Globe Group's net foreign currency-denominated liabilities amounted to USD363.75 million, USD161.22 million and USD188.97 million as of December 31, 2013, 2012 and 2011, respectively (see Note 28.2.1.2).

These combinations of net liability movements and peso rate depreciation/appreciation resulted in foreign exchange loss in 2013 and 2011 (see Note 22).

The "Others" account includes insurance claims and other items that are individually immaterial.



## 21. General, Selling and Administrative Expenses

This account consists of:

	Notes	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>				
Staff costs	16.5, 18	<b>₱7,473,499</b>	₱6,426,592	₱5,918,974
Selling, advertising and promotions		<b>7,014,729</b>	6,440,554	4,756,425
Professional and other contracted services	16	<b>5,966,481</b>	5,193,217	4,214,284
Utilities, supplies and other administrative expenses	5	<b>4,399,110</b>	4,260,773	3,804,762
Repairs and maintenance	16	<b>3,656,671</b>	3,672,038	3,522,778
Rent	16, 25	<b>3,534,975</b>	3,153,505	2,830,382
Taxes and licenses		<b>2,055,909</b>	1,595,842	1,380,270
Insurance and security services		<b>1,383,294</b>	1,330,648	1,381,633
Courier, delivery and miscellaneous expenses		<b>1,320,112</b>	1,055,375	1,116,181
Others		<b>514,059</b>	473,867	487,917
		<b>₱37,318,839</b>	₱33,602,411	₱29,413,606

The “Others” account includes various other items that are individually immaterial.

## 22. Financing Costs

This account consists of:

	Notes	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>				
Interest expense - net*	7, 14	<b>₱2,091,915</b>	₱2,104,792	₱1,989,451
Foreign exchange loss - net	20, 28.2.1.2	<b>486,308</b>	—	308,650
Swap and other financing costs - net		<b>245,187</b>	183,007	211,404
Loss on derivative instruments	28	<b>88,375</b>	74,810	—
		<b>₱2,911,785</b>	₱2,362,609	₱2,509,505

\*This account is net of the amount capitalized borrowing costs (see Note 7).

In 2012 and 2011, net foreign exchange gain amounting to ₱318.33 million and gain on derivative instruments amounting to ₱25.50 million, respectively, was presented as part of “Other income - net” account in the consolidated statements of comprehensive income (see Note 20).



Interest expense - net is incurred on the following:

	Notes	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>				
Long-term debt	14	<b>₱1,660,094</b>	₱1,657,862	₱1,762,501
Accretion expense	15, 25.4	<b>193,815</b>	168,707	167,445
Amortization of debt issuance cost	14	<b>131,967</b>	103,497	116,618
Short term notes payable	14	<b>57,954</b>	82,047	3,823
Net interest cost (benefit) on defined benefit obligation		—	18,714	(70,209)
Others		<b>48,085</b>	73,965	9,273
		<b>₱2,091,915</b>	₱2,104,792	₱1,989,451

### 23. Impairment Losses and Others

This account consists of:

	Notes	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Impairment loss on:				
Receivables	4, 6, 28.2.2	<b>₱2,046,523</b>	₱1,377,317	₱1,599,967
Property and equipment and intangible assets		<b>26,312</b>	259,262	128,614
Provisions for (reversal of):				
Inventory obsolescence and market decline	5	<b>321,460</b>	170,678	237,918
Other claims and assessments	13	<b>88,333</b>	56,327	(47,916)
		<b>₱2,482,628</b>	₱1,863,584	₱1,918,583

### 24. Income Tax

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

	2013	2012 (As restated, see Note 2.4)
<i>(In Thousand Pesos)</i>		
Deferred income tax assets on:		
Allowance for impairment losses on receivables	<b>₱1,267,463</b>	₱1,081,543
Unearned revenues already subjected to income tax	<b>801,636</b>	730,079
Accrued pension	<b>643,823</b>	428,060
ARO	<b>476,901</b>	440,857
Accumulated impairment losses on property and equipment	<b>185,941</b>	183,072
Inventory obsolescence and market decline	<b>146,965</b>	103,196

(Forward)



	2013	2012 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>	
Cost of share-based payments	<b>₱136,424</b>	₱44,236
Accrued rent expense under PAS 17	<b>119,087</b>	109,237
Accrued vacation leave	<b>116,561</b>	103,110
Unrealized foreign exchange losses	<b>109,666</b>	1,108
Provisions for claims and assessments	<b>52,696</b>	68,496
Allowance for doubtful accounts for long-outstanding net advances	<b>40,497</b>	12,654
Unrealized loss on derivative transactions	<b>26,414</b>	72,070
NOLCO (see Note 3.2.8)	—	15,005
MCIT (see Note 3.2.8)	—	2,176
Others	<b>29,390</b>	25,672
	<b>4,153,464</b>	3,420,571
Deferred income tax liabilities on:		
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	<b>1,432,724</b>	1,553,478
Excess of accumulated depreciation and amortization of Globe Telecom equipment for tax reporting(a) over financial reporting(b)	<b>815,677</b>	2,946,566
Unrealized foreign exchange gain	<b>(19,047)</b>	144,476
Unamortized discount on noninterest bearing liability	<b>850</b>	7,910
Interest accretion	<b>6,382</b>	6,382
Customer contracts of acquired company	—	858
Others	—	15,390
	<b>2,236,586</b>	4,675,060
Net deferred income tax assets (liabilities)	<b>₱1,916,878</b>	(₱1,254,489)

(a) Sum-of-the-years digit method

(b) Straight-line method

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

	2013	2012 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>	
Net deferred tax assets*	<b>₱1,916,878</b>	₱1,016,856
Net deferred tax liabilities (Globe Telecom)	—	2,271,345

\*2013 consist of Globe, Innove, GXI and EGG Group

\*2012 consist of Innove, GXI and EGG Group.

GXI's NOLCO amounting to ₱34.87 million expired in 2011. GTI's NOLCO amounting to ₱0.05 million expired in 2012.



The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
	<i>(In Thousand Pesos)</i>		
Provision at statutory income tax rate	<b>₱2,059,432</b>	₱2,925,464	₱4,217,441
Add (deduct) tax effects of:			
Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense	<b>(176,949)</b>	(54,524)	5,324
Equity in net losses of joint ventures	<b>23,988</b>	25,075	8,203
Income subjected to lower tax rates	<b>(16,861)</b>	(823,505)	(517,986)
Others	<b>14,918</b>	833,783	540,602
Actual provision for income tax	<b>₱1,904,528</b>	₱2,906,293	₱4,253,584

The current provision for income tax includes the following:

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
RCIT or MCIT whichever is higher	<b>₱4,949,057</b>	₱4,291,409	₱5,011,849
Final tax	<b>46,359</b>	64,290	37,630
	<b>₱4,995,416</b>	₱4,355,699	₱5,049,479

The corporate tax rate is 30% in 2013, 2012 and 2011.

Globe Telecom and Innove are entitled to certain tax and nontax incentives and have availed of incentives for tax and duty-free importation of capital equipment for their services under their respective franchises.

## 25. Agreements and Commitments

### 25.1 Lease Commitments

#### 25.1.1 Operating lease commitments

##### (a) Globe Group as lessee

Globe Group leases certain premises for some of its telecommunications facilities and equipment and for most of its business centers and network sites. The operating lease agreements are for periods ranging from one to 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 shown as part of the "Prepayment and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position (see Notes 6 and 11). The Globe Group also has short term renewable leases on transmission cables and equipment. The Globe Group's rentals incurred on these various leases (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive



income) amounted to ₱3,534.98 million, ₱3,153.51 million and ₱2,830.38 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 21).

The future minimum lease payments under these operating leases are as follows:

	2013	2012
	<i>(In Thousand Pesos)</i>	
Not later than one year	<b>₱798,706</b>	₱786,356
After one year but not more than five years	<b>4,374,751</b>	4,799,558
After five years	<b>2,309,172</b>	3,337,817
	<b>₱7,482,629</b>	<b>₱8,923,731</b>

(b) Globe Group as lessor

Globe Telecom have certain lease agreements on equipment and office spaces. The operating lease agreements are for periods ranging from one (1) to fourteen (14) years from the date of contracts. These include Globe Telecom's lease agreement with C2C Pte. Ltd. (C2C) (see Note 25.4).

Total lease income amounted to ₱172.50 million for the years ended December 31, 2013, 2012 and 2011, respectively (included in "Other income" account in the consolidated statements of comprehensive income).

The future minimum lease receivables under these operating leases are as follows:

	2013	2012
	<i>(In Thousand Pesos)</i>	
Within one year	<b>₱146,694</b>	₱146,615
After one year but not more than five years	<b>183,367</b>	329,884
	<b>₱330,061</b>	<b>₱476,499</b>

25.1.2 Finance lease commitments

Globe Group as lessee

The Globe Group engaged the services of various suppliers for the upgrade of its wireless, data and telephony network. In partnership with equipment and service provider and the appointment of a project and program manager, Globe Group will undertake a transformation upgrade and overhaul of its business support systems within the USD790.00 million modernization project.

Part of the managed service engagement with the service provider is a lease for hardware infrastructure and information equipment valued over the seven-year term of the lease at ₱893.28 million. Total lease payments as of December 31, 2013 and 2012 amounted to ₱168.26 million and ₱112.00 million, respectively. 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:

	2013		2012	
	Minimum Payments	Present Value of Payments	Minimum Payments	Present Value of Payments
	<i>(In Thousand Pesos)</i>			
Within one year	<b>₱183,726</b>	<b>₱168,707</b>	₱112,171	₱99,941
After one year but not more than five years	<b>510,561</b>	<b>491,311</b>	448,684	417,878
More than five years	<b>30,938</b>	<b>30,483</b>	224,342	220,267
Total minimum lease payments	<b>725,225</b>	<b>690,501</b>	785,197	738,086
Less amounts representing finance charges	<b>(34,724)</b>	–	(47,111)	–
Present value of minimum lease payments	<b>₱690,501</b>	<b>₱690,501</b>	₱738,086	₱738,086

In addition, total payments to service provider based on the seven-year agreement for the maintenance of servers, 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 ₱95.70 million and ₱49.00 million as of December 31, 2013 and 2012, respectively.

## 25.2 Agreements and Commitments with Other Carriers

Globe Telecom and Innove have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe 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.

## 25.3 Arrangements and Commitments with Suppliers

Globe Telecom and Innove have 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 are made to suppliers and delivery, installation, development or construction commences only when purchase orders are served. While the development or construction is in progress, project costs are accrued based on the billings received. 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 balance of the value of the related purchase orders is accrued.

The consolidated accrued project costs as of December 31, 2013 and 2012 included in the “Accounts payable and accrued expenses” account in the consolidated statements of financial position amounted to ₱16,557.49 million and ₱11,400.19 million, respectively (see Note 12). As of December 31, 2013 and 2012, the consolidated expected future billings on the outstanding purchase orders issued amounted to ₱38,320.44 million and ₱35,279.00 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, 2013 and 2012, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱5,223.60 million and ₱8,815.53 million, respectively (see Note 6).





#### 25.4 Agreements with C2C/Pacnet

In 2001, Globe Telecom signed a cable equipment supply agreement with C2C as the supplier. In March 2002, Globe Telecom as lessor entered into an equipment lease agreement for the said equipment with GB21 Hong Kong Limited (GB21).

Subsequently, GB21, in consideration of C2C'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 C2C. As a result of the said assignment of payables by GB21 to C2C, Globe Telecom's liability arising from the cable equipment supply agreement with C2C was effectively converted into a noninterest-bearing long-term obligation accounted for at net present value under PAS 39 starting 2005.

In January 2003, Globe Telecom received advance lease payments from C2C for its use of a portion of Globe Telecom's cable landing station facilities. Based on the amortization schedule, Globe Telecom recognized lease income amounting to ₱12.26 million for the years ended December 31, 2013, 2012 and 2011.

On November 17, 2009, Globe Telecom and Pacnet Cable Ltd. (Pacnet), formerly C2C, signed a memorandum of agreement (MOA) to terminate and unwind their Landing Party Agreement dated August 15, 2000 (LPA). 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 C2C 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.

In the second quarter of 2010, the specific equipment, portion of the property and facilities, and the liabilities associated with the transfer were identified, classified and shown separately in the consolidated statement of financial position as "Assets classified as held for sale" and "Liabilities directly associated with the assets classified as held for sale".

As of December 31, 2012, assets classified as held for sale and the liabilities directly associated with the assets classified as held for sale amounted to ₱778.32 million and ₱459.76 million, respectively.

In 2013, the Globe Group ceased to classify these assets as held for sale due to the substantial delay in the completion of the transaction. The Globe Group recognized a catch up depreciation amounting to ₱397.00 million for the year ended December 31, 2013.

#### 25.5 Agreement with BHI

On August 11, 2009, Globe Telecom signed a credit facility agreement with BHI amounting to ₱750.00 million. As of December 31, 2013 and 2012 the total drawdown of BHI amounted to ₱295.00 million. The loan is payable in one full payment, five years from the date of initial drawdown, with a prepayment option in whole or in part on an interest payment date. Interest is at the rate of 8.275%, payable semi-annually in arrears and the loan is secured by a pledge and chattel mortgage agreement. Interest income amounted to ₱13.72 million, ₱24.82 million and ₱24.75 million in 2013, 2012 and 2011, respectively (see Note 19). As of December 31, 2013 and



2012, the outstanding balance of loan receivable from BHI amounted to ₱158.62 million and ₱295.00 million, respectively (see Notes 6 and 11).

#### 25.6 Agreement with STI

In 2009, STI agreed to sell to Globe Telecom its own capacity in a certain cable system. In 2009 also, Globe Telecom agreed to sell to STI capacities that it owns in a certain cable system (see Note 16.1). In March 2011, the final agreements were executed between Globe Telecom and STI whereby Globe Telecom conveyed and transferred ownership of certain IRU of certain international cables systems in exchange for IRUs of certain cables systems of STI. The assets received were booked at its fair value amounting to ₱120.19 million.

#### 25.7 Construction Maintenance Agreement for South-East Asia Japan Cable System (SJC)

In April 2011, the global consortium of telecommunication companies formed to build and operate the South-East Asia Japan Cable (SJC) system officially started the construction of the project that will link Brunei, China Mainland, Hong Kong, Philippines, Japan, and Singapore with options to extend to Thailand. The SJC consortium is composed of Globe Telecom and nine other international carriers. Globe Telecom's estimated investment for this project amounts to USD63.91 million and USD63.60 million and total expenditures incurred was at 95.43% and 74.00% as of December 31, 2013 and 2012, respectively (see Note 7).

#### 25.8 Agreement with BTI

On July 26, 2012, Globe Telecom and BTI executed an agreement to jointly use BTI frequencies for their respective telecommunications services. Globe Telecom agreed to pay BTI a capacity provision fee per annum and grant access to each other's network, resources and facilities to enable joint and efficient use of the frequency.

On October 1, 2012, the NTC provisionally approved the joint use by Globe Telecom and BTI the frequencies assigned to BTI. The joint use agreement will allow Globe Telecom to address the increasing demand for voice, SMS and mobile data services; and for BTI to be able to offer mobile telecommunications services nationwide. The NTC imposed conditions to both parties, which includes the continuous payment of annual spectrum usage fee (SUF) imposed by the NTC to both parties, and where Globe Telecom shall improve and maintain the required quality service in order to continue the joint use of the assigned frequencies.

#### 25.9 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 in order 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 telephony 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.

#### 25.10 Shareholders' and dealership agreement with Taodharma

In March 2013, Globe Telecom entered into a Shareholders Agreement among four other entities to incorporate Taodharma.



Globe Telecom subscribed for the 25% preferred shares of Taodharma amounting to ₱55.00 million which has been fully paid up as of August 2013 (see Note 11). Taodharma shall carry on the business of establishing, operating and maintaining retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets, accessories or embellishments in connection and in accordance with the terms and conditions of the Dealer Agreement executed among all of the entities.

In March 2013, Globe Telecom also entered into an exclusive dealership arrangement with Taodharma that included provisions to build and open retail outlet stores scattered across in cities and other major high-traffic locations nationwide.

As of December 31, 2013, Globe Group has recognized ₱67.55 million representing share on costs classified under “Intangible assets and goodwill - net” in the consolidated statements of financial position (see Note 9).

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## 26. Contingencies

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 and the other carrier’s constitutional and statutory right to due process. However, while the decision is in Globe’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 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 MR is pending resolution as of February 10, 2014.

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.



## 27. Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

	2013	2012 (As restated, see Note 2.4)	2011 (As restated, see Note 2.4)
	<i>(In Thousand Pesos and Number of Shares, Except Per Share Figures)</i>		
Net income attributable to common shareholders for basic earnings per share (a)	<b>₱4,936,407</b>	₱6,812,109	₱9,769,256
Add dividends on preferred shares	<b>23,838</b>	33,145	35,295
Net income attributable to shareholders for diluted earnings per share (b)	<b>4,960,245</b>	6,845,254	9,804,551
Common shares outstanding, beginning	<b>132,406</b>	132,353	132,348
Add exercise of stock options	<b>109</b>	41	1
Weighted average number of shares for basic earnings per share (c)	<b>132,515</b>	132,394	132,349
Dilutive shares arising from:			
Stock options	<b>535</b>	136	40
Convertible preferred shares	<b>233</b>	699	882
Adjusted weighted average number of common stock for diluted earnings per share (d)	<b>133,283</b>	133,229	133,271
Basic earnings per share (a/c)	<b>₱37.25</b>	₱51.45	₱73.81
Diluted earnings per share (b/d)	<b>₱37.22</b>	₱51.38	₱73.57

## 28. Capital and Risk Management and Financial Instruments

### 28.1 General

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. 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 Financial Officer and concurrent Chief Risk Officer champions and 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.

## 28.2 Capital and Financial Risk Management Objectives and Policies

Capital includes convertible preference shares and 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 Globe Group is not subject to regulatory imposed capital requirements. The ratio of debt to total capitalization for the years ended December 31, 2013 and 2012 was at 62% and 57%, respectively.

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:

### *28.2.1 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. 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, AFS investments, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at December 31, 2013 and 2012. 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 statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as at December 31, 2013 and 2012 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.

#### 28.2.1.1 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. Please refer to table presented under 28.2.3 Liquidity Risk.

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, 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 currency and interest rate swaps, 46% and 63%, 31% and 59% of the Globe Group's USD and PHP borrowings as of December 31, 2013 and 2012, respectively, are at a fixed rate of interest.

The following tables demonstrate the sensitivity of income before tax to a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

2013			
	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
(In Thousand Pesos)			
USD	+35bps	(P22,496)	(P58)
	-35bps	22,496	58
PHP	+100bps	(209,419)	1,648
	-100bps	209,032	(2,100)
2012			
	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
(In Thousand Pesos)			
USD	+35bps	(P4,462)	P4,624
	-35bps	4,457	(3,198)
PHP	+100bps	(71,844)	8,244
	-100bps	66,850	(7,761)

#### 28.2.1.2 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, 24% and 13% of debt as of December 31, 2013 and 2012, 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:

	2013		2012	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$25,572	₱1,135,339	\$41,508	₱1,705,082
Receivables	68,178	3,026,975	73,127	3,003,898
Long-term notes receivable	97,578	4,332,248	100,302	4,120,226
	191,328	8,494,562	214,937	8,829,206
<b>Liabilities</b>				
Accounts payable and accrued expenses	174,181	7,733,269	182,505	7,496,940
Short-term notes payable	50,000	2,219,900	50,000	2,053,900
Long-term debt	325,000	14,429,350	143,648	5,900,752
Unearned revenues	194	8,611	—	—
	549,375	24,391,130	376,153	15,451,592
<b>Net foreign currency-denominated liabilities</b>	<b>\$358,047</b>	<b>₱15,896,568</b>	<b>\$161,216</b>	<b>₱6,622,386</b>

\*This table excludes derivative transactions disclosed in Note 28.3

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 financial assets and liabilities).

2013		
Increase/decrease in Peso to US Dollar exchange rate	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
	<i>(In Thousand Pesos)</i>	
+ .40	(₱143,219)	₱52
- .40	143,219	(52)
2012		
Increase/decrease in Peso to US Dollar exchange rate	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
	<i>(In Thousand Pesos)</i>	
+ .40	(₱64,493)	₱5
- .40	64,493	(5)

The movement on the effect on income before income tax is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in US dollars, where the functional currency of the Globe Group is Philippine Peso. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and will offset the underlying transactions when they occur.

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 USD666.22 million and USD537.49 million as of December 31, 2013 and 2012, respectively (see Note 25.3). 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 2013 and 2012 movement in PHP to USD rate on commitments amounted to ₱266.49 million and ₱215.00 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. Globe Telecom enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

### 28.2.2 Credit Risk

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. The maximum credit exposure relates to receivables net of any allowances provided.

With respect to credit risk arising from other financial assets of the Globe Group, which comprise cash and cash equivalents, short-term investments, AFS financial investments and certain derivative instruments, the Globe Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Globe Group's investments comprise short-term bank deposits and government securities. Credit risk from these investments is managed on a Globe Group basis. For its investments with banks, the Globe Group has a counterparty risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile.

The Globe Group has not executed any credit guarantees in favor of other parties. There is also no concentration of credit risk within the Group.

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. For investments in government securities, these are denominated in local currency and are considered to be relatively risk-free. 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 cash and cash equivalents as of December 31:

	2013	2012
Local bank deposits	30%	36%
Onshore foreign bank	70%	36%
Special deposit account	—	20%
Offshore bank deposit	—	8%





The Globe Group has not executed any credit guarantees in favor of other parties. There is also minimal concentration of credit risk within the Globe Group. 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.

The tables below show the aging analysis of the Globe Group's receivables as of December 31.

	Neither Past Due Nor Impaired	2013				Impaired Financial Assets	Total
		Past Due But Not Impaired					
		Less than 30 days	31 to 60 days	61 to 90 Days	More than 90 days		
(In Thousand Pesos)							
Wireless receivables:							
Consumer	₱421,441	₱830,032	₱540,192	₱297,678	₱3,313,742	₱1,501,094	₱6,904,179
Key corporate accounts	5,865	54,851	121,562	133,771	1,790,681	170,412	2,277,142
Other corporations and Small and Medium Enterprises (SME)	8,276	139,846	139,840	89,979	685,456	344,817	1,408,214
	435,582	1,024,729	801,594	521,428	5,789,879	2,016,323	10,589,535
Wireline receivables:							
Consumer	269,178	239,189	155,270	65,571	81,820	1,459,396	2,270,424
Key corporate accounts	131,074	179,856	432,353	230,771	1,083,291	314,513	2,371,858
Other corporations and SME	48,501	51,385	47,539	19,076	34,055	143,508	344,064
	448,753	470,430	635,162	315,418	1,199,166	1,917,417	4,986,346
Other trade receivables	22	40,156	—	—	—	—	40,178
Traffic receivables:							
Foreign	1,189,372	—	—	—	—	161,362	1,350,734
Local	122,033	—	—	—	—	31,074	153,107
	1,311,405	—	—	—	—	192,436	1,503,841
Other receivables	2,256,332	—	—	—	—	14,736	2,271,068
Total	₱4,452,094	₱1,535,315	₱1,436,756	₱836,846	₱6,989,045	₱4,140,912	₱19,390,968

	Neither Past Due Nor Impaired	2012				Impaired Financial Assets	Total
		Past Due But Not Impaired					
		Less than 30 days	31 to 60 days	61 to 90 Days	More than 90 days		
(In Thousand Pesos)							
Wireless receivables:							
Consumer	₱1,074,174	₱1,036,145	₱485,308	₱277,761	₱646,642	₱1,102,113	₱4,622,143
Key corporate accounts	1,278	215,499	216,293	185,195	407,679	138,754	1,164,698
Other corporations and Small and Medium Enterprises (SME)	189,558	202,800	107,798	59,396	377,067	311,587	1,248,206
	1,265,010	1,454,444	809,399	522,352	1,431,388	1,552,454	7,035,047
Wireline receivables:							
Consumer	248,568	244,694	134,382	66,115	71,340	1,492,204	2,257,303
Key corporate accounts	82,666	179,561	321,359	227,458	797,021	265,827	1,873,892
Other corporations and SME	56,449	42,032	31,786	16,209	16,190	151,087	313,753
	387,683	466,287	487,527	309,782	884,551	1,909,118	4,444,948
Other trade receivables	—	28,310	—	—	—	—	28,310
Traffic receivables:							
Foreign	2,107,169	—	—	—	—	164,302	2,271,471
Local	296,453	—	—	—	—	43,434	339,887
	2,403,622	—	—	—	—	207,736	2,611,358
Other receivables	1,511,217	—	—	—	—	12,629	1,523,846
Total	₱5,567,532	₱1,949,041	₱1,296,926	₱832,134	₱2,315,939	₱3,681,937	₱15,643,509

Total allowance for impairment losses amounted to ₱4,190.05 million and ₱3,538.07 million includes allowance for impairment losses arising from specific and collective assessment amounted to ₱986.10 million and ₱341.73 million as of December 31, 2013 and 2012, respectively (see Note 4).



The tables below provide information regarding the credit risk exposure of the Globe Group by classifying assets according to the Globe Group's credit ratings of receivables as of December 31. The Globe Group's credit rating is based on individual borrower characteristics and their relationship to credit event experiences.

	2013			
	Neither past-due nor impaired			
	High Quality	Medium Quality	Low Quality	Total
	(In Thousand Pesos)			
Wireless receivables:				
Consumer	₱169,064	₱234,119	₱18,258	₱421,441
Key corporate accounts	2,976	2,804	85	5,865
Other corporations and SME	5,617	698	1,961	8,276
	177,657	237,621	20,304	435,582
Wireline receivables:				
Consumer	228,761	40,413	4	269,178
Key corporate accounts	124,166	6,331	577	131,074
Other corporations and SME	44,126	4,179	196	48,501
	397,053	50,923	777	448,753
Total	₱574,710	₱288,544	₱21,081	₱884,335

	2012			
	Neither past-due nor impaired			
	High Quality	Medium Quality	Low Quality	Total
	(In Thousand Pesos)			
Wireless receivables:				
Consumer	₱725,362	₱257,307	₱91,505	₱1,074,174
Key corporate accounts	1,092	156	30	1,278
Other corporations and SME	100,336	42,378	46,844	189,558
	826,790	299,841	138,379	1,265,010
Wireline receivables:				
Consumer	218,599	29,968	1	248,568
Key corporate accounts	77,572	5,061	33	82,666
Other corporations and SME	52,600	3,646	203	56,449
	348,771	38,675	237	387,683
Total	₱1,175,561	₱338,516	₱138,616	₱1,652,693

High quality accounts are accounts considered to be high value and have consistently exhibited good paying habits. Medium quality accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts do not flow through to permanent disconnection status as they generally respond to credit actions and update their payments accordingly. Low quality accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms. Impairment losses are also provided for these accounts based on net flow rate.



Traffic receivables that are neither past due nor impaired are considered to be high quality given the reciprocal nature of the Globe Group's interconnect and roaming partner agreements with the carriers and the Globe Group's historical collection experience.

Other receivables are considered high quality accounts as these are substantially from credit card companies and Globe dealers.

The following is a reconciliation of the changes in the allowance for impairment losses for receivables as of December 31 (in thousand pesos) (see Notes 4 and 23):

2013						
	Subscribers			Traffic Settlements and Others	Non-trade (Note 6)	Total
	Consumer	Key corporate accounts	Other corporations and SME			
At beginning of year	₱2,453,266	₱320,404	₱543,344	₱221,058	₱124,082	₱3,662,154
Charges for the year	1,665,993	225,907	203,343	14,254	(62,974)	2,046,523
Reversals/write offs/ adjustments	(1,377,237)	(5,786)	(58,813)	(15,688)	(2,694)	(1,460,218)
At end of year	₱2,742,022	₱540,525	₱687,874	₱219,624	₱58,414	₱4,248,459

2012						
	Subscribers			Traffic Settlements and Others	Non-trade (Note 6)	Total
	Consumer	Key corporate accounts	Other corporations and SME			
At beginning of year	₱2,433,222	₱263,464	₱434,603	₱249,341	₱88,356	₱3,468,986
Charges for the year	1,121,634	85,006	173,994	(20,485)	17,168	1,377,317
Reversals/write offs/ adjustments	(1,101,590)	(28,066)	(65,253)	(7,798)	18,558	(1,184,149)
At end of year	₱2,453,266	₱320,404	₱543,344	₱221,058	₱124,082	₱3,662,154

### 28.2.3 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 Company intends to use internally generated funds and available long-term and short-term credit facilities. As of December 31, 2013 and 2012, Globe Group has available uncommitted short-term credit facilities of USD6.90 million and ₱7,920.00 million, USD36.40 million and ₱10,720.00 million, respectively.

As of December 31, 2013, the Globe Group has ₱7,000.00 million in available committed long-term facilities.

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) (see Note 14).

### Long-term Liabilities

#### **2013**

	2014	2015	2016	2017	2018 and thereafter	Total (in USD)	Total (in PHP)	Debt Issuance Costs	Carrying Value (in PHP)	Fair Value (in PHP)
<b>Liabilities</b>										
Long-term debt										
Fixed rate										
Philippine peso	₱1,386,300	₱71,100	₱2,117,800	₱4,550,000	₱19,300,000	\$—	₱27,425,200	₱221,887	₱27,203,313	₱28,327,286
Interest rate	4.85%;7.40%; 8.36%	4.85%;8.36%	4.85%;8.36%	5.75%;4.85%	4.89%;5.28%; 6.00%;4.85%					
Floating rate										
USD notes	\$—	\$900	\$117,100	\$2,100	\$204,900	325,000	—	108,192	14,321,158	5,876,330
Interest rate	—	Libor 3mo. + 1.50% margin	Libor 6mo. + 1.00% margin; Libor 3mo. + 0.90% margin; Libor 3mo. + 1.00% margin; Libor 3mo. + 1.5% margin	Libor 6mo. + 1.00% margin; Libor 3mo. + 1.50% margin	Libor 6mo. + 1.00% margin; Libor 3mo. + 1.50% margin					
Philippine peso	₱4,603,843	₱6,025,000	₱70,000	₱120,000	₱11,810,000	—	22,628,843	72,265	22,556,578	28,266,107
Interest rate	PDSTF 6mo. + 1.25% margin; PDSTF 3mo. + 0.75% margin; PDSTF 3mo. + 1.25% margin; PDSTF 3mo. + 1.00% margin	PDSTF 3mo. + 0.75% margin; PDSTF 3mo. + 0.65% margin	PDSTF 3mo. + 0.60% margin	PDSTF 3mo. + 0.50% margin; PDSTF 3mo. + 0.60% margin	PDSTF 3mo. + 0.50% margin; PDSTF 3mo. + 0.60% margin					
						\$325,000	₱50,054,043	₱402,344	₱64,081,049	₱62,469,723
Interest payable*										
PHP debt	₱1,996,351	₱1,834,261	₱1,656,312	₱1,492,003	₱3,113,584	\$—	₱10,092,511	₱—	₱—	₱—
USD debt	\$4,799	\$4,776	\$3,799	\$3,146	\$10,733	\$27,252	₱—	\$—	\$—	\$—

\*Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

\*Using ₱44.398 - USD exchange rate as of December 31, 2013.



2012

	2013	2014	2015	2016	2017 and thereafter	Total (in USD)	Total (in PHP)	Debt Issuance Costs	Carrying Value (in PHP)	Fair Value (in PHP)
<b>Liabilities</b>										
Long-term debt										
Fixed rate										
Philippine peso	₱3,397,450	₱1,406,300	₱1,991,100	₱2,117,800	₱16,850,000	\$—	₱25,762,650	₱124,414	₱25,638,236	₱28,327,286
Interest rate	5.97%, 7.03%, 7.40%	7.03%, 7.40%, 5.89%, 8.36%	7.03%, 8.36%, 5.89%	8.36%, 5.89%	5.89%, 5.75%, 6.00%					
Floating rate										
USD notes	\$14,273	\$17,710	\$11,730	\$11,735	88,200	143,648	—	71,164	5,829,588	5,876,330
Interest rate	Libor 6-mo. plus 3.40% margin; Libor 6-mo. plus 2.65% margin	Libor 6-mo. plus 3.40% margin; Libor 6-mo. plus 2.65% margin	Libor 6-mo. plus 3.40% margin; Libor 3-mo. plus 1.50% margin	Libor 6-mo. plus 3.40% margin; Libor 3-mo. plus 1.50% margin	Libor 3mo + 1.50% margin					
Philippine peso	₱5,747,343	₱4,603,843	₱6,025,000	₱70,000	₱11,930,000	—	28,376,186	118,490	28,257,696	28,266,107
Interest rate	PDSTF 3mo + 0.75% margin; PDSTF 3mo + 1.25% margin; PDSTF 3mo + 1.00% margin; PDSTF 6mo + 1.25% margin; PDSTF 3mo + 1.50% margin	PDSTF 3mo + 0.75% margin; PDSTF3mo + 1.25% margin; PDSTF3mo + 1% margin; PDSTF6mo + 1.25% margin	PDSTF 3mo + 0.75% margin; PDSTF3mo + 0.65% margin	PDSTF 3mo + 0.60% margin	PDSTF 3mo + 0.50% margin; PDSTF 3mo + 0.60% margin					
						\$143,648	₱54,138,836	₱314,068	₱59,725,520	₱62,469,723
Interest payable*										
PHP debt	₱2,092,544	₱1,754,816	₱1,578,270	₱1,355,781	₱2,933,782	\$—	₱9,715,194	₱—	₱—	₱—
USD debt	\$3,661	\$3,022	\$2,392	\$1,951	\$8,646	\$19,672	₱—	\$—	\$—	\$—

\*Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

\*Using ₱41.078 - USD exchange rate as of December 31, 2012.



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 (in thousands):

## 2013

### Other Financial Liabilities

	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued expenses*	₱2,737,211	₱33,971,965	₱—	₱—	₱—	₱—	₱—	₱36,709,176
Notes payable	—	5,219,900	—	—	—	—	—	5,219,900
Other long-term liabilities	—	—	—	—	—	—	1,017,680	1,017,680
	₱2,737,211	₱39,191,865	₱—	₱—	₱—	₱—	₱1,017,680	₱42,946,756

\*Excludes taxes payable which is not a financial instrument.

### Derivative Instruments

	2014		2015		2016		2017 and beyond		2018 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons*:										
Interest Rate Swaps - Peso	₱28,606	₱173,464	₱32,285	₱50,461	₱—	₱—	₱—	₱—	₱—	₱—
Interest Rate Swaps - USD	\$1,554	\$3,904	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Cross Currency Swaps - USD	\$84,749	\$162,025	\$81,963	\$162,025	\$65,966	\$102,602	\$76,720	\$84,794	\$264,525	\$212,450
Projected Principal Exchanges*										
Cross Currency Swaps - Peso	₱—	₱—	₱—	₱—	₱—	₱3,062,500	₱—	₱—	₱—	₱2,063,750
Cross Currency Swaps - USD	\$—	\$—	\$—	\$—	\$75,000	\$—	\$—	\$—	\$50,000	\$—

\*Projected USD swap coupons were converted to PHP at the balance sheet date.



2012

Other Financial Liabilities

	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued expenses*	₱1,834,283	₱25,862,630	₱—	₱—	₱—	₱—	₱—	₱27,696,913
Notes payable	—	2,053,900	—	—	—	—	—	2,053,900
Liabilities directly associated with the assets classified as held for sale	—	457,185	—	—	—	—	—	457,185
Other long-term liabilities	—	—	—	—	—	—	1,347,519	1,347,519
	₱1,834,283	₱28,373,715	₱—	₱—	₱—	₱—	₱1,347,519	₱31,555,517

\*Excludes taxes payable which is not a financial instrument.

Derivative Instruments

	2013		2014		2015		2016		2017 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons*:										
Interest Rate Swaps	₱—	₱203,073	₱182	₱11,639	₱3,847	₱—	₱—	₱—	₱—	₱—

\*Projected USD swap coupons were converted to PHP at the balance sheet date.



#### 28.2.4 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.

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 (embedded), currency swap contracts, interest rate swap contracts and currency option contracts (embedded). Certain swaps are entered with option combination or structured provisions.

#### 28.3 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 tables below set out information about the Globe Group's derivative financial instruments and the related fair values as of December 31 (in thousands):

	2013			
	Notional Amount	Notional Amount	Derivative Asset	Derivative Liability
<b>Derivative instruments designated as hedges</b>				
<i>Cash flow hedges</i>				
Cross currency swaps	\$125,000	₱—	₱553,562	₱62,174
Interest rate swaps	26,000	187,500	—	3,484
<b>Derivative instruments not designated as hedges</b>				
<i>Freestanding</i>				
Interest rate swaps	—	4,125,000	—	148,009
<i>Embedded</i>				
Currency forwards*	6,849	—	1,834	6,027
<b>Net</b>			<b>₱555,396</b>	<b>₱219,694</b>

\*The embedded currency forwards are at a net sell position.

	2012			
	Notional Amount	Notional Amount	Derivative Asset	Derivative Liability
<b>Derivative instruments designated as hedges</b>				
<i>Cash flow hedges</i>				
Interest rate swaps	\$26,000	₱1,437,500	₱—	₱31,810
<b>Derivative instruments not designated as hedges</b>				
<i>Freestanding</i>				
Interest rate swaps	19,168	4,750,000	—	183,432
<i>Embedded</i>				
Currency forwards*	12,557	—	421	25,412
<b>Net</b>			<b>₱421</b>	<b>₱240,654</b>

\*The embedded currency forwards are at a net sell 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 and US dollar-based revenues (in thousands).

2013						
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
(In Thousands)						
Derivatives:						
Interest Rate Swaps						
Floating-Fixed						
Notional PHP	₱2,287,500	₱2,025,000	₱—	₱—	₱—	₱4,312,500
Notional USD	\$26,000	\$—	\$—	\$—	\$—	\$26,000
Pay-fixed rate						3.90%-4.92% for PHP; 0.67% for USD
Receive-floating rate						USD LIBOR 3mo., PDSTF 3mo.
Cross Currency Swaps						
Floating-Fixed						
Notional USD	\$—	\$—	\$75,000	\$—	\$50,000	\$125,000
Pay-fixed rate						2.48% - 4.12% for PHP
Receive-floating rate						USD LIBOR + 1.0%
2012						
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Derivatives:						
Interest Rate Swaps:						
Floating-Fixed						
Notional Peso	₱1,875,000	₱2,287,500	₱2,025,000	₱—	₱—	₱6,187,500
Notional USD	\$19,168	\$26,000	\$—	\$—	\$—	\$45,168
Pay-fixed rate						3.90%-4.92% for PHP, 0.67%-0.86% for USD
Receive-floating rate						USD LIBOR, 3moPDSTF

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, accounts payable and accrued expenses and long-term liabilities.

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.

#### 28.4 Derivative Instruments Accounted for as Hedges

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- *Cross Currency Swaps*

The Globe Group entered into cross currency swap contracts to hedge the foreign exchange and interest rate risk on dollar loans with maturities until April 2020. These cross currency swaps have a notional amount of USD125.00 million as of December 31, 2013. The fair value



gain amounted to ₱491.39 million as of December 31, 2013, of which ₱47.35 million (net of tax) is reported in the equity section of the consolidated statements of financial position.

- *Interest Rate Swaps*

As of December 31, 2013 and 2012, the Globe Group has USD26.00 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 0.67% over the duration of the agreement, which involves quarterly payment intervals up to April 2014.

The Globe Group also has PHP interest rate swap contracts with a total notional amount of ₱187.50 million and ₱1,437.50 million as of December 31, 2013 and 2012, respectively, which have been designated as cash flow hedges of interest rate risk from PHP loans. These interest rate swaps effectively fixed the benchmark rate of the hedged PHP loans at 3.90% over the duration of the swaps, with quarterly payment intervals up to July 2014.

As of December 31, 2013 and 2012, the fair value of the outstanding swap amounted to ₱3.48 million and ₱31.81 million losses, respectively, of which ₱12.32 million and ₱121.20 million (net of tax), respectively, is reported as "Other reserves" in the equity section of the consolidated statements of financial position (see Note 17.5).

Accumulated swap cost for the years ended December 31, 2013, 2012 and 2011 amounted to ₱67.80 million, ₱35.46 million and ₱213.66 million, respectively.

- *Deliverable and Nondeliverable Forwards*

The Globe Group has no outstanding deliverable and nondeliverable forwards as of December 31, 2013 and 2012.

Hedging gains/losses on derivatives intended to manage foreign currency fluctuations on dollar based revenues for the years ended December 31, 2013, 2012 and 2011 amounted to ₱144.70 million loss, ₱21.29 million gain and ₱28.27 million gain, respectively. These hedging gains/losses are reflected under "Service revenues" in the consolidated statements of comprehensive income.

#### 28.5 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 profit or loss in the consolidated statements of comprehensive income. This section consists of freestanding derivatives and embedded derivatives found in both financial and nonfinancial contracts.

#### 28.6 Freestanding Derivatives

Freestanding derivatives that are not designated as hedges consist of currency forwards and interest rate swaps entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in profit or loss in the consolidated statements of comprehensive income.

- *Interest rate swaps*

The Globe Group also has an outstanding PHP interest rate swap contract which swaps a floating PHP loan into fixed rate of 4.92% and involves quarterly payment intervals up to September 2015. Outstanding notional as of December 31, 2013 and 2012 amounted to ₱4,125.00 million and ₱4,750.00 million, respectively.



The fair values on the interest rate swaps as of December 31, 2013 and 2012 amounted to a ₱148.01 million and ₱183.43 million net losses, respectively.

- *Deliverable and Nondeliverable Forwards*

As of December 31, 2013 and 2012, the Globe Group has no outstanding deliverable and nondeliverable currency forwards contracts not designated as hedges.

## 28.7 Embedded Derivatives

The Globe Group has instituted a process to identify any derivatives embedded in its financial or nonfinancial contracts. Based on PAS 39, the Globe Group assesses whether these derivatives are required to be bifurcated or are exempted based on the qualifications provided by the said standard. The Globe Group's embedded derivatives include embedded currency derivatives noted in non-financial contracts.

- *Embedded Currency Forwards*

As of December 31, 2013 and 2012, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to USD6.85 million and USD12.56 million, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates and unbilled leaselines receivables and payables denominated in foreign currency with domestic counterparties. The net fair value losses of the embedded currency forwards as of December 31, 2013 and 2012 amounted to ₱4.19 million and ₱24.99 million, respectively.

## 28.8 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

	December 31	
	2013	2012
	<i>(In Thousand Pesos)</i>	
At beginning of year	<b>(₱240,233)</b>	(₱256,851)
Net changes in fair value of derivatives:		
Designated as cash flow hedges	<b>307,431</b>	(555)
Not designated as cash flow hedges	<b>(138,765)</b>	(190,444)
	<b>(71,567)</b>	(447,850)
Less fair value of settled instruments	<b>(407,269)</b>	(207,617)
At end of year	<b>₱335,702</b>	(₱240,233)

## 28.9 Hedge Effectiveness Results

As of December 31, 2013 and 2012, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to ₱12.32 million gain and ₱121.20 million loss, net of tax, respectively. Total ineffectiveness for the years ended December 31, 2013 and 2012 is immaterial.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.



## 28.10 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:

	2013	2012
	<i>(In Thousand Pesos)</i>	
<b>Financial Assets</b>		
Financial assets at FVPL:		
Derivative assets designated as cash flow hedges	<b>₱553,562</b>	<b>₱—</b>
Derivative assets not designated as hedges	<b>1,834</b>	<b>421</b>
AFS investment in equity securities (Note 11)	<b>222,712</b>	<b>141,446</b>
Loans and receivables - net*	<b>29,166,805</b>	<b>25,547,243</b>
	<b>₱29,944,913</b>	<b>₱25,689,110</b>
<b>Financial Liabilities</b>		
Financial liabilities at FVPL:		
Derivative liabilities designated as cash flow hedges	<b>₱65,658</b>	<b>₱31,810</b>
Derivative liabilities not designated as hedges	<b>154,036</b>	<b>208,844</b>
Financial liabilities at amortized cost**	<b>107,027,805</b>	<b>91,281,037</b>
	<b>₱107,247,499</b>	<b>₱91,521,691</b>

\* This consists of cash and cash equivalents, short-term investments and long-term investments, receivables, other nontrade receivables and loans receivables.

\*\* This consists of accounts payable, accrued expenses, accrued project cost, traffic settlement-net, dividends payable, notes payable, long-term debt (including current portion) and other long-term liabilities (including current portion).

As of December 31, 2013 and 2012, the Globe Group has no investments in foreign securities.

## 28.11 Offsetting Financial Assets and Financial Liabilities

The Globe Group has derivative financial instruments that have offsetting arrangements. Upon adoption of the amendment to PFRS 7, the Globe Group has determined that there is no impact on financial position or on profit or loss, but resulted on additional disclosures about such offsetting arrangements. Accordingly, these additional disclosures are set forth below.

December 31, 2013						
	Gross amounts	Amounts offset under PAS 32	Reported amounts in the consolidated statement of financial position	Amounts offset under master netting arrangements or other similar contracts	Amounts offset by financial collateral received or pledged	Net exposure
	<i>(In Thousand Pesos)</i>					
Derivative assets	<b>₱493,222</b>	<b>₱—</b>	<b>₱493,222</b>	<b>(₱148,009)</b>	<b>₱—</b>	<b>₱345,213</b>
Derivative liabilities	<b>157,521</b>	<b>—</b>	<b>157,521</b>	<b>(148,009)</b>	<b>—</b>	<b>9,512</b>
December 31, 2012						
	Gross amounts	Amounts offset under PAS 32	Reported amounts in the consolidated statement of financial position	Amounts offset under master netting arrangements or other similar contracts	Amounts offset by financial collateral received or pledged	Net exposure
	<i>(In Thousand Pesos)</i>					
Derivative assets	<b>₱421</b>	<b>₱—</b>	<b>₱421</b>	<b>₱—</b>	<b>₱—</b>	<b>₱421</b>
Derivative liabilities	<b>240,654</b>	<b>—</b>	<b>240,654</b>	<b>—</b>	<b>—</b>	<b>240,654</b>



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.

## 28.12 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of the carrying amounts and estimated fair values of all the Globe Group's financial instruments as of:

	December 31			
	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousand Pesos)</i>				
<b>Financial Assets</b>				
Derivative assets	₱555,396	₱555,396	₱421	₱421
AFS investment in equity securities (Note 11)	222,712	222,712	141,446	141,446
	₱778,108	₱778,108	₱141,867	₱141,867
<b>Financial Liabilities</b>				
Derivative liabilities (including current portion)	₱219,694	₱219,694	₱240,654	₱240,654
Long-term debt (including current portion)	64,081,049	62,469,723	59,725,520	62,469,723
	₱64,300,743	₱62,689,417	₱59,966,174	₱62,710,377

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.

### 28.12.1 Non-derivative Financial Instruments

The fair values of cash and cash equivalents, short-term investments, AFS investments, subscriber receivables, traffic settlements receivable, loan receivable, miscellaneous receivables, accrued interest receivables, accounts payable, accrued expenses and notes payable are approximately equal to their carrying amounts considering the short-term maturities of these financial instruments.

The fair value of AFS investments are based on quoted prices. Unquoted AFS equity securities are carried at cost, subject to impairment.

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 0.24% to 2.25% (for USD floating loans) and 0.50% to 2.96% (for PHP floating



loans). For noninterest bearing obligations, the fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

#### 28.12.2. *Derivative Instruments*

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 minimal risk of default.

#### 28.12.3 *Fair Value Measurement Hierarchy*

The following tables provide the fair value measurement hierarchy of the Globe Group's assets and liabilities:

December 31, 2013				
Fair value measurement using				
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<i>(In Thousand Pesos)</i>				
<b>Assets measured at fair value:</b>				
Derivative assets:				
Cross currency swaps	P=	P553,562	P=	P553,562
Embedded currency forwards	—	1,834	—	1,834
AFS investment in equity securities - net	222,712	—	—	222,712
<b>Liabilities measured at fair value:</b>				
Derivative liabilities:				
Cross currency swaps	—	62,174	—	62,174
Interest rate swaps	—	151,493	—	151,493
Embedded currency forwards	—	6,027	—	6,027
<b>Liabilities for which fair values are disclosed:</b>				
Long-term debt (including current portion)	—	62,469,723	—	62,469,723



	December 31, 2012			
	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	(In Thousand Pesos)			
<b>Assets measured at fair value:</b>				
Derivative assets:				
Embedded currency forwards	₱—	₱421	₱—	₱421
AFS investment in equity securities - net	141,446	—	—	141,446
<b>Liabilities measured at fair value:</b>				
Derivative liabilities:				
Interest rate swaps	—	215,242	—	215,242
Embedded currency forwards	—	25,412	—	25,412
<b>Liabilities for which fair values are disclosed:</b>				
Long-term debt (including current portion)	—	62,469,723	—	62,469,723

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2013 and 2012. The Globe Group has no financial instruments measured under Level 3.

## 29. Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; (2) wireline communication services; and (3) others, 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 revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8. The Globe Group does not have a single customer that will meet the 10% or more 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:

	2013			
	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
<i>(In Thousand Pesos)</i>				
<b>Revenues</b>				
Service revenues:				
External customers:				
Voice	₱32,298,848	₱2,605,121	₱–	₱34,903,969
Data	40,312,908	4,691,004	151,937	45,155,849
Broadband	–	10,440,319	–	10,440,319
Nonservice revenues:				
External customers	3,512,861	807,778	320,209	4,640,848
Segment revenues	76,124,617	18,544,222	472,146	95,140,985
EBITDA	32,860,810	3,969,773	(316,766)	36,513,817
Depreciation and amortization	(17,044,186)	(10,418,889)	(14,419)	(27,477,494)
EBIT	15,816,624	(6,449,116)	(331,185)	9,036,323
<b>Net Income (Loss) Before Income Tax<sup>2</sup></b>	13,839,780	(6,652,267)	(322,740)	6,864,773
Provision for income tax <sup>2</sup>	(1,670,053)	(148,909)	(85,566)	(1,904,528)
<b>Net Income (Loss)</b>	<b>₱12,169,727</b>	<b>(₱6,801,176)</b>	<b>(₱408,306)</b>	<b>₱4,960,245</b>
<b>Other Segment Information</b>				
Intersegment revenues	(₱100,633)	(₱556,902)	(₱507,334)	(₱1,164,869)
Subsidy <sup>1</sup>	(5,044,591)	(297,288)	29,621	(5,312,258)
Interest income <sup>2</sup>	629,817	53,977	1,213	685,007
Interest expense	(2,086,823)	(4,344)	(748)	(2,091,915)
Equity in net losses of joint ventures	(79,959)	–	–	(79,959)
Impairment losses and others	(1,628,964)	(835,564)	4,947,156	2,482,628
Capital expenditure	(31,997,462)	(3,720,333)	(60,871)	(35,778,666)
<b>Cash Flows</b>				
Net cash provided by (used in):				
Operating activities	26,857,607	7,571,395	151,624	34,580,626
Investing activities	(23,623,945)	(3,628,351)	(115,678)	(27,367,974)
Financing activities	(2,667,872)	(3,000,000)	191,639	(5,476,233)

<sup>1</sup> Computed as non-service revenues less cost of sales

<sup>2</sup> Net of final tax

	2012 (As restated, see Note 2.4)			
	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
<i>(In Thousand Pesos)</i>				
<b>Revenues</b>				
Service revenues:				
External customers:				
Voice	₱34,343,471	₱2,665,559	₱–	₱37,009,030
Data	32,743,644	4,166,919	102,041	37,012,604
Broadband	–	8,720,931	–	8,720,931
Nonservice revenues:				
External customers	2,791,596	929,592	(17,604)	3,703,584
Segment revenues	69,878,711	16,483,001	84,437	86,446,149
EBITDA	32,445,341	2,737,792	(172,323)	35,010,810
Depreciation and amortization	(13,220,052)	(10,350,911)	(12,454)	(23,583,417)
EBIT	19,225,289	(7,613,119)	(184,777)	11,427,393
<b>Net Income (Loss) Before Income Tax<sup>2</sup></b>	17,670,349	(7,732,316)	(186,487)	9,751,547
Benefit from (provision for) income tax <sup>2</sup>	(3,549,158)	693,237	(50,372)	(2,906,293)
<b>Net Income (Loss)</b>	<b>₱14,121,191</b>	<b>(₱7,039,079)</b>	<b>(₱236,859)</b>	<b>₱6,845,254</b>

(Forward)





2012 (As restated, see Note 2.4)				
	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
Intersegment revenues	(P77,679)	(P206,911)	(P207,454)	(P492,044)
Subsidy <sup>1</sup>	(4,033,824)	62,117	(3,068)	(3,974,775)
Interest income <sup>2</sup>	448,300	67,081	181	515,562
Interest expense	(2,021,189)	(83,447)	(156)	(2,104,792)
Equity in net losses of joint ventures	(83,582)	—	—	(83,582)
Impairment losses and others	(1,186,031)	(677,553)	—	(1,863,584)
Capital expenditure	(23,165,833)	(3,615,609)	(28,118)	(26,809,560)
<b>Cash Flows</b>				
Net cash provided by (used in):				
Operating activities	17,884,980	6,259,215	76,262	24,220,457
Investing activities	(24,226,680)	(344,365)	(45,284)	(24,616,329)
Financing activities	2,197,903	—	—	2,197,903

<sup>1</sup> Computed as non-service revenues less cost of sales

<sup>2</sup> Net of final taxes

2011 (As restated, see Note 2.4)				
	Mobile Communications Services	Wireline Communications Services	Others	Consolidated
<b>Revenues</b>				
Service revenues:				
External customers:				
Voice	P35,290,101	P2,938,717	P—	P38,228,818
Data	28,139,234	3,791,928	108,481	32,039,643
Broadband	—	7,496,503	—	7,496,503
Nonservice revenues:				
External customers	3,028,245	725,038	—	3,753,283
Segment revenues	66,457,580	14,952,186	108,481	81,518,247
EBITDA	32,145,366	3,056,714	(87,007)	35,115,073
Depreciation and amortization	(11,402,577)	(7,527,599)	(11,051)	(18,941,227)
EBIT	20,742,789	(4,470,885)	(98,058)	16,173,846
<b>Net Income (Loss) Before Income Tax<sup>2</sup></b>	18,633,438	(4,478,893)	(96,410)	14,058,135
Benefit from (provision for) income tax <sup>2</sup>	(4,216,248)	(34,101)	(3,235)	(4,253,584)
<b>Net Income (Loss)</b>	<b>P14,417,190</b>	<b>(P4,512,994)</b>	<b>(P99,645)</b>	<b>P9,804,551</b>
<b>Other Segment Information</b>				
Intersegment revenues	(P34,747)	(P264,929)	(P246,673)	(P476,855)
Subsidy <sup>1</sup>	(2,091,403)	(42,060)	(843)	(2,134,306)
Interest income <sup>2</sup>	172,156	87,532	70	259,758
Interest expense	(1,924,162)	(65,289)	—	(1,989,451)
Equity in net losses of joint ventures	(27,345)	—	—	(27,345)
Impairment losses and others	(1,068,597)	(849,986)	—	(1,918,583)
Capital expenditure	(13,530,030)	(3,777,427)	(109,925)	(17,417,382)
<b>Cash Flows</b>				
Net cash provided by (used in):				
Operating activities	23,566,299	6,114,936	206,006	29,887,241
Investing activities	(13,695,708)	(4,345,211)	(109,864)	(18,150,783)
Financing activities	(12,520,892)	—	—	(12,520,892)

<sup>1</sup> Computed as non-service revenues less cost of sales

<sup>2</sup> Net of final taxes



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:

	2013	2012	2011
		<i>(In Thousand Pesos)</i>	
Gross service revenues	<b>₱90,500,137</b>	₱82,742,565	₱77,764,964
Interconnection charges	<b>(9,280,229)</b>	(8,859,309)	(9,953,663)
Net service revenues	<b>81,219,908</b>	73,883,256	67,811,301
Nonservice revenues	<b>4,640,848</b>	3,703,584	3,753,283
Segment revenues	<b>85,860,756</b>	77,586,840	71,564,584
Interest income	<b>688,249</b>	579,851	297,388
Other income - net	<b>475,246</b>	716,371	574,768
Total revenues	<b>₱87,024,251</b>	₱78,883,062	₱72,436,740

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

	2013	2012	2011
		(As restated, see Note 2.4)	(As restated, see Note 2.4)
		<i>(In Thousand Pesos)</i>	
EBITDA	<b>₱36,513,817</b>	₱35,010,810	₱35,115,073
Gain on disposal of property and equipment - net	<b>64,333</b>	42,447	319,250
Interest income	<b>688,249</b>	579,851	297,388
Equity in net losses of joint ventures	<b>(79,959)</b>	(83,582)	(27,345)
Financing costs	<b>(2,911,785)</b>	(2,362,609)	(2,509,505)
Depreciation and amortization	<b>(27,477,494)</b>	(23,583,417)	(18,941,227)
Other items	<b>67,612</b>	148,047	(195,499)
Income before income tax	<b>₱6,864,773</b>	₱9,751,547	₱14,058,135

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.

## 29.1 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, mobile data or internet services and other value added services in any place within the coverage areas.

### 29.1.1 Mobile communication voice net service revenues include the following:

- Monthly service fees on postpaid plans;
- 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 1 and 60 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and
- d) Revenues generated from inbound international and national long distance calls and international roaming calls.

Revenues from (a) to (d) are net of any settlement payouts to international and local carriers.

29.1.2 *Mobile communication data* net service revenues consist of revenues from value-added services such as inbound and outbound SMS and MMS, content downloading, mobile data or internet services and infotext, subscription fees on unlimited and bucket prepaid SMS services net of any settlement payouts to international and local carriers and content providers.

29.1.3 Globe Telecom offers its wireless communications services to consumers, corporate and SME clients through the following two (2) brands: Globe Handyphone Postpaid and Prepaid and Touch Mobile Prepaid brands.

The Globe Group also provides its subscribers with mobile payment and remittance services under the GCash brand.

## 29.2 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 fixed mobile internet services and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

29.2.1 *Wireline voice* net 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, prepaid wireline 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 our 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; and
- e) Installation charges and other one-time fees associated with the establishment of the service.

Revenues from (a) to (c) are net of any settlement payments to domestic and international carriers.

29.2.2 *Wireline data* net service revenues consist of the following:

- a) Monthly service fees from international and domestic leased lines. This is net of any settlement payments to other carriers;
- b) Other wholesale transport services;
- c) Revenues from value-added services; and
- d) One-time connection charges associated with the establishment of service.



29.2.3 *Broadband* service revenues consist of the following:

- a) Monthly service fees on mobile and fixed wireless and wired broadband plans and charges for usage in excess of plan minutes; and
- b) Prepaid usage charges consumed by mobile broadband subscribers.

29.2.4 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.

- a) *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. For fixed wireless broadband connection using its WiMax network and 3G with High-Speed Downlink Packet Access (HSDPA) network, the Globe Group offers broadband packages bundled with voice, or broadband data-only service.

For subscribers who require full mobility, Globe Broadband Tattoo service come in postpaid and prepaid packages and allow them to access the internet via 3G with HSDPA, Enhanced Datarate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.

- b) *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.

### 29.3 Others

This reporting segment represents mobile value added data content and application development services. Revenues principally consist of revenue share with various carriers on content downloaded by their subscribers and contracted fees for other application development services provided to various partners.

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## 30. Notes to Consolidated Statements of Cash Flows

The principal noncash transactions are as follows:

	Note	2013	2012	2011
<i>(In Thousand Pesos)</i>				
Increase (decrease) in liabilities related to the acquisition of property and equipment		<b>₱5,838,624</b>	₱5,699,760	(₱1,353,939)
Capitalized ARO	15	<b>15,675</b>	25,022	27,403
Dividends on preferred shares		—	33,145	35,295



The cash and cash equivalents account consists of:

	2013	2012	2011
	<i>(In Thousand Pesos)</i>		
Cash on hand and in banks	<b>₱4,468,305</b>	₱2,632,954	₱1,182,895
Short-term placements	<b>2,952,430</b>	4,126,801	3,976,151
	<b>₱7,420,735</b>	₱6,759,755	₱5,159,046

Cash in banks earn interest at the respective bank deposit rates. Short-term placements represent short-term money market placements.

The ranges of interest rates of the above placements are as follows:

	2013	2012	2011
Placements:			
PHP	<b>0.15% to 3.90%</b>	1.35% to 4.69%	1.50% to 4.88%
USD	<b>0.02% to 1.75%%</b>	0.06% to 1.85%	0.05% to 1.75%

### 31. Events after the Reporting Period

On February 10, 2014, the BOD approved the following:

- Declaration of the first semi-annual cash dividend of ₱37.50 per common share, payable to common stockholders of record as of February 26, 2014. Total dividends amounting to ₱4,972.35 million will be payable on March 20, 2014.
- Amendment of Articles of Incorporation 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.



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Globe Telecom, Inc.  
The Globe Tower  
32nd Street corner 7th Avenue  
Bonifacio Global City, Taguig

We have audited in accordance with Philippine Standards of Auditing, the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries (the "Group") as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated February 10, 2014. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Gemilo J. San Pedro

Partner

CPA Certificate No. 32614

SEC Accreditation No. 0094-AR-3 (Group A),

February 4, 2013, valid until February 3, 2016

Tax Identification No. 102-096-610

BIR Accreditation No. 08-001998-34-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225213, January 2, 2014, Makati City

February 10, 2014



## **GLOBE TELECOM, INC. AND SUBSIDIARIES**

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### **Index to the Consolidated Financial Statements and Supplementary Schedules**

Schedule 1 - Schedule of all the effective standards and interpretations as of December 31, 2013

Schedule 2 - Reconciliation of retained earnings available for dividend declaration

Schedule 3 - Map of the relationships of the companies within the Group

Schedule 4 - Financial soundness indicators

Schedule 5 - Supplementary schedules required by Annex 68-E

## **Schedule 1**

### **SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AS OF DECEMBER 31, 2013**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>			✓	
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
<b>PFRS 8</b>	Operating Segments	✓		

\*Not early adopted



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 9</b>	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities*			✓
<b>PFRS 11</b>	Joint Arrangements	✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10: Investment Entities*			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions*		✓	
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		

\*Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements*	✓		
	Amendments to PAS 27: Investment Entities			✓
<b>PAS 28</b>	Investments in Associates	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures	✓		
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*		✓	
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets*		✓	
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting*		✓	
<b>PAS 40</b>	Investment Property	✓		
<b>PAS 41</b>	Agriculture			✓

\*Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2	✓		
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes	✓		
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine*		✓	
<b>IFRIC 21</b>	Levies*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities	✓		
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓

\*Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs	✓		

\*Not early adopted

**Schedule 2****RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND  
DECLARATION  
AS OF DECEMBER 31, 2013**

Items	Amount (In thousands)
<b>Unappropriated Retained Earnings, beginning</b>	<b>₱10,538,036</b>
<b>Adjustment</b>	
• Adjustments in prior year	—
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>	<b>10,538,036</b>
<b>Net Income based on the face of AFS</b>	<b>6,000,502</b>
<b>Less: Non-actual/unrealized income net of tax</b>	
• Recognized deferred income tax assets	(610,677)
• Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	—
• Unrealized actuarial gain	—
• Fair value adjustment (M2M gains)	—
• Fair value adjustment of Investment Property resulting to gain	—
• Adjustment due to deviation from PFRS/GAAP-gain	—
• Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
<b>Add: Non-actual losses</b>	
• Depreciation on revaluation increment (after tax)	—
• Adjustment due to deviation from PFRS/GAAP - loss	—
• Loss on fair value adjustment of investment property (after tax)	—
<b>Net Income Actual/Realized</b>	<b>5,389,825</b>
<b>Less:</b>	
• Dividend during the period	(8,900,602)
• Effects of prior period adjustments	(508,375)
	(9,408,977)
<b>Unappropriated Retained Earnings, as adjusted, ending</b>	<b>₱6,518,884</b>

### Schedule 3

#### MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP AS OF DECEMBER 31, 2013



**Schedule 4**

<b>FINANCIAL SOUNDNESS INDICATORS</b>	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>FINANCIAL RATIOS</b>		
Debt to EBITDA	<b>1.90</b>	1.78
Debt Service Coverage Ratio	<b>2.83</b>	2.02
Interest Coverage Ratio	<b>12.54</b>	12.02
Debt to Equity (D/E Ratio) - gross	<b>1.66</b>	1.35
Debt to Equity (D/E Ratio) - net	<b>1.49</b>	1.20
Debt to Total Capitalization - book	<b>0.62</b>	0.57
Debt to Total Capitalization - market	<b>0.24</b>	0.30
Total Asset to Equity Ratio	<b>3.82</b>	3.24
Current Ratio	<b>0.65</b>	0.74
<b>PROFITABILITY MARGINS</b>		
EBITDA Margins	<b>40%</b>	42%
Net Profit Margin	<b>5.2%</b>	7.9%