

**GLOBE TELECOM**  
**CM-020**

**SEC Number** 1177  
**File Number**       

**GLOBE TELECOM, INC.**  
(Company's Full Name)

**5th Floor Globe Telecom Plaza (Pioneer Highlands)**  
**Pioneer corner Madison Streets, 1552 Mandaluyong City**  
(Company's Address)

**(632) 730-2000**  
(Telephone Numbers)

**31 December 2004**  
(Quarter Ending)

**SEC FORM 17-Q**  
(Form Type)

**GLOBE TELECOM  
CM-020  
SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **31 December 2004**
2. Commission identification number: **1177**
3. BIR Tax Identification No. **050-000-768-480**
4. Exact name of registrant as specified in its charter: **GLOBE TELECOM, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
7. Address of registrant's principal office:

**5th Floor, Globe Telecom Plaza (Pioneer Highlands)  
Pioneer corner Madison Streets  
1552 Mandaluyong City**

8. Registrant's telephone number, including area code: **(632) 730-2000**

10. Securities registered pursuant to Sections in Securities Regulation Code

<u>Title of Each Class</u>	<u>Number of shares of stock outstanding</u>
<b>Common Stock, P50.00 par value</b>	<b>139,903,867*</b>
<b>Preferred Stock, P5.00 par value</b>	<b>158,515,021</b>

*\* Net of Treasury Shares of 12,001,533*

11. Are any or all of the Securities listed on the Philippine Stock Exchange? **Yes**

12. Indicate whether the registrant:

a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the SRC and SRC Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

**Yes**

b) Has been subject to such filing requirements for the past 90 days.

**Yes**

**PART I -- FINANCIAL INFORMATION**

Item 1. Financial Statements. Please refer to Annex A.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**As of and for the Period ended 31 December**

**Financial and Operational Highlights  
(In Million Pesos unless otherwise stated)**

<b>As of and for the full year ended 31 December (Unaudited)</b>	<b>Globe Consolidated</b>		
	<b>2004</b>	<b>2003</b>	<b>YoY change (%)</b>
<b>Profit &amp; Loss Data</b>			
Net Operating Revenues .....	55,609	49,478	12%
Service Revenues .....	52,741	47,535	11%
Non-Service Revenues .....	2,868	1,943	48%
Costs and Expenses .....	38,466	33,786	14%
EBITDA <sup>1</sup> .....	33,040	27,853	19%
EBIT <sup>2</sup> .....	17,143	15,692	9%
Net Income .....	11,257	10,345	9%
<b>Balance Sheet Data</b>			
Total Assets <sup>3</sup> .....	138,125	140,130	-1%
Total Debt .....	52,218	56,132	-7%
Total Stockholders' Equity .....	57,016	50,854	12%
<b>Financial Ratios (x)</b>			
Total Debt to EBITDA .....	1.58	2.02	
Interest Cover (Gross) .....	7.68	6.18	
Debt to Equity (Gross) .....	0.92	1.10	
Debt to Equity (Net) <sup>4</sup> .....	0.66	0.81	
Total Debt to Total Capitalization (Book) .....	0.48	0.52	
Total Debt to Total Capitalization (Market) .....	0.28	0.32	
<b>Other Data</b>			
Net Cash from Operating Activities .....	27,294	23,290	17%
Capital Expenditures <sup>5</sup> .....	21,219	15,814	34%
Net Receivable Days .....	52	48	8%
Peso/Dollar Exchange Rate (In pesos) .....	56.34	55.59	1%
No. of Regular Employees .....	4,956	4,186	18%

<sup>1</sup> EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, Amortization and Other Income/Expense. EBITDA is calculated by deducting costs and expenses (excluding Depreciation and Amortization) from net operating revenues.

<sup>2</sup> EBIT is defined as earnings before interest, other expenses and income taxes. EBIT is calculated by deducting costs and expenses (including depreciation and amortization) from net operating revenues.

<sup>3</sup> Prior period figures have been restated due to the adoption of SFAS 12/IAS 12 (Income Taxes) for comparative purposes only.

<sup>4</sup> Net debt is calculated by subtracting cash, cash equivalents and short term investments from total debt.

<sup>5</sup> Consolidated Capital Expenditures include property and equipment acquired as of report date regardless of whether payment has been made or not. (See related discussion in Liquidity and Capital Resources Section)

Globe's consolidated wireless service revenues accounted for 89% of the Company's net operating service revenues of ₱52,741 million for the full year of 2004 while the remaining 11% was contributed by the wireline business. In 2004, the Globe Group's (Globe, Innove Communications, Inc. and G-Exchange, Inc.) net service revenues increased by 11% during the year from ₱47,535 million in 2003 while net operating revenues registered a 12% improvement from ₱49,478 million in 2003.

The Globe Group reports operating revenues on a net basis, which consist of gross operating revenues (service and non-service) less domestic interconnection charges, settlement payouts to international carriers and content providers, revenue share due to foreign administrations for circuits provided to service local customers of wireline data, prepaid reload discounts, bonus credits (including airtime on SIM cards provided under Globe's SIM swap program) and marketing promotions credited to subscriber billings.

Gross operating service revenues for the Wireless and Wireline businesses include monthly service fees, applicable installation charges, airtime fees from local, national and international long distance, and international roaming services. Gross operating revenues also include data revenues from value-added services which include Short Messaging Service (SMS) or text messaging, Multi-Media Messaging Service (MMS), content downloading, infotext services, broadband and internet services.

In the third quarter of 2004, Globe invested in G-Xchange, Inc. (GXI) – a wholly-owned subsidiary, handling money transfer, cash management and related services under Globe's *G-Cash* service. Revenues from the new subsidiary are still minimal for 2004 as GXI started commercial operations only last 16 October 2004.

Domestically, the Globe Group pays interconnection charges to other carriers for calls originating from its network terminating to other companies' networks and hauling charges for calls that pass through Globe's network terminating in another network.

Internationally, the Globe Group also incurs payouts in connection with outbound international calls. These charges are based on a negotiated price per minute.

The interconnection expenses paid as a percentage of gross service revenues remained at the 20% level for the years 2003 and 2004.

The Globe Group also collects termination fees from local and foreign carriers whose calls terminate in Globe Group's network. As part of domestic interconnection agreements concluded in 2002, effective 01 January 2004, domestic calls terminating to wireless networks are charged a termination rate of ₱4.00 per minute (from ₱4.50 per minute in 2003) while calls terminating to wireline voice networks are charged a termination rate of ₱3.00 per minute (from ₱2.50 per minute in 2003).

Non-service revenues include proceeds from the sale of handsets, phonekits and accessories and upfront fees/activation fees representing the excess of the selling price of SIM packs over the preloaded airtime. We registered non-service revenues of ₱2,868 million for the full year of 2004 compared to ₱1,943 million for the same period last year due mainly to higher SIM and phonekit sales. Non-service revenues are reported net of discounts on phonekits. The cost related to the sale of handsets and SIM packs are shown under cost of sales.

Proceeds from the sale of prepaid cards, airtime value through electronic load services such as ATM and airtime value through over-the-air (OTA) reloading are treated as deferred or unearned revenues shown under the liabilities section of the balance sheet since the service has not yet been rendered. Revenue is realized upon actual usage of the airtime value for voice, SMS, MMS, content downloading and infotext services net of free SMS, bonus credits or the expiration of the unused value, whichever comes earlier. Related revenue on preloaded airtime value of SIM packs sold is also recognized upon usage. However, preloaded airtime value on SIM cards provided under Globe's SIM swap program are not included as part of revenue.

On 30 September 2003, Globe's wireline voice and data businesses were transferred to Innove (previously named Isla Communications Co., Inc.). Starting 1 October 2003, all of the financial results of the wireline voice and data businesses are presented under Innove. *(See related discussion in Wireline Services Section)*

## KEY PERFORMANCE INDICATORS

### Net Operating Revenues by Line of Business

The table below shows the net operating revenues for each of the Globe Group's businesses for the periods indicated:

For the year ended 31 December (in millions of pesos)	Globe Consolidated		
	2004	2003	YoY change (%)
Net Operating Revenues from:			
Service Revenues:			
Wireless <sup>1</sup> .....	47,054	42,594	10%
Voice .....	27,722	27,821	-
Data .....	19,332	14,773	31%
Wireline .....	5,687	4,941	15%
Voice <sup>2</sup> .....	3,833	3,469	10%
Data <sup>3</sup> .....	1,854	1,472	26%
Net Service Revenues .....	52,741	47,535	11%
Non-Service Revenues .....	2,868	1,943	48%
<b>Net Operating Revenues</b>	<b>55,609</b>	<b>49,478</b>	12%

<sup>1</sup> Wireless net service revenues include: (1) monthly service fees; (2) charges for local calls in excess of the free minutes for various Globe Handyphone postpaid plans, including currency exchange rate adjustments, or CERA net of marketing promotions credited to subscriber billings; (3) airtime fees from prepaid reload denominations (for Globe Prepaid Plus and Touch Mobile) for intra network and outbound calls usage net of (i) bonus credits (including airtime on SIM cards provided under Globe's SIM swap program) (ii) prepaid reload discounts, recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination which occurs between 1 and 60 days after activation depending on the prepaid value reloaded by the subscriber; (4) revenues generated from inbound international and national long distance calls and international roaming calls; and (5) revenues from value-added services such as SMS and MMS, content downloading and infotext. Revenues from (2) to (5) are net of any interconnection or settlement payouts to international and local carriers and content providers.

<sup>2</sup> Wireline voice net service revenues consist of: (1) monthly service fees including CERA; (2) revenues from local, international and national long distance calls made by postpaid, prepaid wireline subscribers and payphone customers, net of prepaid and payphone call card discounts less bonus credits and marketing promotions credited to subscriber billings (3) revenues from inbound local, international and national long distance calls from other carriers terminating on our network; and (4) installation charges and other one-time fees associated with the establishment of the service.

<sup>3</sup> Wireline data net service revenues consist of revenues from: (1) international and domestic leased lines; (2) internet services; (3) other wholesale transport services and (4) revenues from value-added services.

## Wireless Services

As of and for the year ended 31 December (in millions of pesos)	Globe Consolidated		
	2004	2003	YoY change(%)
Wireless Net Revenues.....	49,903	44,465	12%
Service .....	47,054	42,593	10%
Voice .....	27,722	27,820	-
Data .....	19,332	14,773	31%
Data as a % of Wireless Net Service Revenues .....	41%	35%	
Data as a % of Total Wireless Net Revenues .....	39%	33%	
Non-Service .....	2,849	1,871	52%
Subscribers – Net (End of period).....	12,513,973	8,859,883	41%
Postpaid .....	630,495	685,026	-8%
Prepaid .....	11,883,478	8,174,857	45%
Globe Prepaid Plus .....	10,185,154	6,673,013	53%
Touch Mobile .....	1,698,324	1,501,844	13%

### Wireless Services

Wireless net service revenues grew by 10% for the full year of 2004 to ₱47,054 million driven by a consolidated 41% increase in total subscribers and their corresponding usage of voice and data services for the year ended 31 December 2004.

Gross subscriber additions for all brands for 2004 increased by 97% year on year to 11.9 million compared to 6.0 million in 2003 while net additions grew by 60% to 3.7 million for the full year of 2004 against 2.3 million for the same period in 2003. Gross and net subscriber additions were generated mainly by year on year growth in the prepaid segment due to a wider distribution network with the introduction of Globe's OTA reload service, SIM swap programs (*See related discussion in Wireless Services-Prepaid Section*) and increased network coverage in the provincial areas.

Globe offers its wireless services through three brands, *Globe Handyphone*, *Globe Handyphone Prepaid Plus* and *Touch Mobile*. The postpaid brand of Globe, *Globe Handyphone*, includes all postpaid plans such as G-Plans and consumable G-Flex Plans, *Platinum* - a brand for the high-end market and *GlobeSolutions* for corporate and business needs. *Globe Handyphone Prepaid Plus* and *Touch Mobile* are the prepaid brands of Globe and Innove – each positioned at different segments of the market – the broad market classes for *Globe Handyphone Prepaid Plus* and mass-based market classes for *Touch Mobile*.

To spur increased usage of its wireless data services and building on its value-transfer platform, Globe launched the following innovations in the fourth quarter of 2004:

- On 16 October 2004, Globe introduced a breakthrough in mobile commerce by offering its *G-CASH* service. *G-CASH* allows *Globe Handyphone*, *Globe Handyphone Prepaid Plus* and *Touch Mobile* subscribers to buy goods and services from accredited partner establishments, exchange stored value for cash in designated outlets, send and receive *G-CASH* person to person and even permits subscribers and non-subscribers to send domestic and international remittances through financial institutions that have been trusted over the years. In the two and a half months since it was launched, the number of *G-CASH* subscribers has already reached more than 200,000. *G-CASH* expands Globe's market reach by creating business opportunities for merchants, trade partners and

entrepreneurs and giving consumers a secure and convenient mobile payment option. As of 31 December 2004, *G-CASH* had more than 30 partner establishments spanning different industries including international and domestic remittance companies, merchant partners in food and food delivery, transportation, drugstores, bookstores and other retailers, government agencies (BIR, Philippine Sports Commission), banking Associations and Partners (RBAP & Landbank), charitable institutions (Red Cross, UNICEF) and e-commerce companies.

- In 2004, *Globe AutoLoad Max* and *Share-A-Load* continued to contribute significantly to total OTA reloading transactions. For the month of December 2004, these top-up options accounted for 90% of total reload transactions and 62% of total reload value while total *Globe AutoLoad Max* retailers reached 737 thousand retailers by the end of the year. Additionally, to address the needs of Overseas Filipino Workers (OFWs) and their families in the Philippines, *Globe* launched its *Globe Kababayan* cross-border reload services in Hong Kong, Singapore and Japan during the 3rd quarter of 2004. OFWs in these countries, along with Taiwan, Saipan, Guam, the United States and the United Kingdom can now send prepaid credits to their relatives who are on the *Globe Prepaid* or *Touch Mobile* service through the launch of *Share-A-Load* and *Globe AutoLoad Max* facilities.

### ***Wireless Services - Postpaid***

*Globe* offers postpaid services through its brand *Globe Handyphone*. *Globe's* postpaid subscriber base registered at 630,495 as of 31 December 2004, compared to 685,026 posted in the same period last year due to company-initiated terminations. Gross additions for the full year of 2004 registered at 148,015 subscribers, compared to 361,127 for the same period in 2003. Terminations exceeded additions resulting in a decline of 54,531 from the postpaid subscriber base for the full year of 2004 against net additions of 166,126 for the same period in 2003.

Net ARPU per *Globe* postpaid wireless subscriber for the full year of 2004 reached ₱1,605 from ₱1,637 for the same period in 2003. Net ARPU is computed by dividing recurring wireless postpaid net operating service revenues for the period (net of interconnection charges to external carriers and discounts) by the average number of postpaid wireless subscribers and then dividing the quotient by the number of months in the period.

*Globe's* postpaid ARPU on a gross basis averaged ₱2,138 for the full year of 2004 from ₱2,173 in the same period in 2003. Gross ARPU is computed by dividing recurring wireless postpaid gross service revenues for the period by the average number of postpaid wireless subscribers and then dividing the quotient by the number of months in the period.

*Globe's* postpaid acquisition cost per subscriber of ₱9,886 for the full year of 2004 is higher compared to ₱9,834 for the same period last year. For the full year of 2004, handset and Subscriber Identification Module (SIM) subsidies accounted for 95% of acquisition cost while advertising/promotional expenses made up the balance of 5%. In 2003, handset and SIM subsidies accounted for 94% of total acquisition cost while advertising expenses made up the balance.

The average monthly churn rate for *Globe's* postpaid subscribers is defined as total disconnections net of reconnections divided by the average postpaid subscribers, divided by the number of months in the period. *Globe's* postpaid churn rate averaged 2.6% per month for the full year of 2004 compared to 2.7% for the same period in 2003. For postpaid subscribers, permanent disconnections are made after a series of collection steps following non-payment. Such permanent disconnections generally occur within a predetermined number of days from statement date.

### ***Wireless Services - Prepaid***

Consolidated prepaid subscribers grew by 45% to 11,883,478 as of 31 December 2004 from 8,174,857 for the same period in 2003. Globe offers prepaid services through its *Globe Handyphone Prepaid Plus* brand, while Innove offers prepaid services through its *Touch Mobile* brand.

In February 2004, Globe launched a nationwide Free SIM Swap program that allowed subscribers of another mobile network to switch to Globe by exchanging their active non-Globe and non-Touch Mobile SIM cards for *Globe Handyphone Prepaid Plus* or *Touch Mobile* SIMs.

Prior to the third quarter of 2004, a prepaid subscriber was recognized upon the activation and use of a new SIM card. The subscriber was provided with 60 days (first expiry) to utilize the preloaded airtime value. If the subscriber did not reload prepaid credits within the first expiry period, the subscriber retained the use of the wireless number, but was entitled only to receive incoming voice calls and text messages for another 120 days (second expiry), except for the first reload of SIM-swappers that was required within only 30 days from the first expiry. However, if the subscriber did not reload prepaid credits within the second expiry period, the account would be permanently disconnected and considered part of churn.

For reloads, expiry periods varied depending on the denominations ranging from ₱10 to ₱1,000, from 1 to 60 days for the first expiry, and from 30 to 120 days for the second expiry. The first expiry was reset based on the longest expiry period among current and previous reloads. The second expiry, on the other hand, would be reset based on the remainder of the initial 120-day period after the first expiry or the longest expiry period among current and previous reloads, whichever was longer.

Under this policy, subscribers are included in the subscriber count until churned.

Acknowledging the changing dynamics of the industry, Globe updated its policy of including new subscribers in its total count only when they are capable of generating outgoing service revenue. Thus, a SIM-swapper is included in the subscriber count only upon the first reload.

Subscribers not considered in the subscriber count is accordingly not considered as part of churn.

Starting third quarter of 2004, reports for subsequent periods reflect subscriber figures as defined above.

### Globe Prepaid Plus

*Globe Prepaid Plus*' subscriber base for the full year of 2004 grew by 53% to 10,185,154 from 6,673,013 from the same period in 2003. Gross additions for the full year of 2004 were 123% higher at 9,069,132 compared to 4,061,127 in 2003 while net additions likewise improved by 139% to 3,512,141 against the 1,472,513 compared to the same period in 2003.

The average monthly churn rate for *Globe Prepaid Plus* subscribers reached 5.5% for the full year of 2004, higher than the 3.3% posted for the full year of 2003. The increased churn rate resulted from rotational churn due to competitive free SIM Swap activities. However, lower denomination call cards and OTA reload values, *Libre Load* promotions and new services deployed from Globe's value-transfer platform (*see Related section below*) contributed to a reduced churn rate for the year from 5.8% for the second and third quarters of 2004.

Globe Prepaid Plus subscribers can reload airtime value or credits, which can be purchased from Globe's centers and dealers, or purchased electronically from designated merchants, automated teller machines, and reloading facilities. Subscribers can purchase prepaid call and text cards in denominations ranging from ₱100 to ₱1,000. In addition to *AutoLoad Max*, Globe's OTA reloading service that allows *Globe Prepaid Plus* subscribers to load values for as low as ₱25 and any amount in ₱1 increments up to ₱150, postpaid and prepaid subscribers may also avail of Globe's *Share-A-Load* service and send prepaid load credits in ₱1 increments, via SMS, in denominations ranging from ₱1 to ₱1,500 (depending on the subscribers' postpaid plan). Building on its value transfer platform, Globe allowed prepaid subscribers to place voice calls or send SMS messages after registering through Globe's *Call and Text Collect* service even when a prepaid subscriber has run out of load credits or use Globe's *Text Bak Mo Libre Ko* messaging service that ensures a sending subscriber that the receiving subscriber he sends a text message to will be able to text back. The receiver who replies will not be charged as the sender will shoulder the cost of the text reply. Additionally, with Globe's *Ask-A-Load* service, prepaid subscribers with or without load credits may now request for prepaid credits from a Globe Postpaid or another Globe prepaid subscriber which can also be scheduled daily, weekly or monthly. *Ask-A-Load* and *Text Bak Mo Libre Ko* services do not require registration to activate and use the service.

The net ARPU for *Globe Prepaid Plus* registered a year-on-year decrease of 22% to ₱305 for the full year of 2004 from ₱389 for the same period in 2003 due mainly to lower voice and data revenues on a per subscriber basis. Net ARPU is computed by dividing recurring wireless prepaid net operating service revenues for the period (net of discounts and interconnection charges to external carriers) by the average number of prepaid wireless subscribers and then dividing the quotient by the number of months in the period.

Globe's prepaid gross ARPU averaged ₱422 for the full year of 2004 compared to ₱512 in 2003. Gross ARPU is computed by dividing recurring wireless prepaid gross service revenues for the period by the average number of prepaid wireless subscribers and then dividing the quotient by the number of months in the period.

Acquisition cost for *Globe Prepaid Plus* decreased by 8% to ₱267 for the full year of 2004 from ₱291 for the same period in 2003. For the full year of 2004, commissions contributed only 1% with handset and SIM subsidies accounting for 64% and advertising costs comprising the balance of 35%. In 2003, commissions also contributed 1%, handset and SIM subsidies accounted for 58%, while advertising costs comprised the remaining 41%.

## Touch Mobile

Innove's *Touch Mobile* subscribers increased by 13% to 1,698,324 subscribers as of 31 December 2004 compared to 1,501,844 subscribers for the same period last year. Gross additions for the full year of 2004 increased by 79% to 2,642,239 from 1,591,279 for the same period in 2003 while net additions went down by 70% to 196,480 from 649,059 for the same period in 2003.

The net ARPU for *Touch Mobile* for the full year of 2004 was ₱183 or 16% lower than the ₱218 registered for the same period in 2003. Gross ARPU was likewise lower at ₱288 for the full year of 2004 compared to ₱296 for the same period in 2003.

Acquisition cost per *Touch Mobile* subscriber decreased by 18% at ₱151 for the full year of 2004 compared to ₱185 for the same period last year. Of the total acquisition cost for the full year of 2004, handset and SIM subsidies accounted for 77%, commissions totalled 3% and advertising costs made up the balance of 20%. In 2003, handset and SIM subsidies accounted for 46%, while commissions and advertising costs made up the remaining 54%.

The average monthly churn rate for *Touch Mobile* registered at 12.7 % for the full year of 2004 against 6.7% for the same period last year. The increase in churn rate was mainly due to the rotational churn resulting from competitive free SIM swap activities and the termination of *Touch Mobile* SIMs found engaging in International Simple Resale or ISR activities. (See related item in *ILD Section*)

## **Wireline Services**

On 26 May 2003, Globe and Islacom filed a joint application with the National Telecommunications Commission (NTC) for authority to sell and transfer Globe's wireline voice and wireline data services to Innove. On 21 August 2003, the Securities and Exchange Commission (SEC) approved the change in name of Globe's 100% wholly-owned subsidiary, Islacom to Innove Communications, Inc (Innove). This is part of Globe's strategy to integrate all of its wireline services under Innove. On 7 August 2003, the NTC approved the legal transfer of Globe's wireline business authorizations, properties, assets and obligations to Innove. The NTC also approved the common usage, operations and maintenance of the network elements of both Globe and Innove to ensure the smooth transfer of its services and prevent disruptions in interconnection with other carriers during the transition. Pursuant to the approval granted by the NTC, the wireline business of Globe was integrated into Innove on 30 September 2003. Effective 1 October 2003, all wireline voice and data services were consolidated under Innove. Innove remains a wholly-owned subsidiary of Globe.

## **Wireline Services – Voice**

As of and for the year ended 31 December (in millions of pesos)	Innove <sup>1</sup>		
	2004	2003	YoY change(%)
Wireline Voice Net Service Revenues .....	3,833	3,469	10%
Wireline Voice Net Non Service Revenues .....	19	72	-74%
Subscribers – Net (End of period) .....	323,094	261,254	24%
Monthly churn rate (%).....	1.5	1.6	

<sup>1</sup> January to September 2003 revenues for wireline voice services offered in Luzon and Mindanao were recognized under Globe but reflected in the above table as Innove to be comparable.

Innove provides wireline voice communication services, including local, national long distance, international long distance and other value-added services, through its postpaid, prepaid and payphone lines, under the brand name *Globelines*. Innove provides wireline voice services in nine specific geographic areas in the

Philippines, including parts of Metro Manila, the Calabarzon region and Central Mindanao and Visayas. On 5 March 2004, Innove filed an application with the NTC for the expansion of its fixed line business. The application is currently pending.

As of 31 December 2004, Innove had total wireline voice subscribed lines of 323,094 of which 62% were postpaid and 38% were prepaid. Total wireline voice subscribers grew by 24% from the 261,254 subscribed lines registered for the same period in 2003.

Innove's net wireline voice ARPU for the full year of 2004 was at ₱1,112 compared to ₱1,164 for the same period in 2003. Net ARPU is computed by dividing recurring wireline voice net operating service revenues for all areas for the period (net of discounts and interconnection charges to external carriers) by the average number of wireline voice subscribers and then dividing the quotient by the number of months in the period.

The average monthly churn rate for *Globelines* was 1.5% for the full year of 2004 compared to 1.6% for the same period in 2003. Innove offers its prepaid landline services under the brand, *Globelines Prepaid*.

### Wireline Services – Data

As of and for the year ended 31 December (In millions of Pesos)	Innove		
	2004	2003 <sup>1</sup>	YoY change (%)
International Lease.....	670	555	21%
Domestic Lease .....	663	544	22%
Internet .....	384	308	25%
Others <sup>2</sup> .....	137	65	111%
Net Operating Revenues .....	<b>1,854</b>	<b>1,472</b>	26%

<sup>1</sup> Effective 01 October 2003, all wireline voice and wireline data services were consolidated under Innove. January to September 2003 revenues from wireline data services were reported under Globe but reflected in above table as Innove to be comparable.

<sup>2</sup> Includes revenues from value-added services of wireline voice business such as DSL/Net Express previously included in wireline voice service revenues.

Innove's *GlobeQuest* brand offers wireline data services, including international and domestic lease lines, internet, data center support services and wholesale transport services. Businesses and individuals can subscribe to *GlobeQuest's* Private Networks for their international and domestic lease line requirements. Internet users can apply for Broadband Internet or Broadband Access for commercial turnkey internet business solutions to access Innove's advanced broadband network infrastructure or high-speed fiber optic network. Additionally, *GlobeQuest* DataCenters provides businesses with advanced infrastructure and technology to support data hosting applications. Wireline data net operating revenues, which principally consist of billings for these services increased by 26% to ₱1,854 million for the full year of 2004 from ₱1,472 million for the same period in 2003. The higher growth was mainly due to international and domestic lease businesses.

### International Long Distance Services (ILD)

Globe and Innove both offer ILD services. ILD services are offered between the Philippines and over 200 countries. This service generates revenues from both inbound and outbound international call traffic with pricing based on agreed international termination rates for inbound traffic revenues and NTC-approved ILD rates for outbound traffic revenues.

For the year ended 31 December	Globe Consolidated		
	2004	2003	YoY change (%)
Total ILD Minutes (in million minutes) <sup>1</sup> .....	1,271	1,435	-11%
Inbound.....	1,082	1,242	-13%
Outbound.....	189	193	-2%
ILD Inbound / Outbound Ratio (x) .....	5.7	6.4	

<sup>1</sup> ILD minutes originating from and terminating to Globe and Innove networks.

On a consolidated basis, including contributions from the Wireless and Wireline services, ILD revenues decreased slightly to ₱12,622 million for the full year of 2004, translating to 24% of consolidated net service revenues for the full year of 2004 compared to ₱13,142 million and 28% respectively, for the same period in 2003.

Inbound ILD volume and correspondingly, ILD revenues have continued to suffer from the effects of International Simple Resale or ISR operations. ISR operations are a method of terminating inbound international calls without passing through the normal IGF. ISR operations involve routing inbound international calls through private leased lines or IP data lines, and then terminated to the called party through a local cellular or fixed line number. As the ISR operators terminate an inbound IDD call as a local call, they are able to offer lower rates to foreign carriers than current termination rates. As a result, Globe is not able to realize the full inbound international revenue and instead earns only from charges from local or national calls or access charges from other carriers and normal domestic termination charges for local or NDD calls which are lower than international termination rates. ISR operations are illegal in the country.

To reduce ISR activities, Globe has implemented increased detection and blocking procedures including closer coordination of detected ISR lines with other industry players. The Company has also tightened its fraud and risk evaluation process for corporate and individual accounts and has started to implement legal, commercial and technical solutions to the ISR concern such as charging higher rates for *Touch Mobile* numbers detected as being used for ISR operations. The Company has also coordinated with the NTC and other government agencies in addressing this concern.

### National Long Distance Services (NLD)

Globe and Innove both offer NLD services. Revenues from NLD services are generated from calls outside of a specific local area but within the Philippines.

For the year ended 31 December	Globe Consolidated		
	2004	2003	YoY change (%)
Total NLD Minutes (in million minutes).....	428	473	-10%
Inbound.....	208	240	-13%
Outbound.....	220	233	-6%

Consolidated NLD revenues, from wireless and wireline services stood at ₱1,537 million for the full year of 2004, or a 24% decrease from ₱2,030 million for the same period in 2003. Consolidated NLD revenues for the full year of 2004 amounted to 3% of consolidated net service revenues for the period compared to 4% for the full year of 2003. (See related item on Wireline Voice NLD in Recent Developments Section)

Both Globe and Innove offer Interexchange Carrier Services (IXC). Globe uses its Microwave Facilities called National Transmission Network (NTN) and the Nationwide Digital Transmission Network (NDTN or the Telicphil Facilities), while Innove uses its own backbone transmission network for hauling national and international interconnection traffic among wireless and wireline operators in the Philippines. Globe also has a Fiber Optic Backbone Network (FOBN) which supports its wireless, wireline voice and data, ILD, and NLD requirements. It is a combination of submarine and land fiber systems with an estimated fiber optic length of 1,300 kilometers. The FOBN carries traffic for both Globe and Innove offered services.

## Results of Operations

For the year ended 31 December (in millions of pesos)	Globe Consolidated		
	2004	2003	YoY change (%)
Cost of sales.....	6,675	6,214	7%
Services and Others.....	4,307	3,388	27%
Selling, Advertising and Promotions .....	3,753	3,119	20%
Staff Costs .....	2,729	2,471	10%
Utilities, Supplies & Other Administrative Expenses.....	1,715	1,546	11%
Rent.....	1,420	1,604	-11%
Repairs and Maintenance.....	1,325	1,779	-26%
Entertainment, Amusement & Representation .....	10	10	-
Provisions (Reversal of Allowance) for:			
Doubtful Accounts.....	1,052	941	12%
Inventory Losses, Obsolescence and Market Decline.....	73	15	387%
Losses on Property and Equipment .....	12	304	-96%
Other Probable Losses.....	(501)	234	-314%
Operating Costs and Expenses <sup>1</sup> .....	22,570	21,625	4%
Depreciation and Amortization .....	15,896	12,161	31%
<b>Total Costs and Expenses.....</b>	<b>38,466</b>	<b>33,786</b>	<b>14%</b>

<sup>1</sup> Operating costs and expenses now include provisions (reversals of allowance).

For the full year of 2004, the Company's operating costs and expenses increased by 4% to ₱22,570 million from ₱21,625 million in 2003. In 2004 total costs and expenses registered a 14% increase to ₱38,466 million compared to ₱33,786 million for the same period in 2003.

Cost of sales increased by 7% to ₱6,675 million due to higher sales of phonekits and SIM packs.

Services and Others increased by 27% to ₱4,307 million for the full year of 2004 due mainly to higher professional and legal fees, contracted services for various marketing activities and administrative projects compared to the same period in 2003.

Selling, Advertising and Promotions expenses increased by 20% to ₱3,753 million for 2004 due mostly to increased marketing and promotional activities for launching of new products and services.

Staff costs grew by 10% to ₱2,729 million due mostly to higher headcount which grew by 770 personnel or 18% from 4,186 to 4,956 in 2004 and overtime charges during the period.

Utilities, supplies and other administrative expenses also increased by 11% to ₱1,715 million due mainly to higher electricity and fuel charges coming from an expanded network in 2004 and consumption of supplies.

Rent expenses also decreased by 11% to ₱1,420 million due to cost savings resulting from lower negotiated lease payments and deactivations of certain cable systems and circuits being leased.

Repairs and maintenance expenses were lower by 26% year on year to ₱1,325 million on account of adjustments made on previous charges as the Company was able to negotiate lower maintenance costs for various facilities and equipment.

Provisions for trade receivables decreased by 13% to ₱1,011 million for the full year of 2004 compared to ₱1,165 million in 2003 due to additional provisions made for postpaid subscriber accounts. Provision for doubtful accounts for traffic receivables reached ₱42 million compared to a net reversal of allowance in the same period in 2003 amounting to ₱236 million due to subsequent settlement of traffic receivables previously provided with allowance. Net reversal of provisions for other receivables totaled ₱0.5 million for the full year of 2004 compared to ₱11.5 million provisions in 2003. As a result, provisions for doubtful accounts amounted to ₱1,052 million for the full year of 2004 against ₱941 million for the same period in 2003.

Net subscriber receivable days was 52 for the full year of 2004 compared to 48 for the same period last year due to higher receivables from the wireline business. Globe maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. For subscriber receivables, an allowance is calculated using the policy of providing full allowance for receivables from permanently disconnected subscribers. Permanent disconnections are made after a series of collection steps following non-payment by wireless and wireline subscribers. Such permanent disconnections generally occur within a predetermined period from statement date.

Full allowance is generally also provided for individual and business wireless subscribers with outstanding receivables that are past due by 90 and 120 days, respectively and those on temporary disconnected status that are subject for termination within the succeeding month. For wireline residential and business subscribers, full allowance is provided for outstanding receivables that are past due by 90 and 150 days, respectively.

For traffic settlement receivables, a policy of providing full allowance is adopted for net international and national traffic settlement accounts and roaming accounts that are not settled within ten months and six months, respectively from transaction date and after a review of the status of settlement with other carriers. Additional provisions are made for accounts specifically identified to be doubtful of collection.

For the period ended 31 December 2004, Globe recognized provisions for inventory losses, obsolescence and market decline of ₱73 million compared to ₱15 million for the same period in 2003. Provision for inventory losses in 2004 increased by 387% due to provisions for market decline on handsets as inventory level increased as a consequence of intensive subscriber acquisition promos. Inventories and supplies are stated at the lower of cost or net realizable value (NRV). NRV for handsets 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, and wireline telephone sets consists of the related replacement costs. In determining the NRV, the Globe Group considers any adjustment necessary for obsolescence, which is provided 100% for non-moving items for more than one year and 50% for slow-moving items. Cost is determined using the moving average method. Supplies of SIM packs/SIM cards and telephone handsets are consumed upon activation of the wireless and wireline services. An allowance for market decline is provided equivalent to the excess of the cost over the net realizable value of inventories. When inventories are sold, the related allowance is reversed in the same period, with the appropriate sales (revenues) and cost of sales (expenses) recognition. An allowance is also provided for obsolescence and probable losses. Full obsolescence allowance is provided when the inventory is non-moving for more than a year. A 50% allowance is provided for slow-moving items.

Provisions for other probable losses relates to pending regulatory claims and assessments. The Globe Group recognized net reversal of provision for other probable losses amounting to ₱501 million for the year ended

31 December 2004 resulting mainly from recent favorable developments that called for a reassessment of existing provisions.

The information usually required by SFAS 37/IAS 37, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments. As of 1 February 2005, the remaining pending regulatory claims and assessments are still being resolved.

Depreciation and amortization on a consolidated basis increased by 31% to ₱15,896 million for the full year of 2004 compared to the ₱12,161 million for the same period in 2003. The increase reflected additional depreciation charges related to various telecommunications equipment placed in service during the period and a change in the Estimated Useful Life (EUL) of certain equipment arising from a regular review conducted to assess the reasonableness of EUL assumed for all equipment versus the expected pattern of economic benefits. Globe revised the remaining useful lives of certain switch equipment from 15 to 10 years and certain investments in cable systems from 20 to 15 years.

In addition, Globe accelerated the remaining EUL of certain telecommunications equipment, which are specifically identified to be useful for specific periods shorter than the previous EUL. These changes have been accounted for as a change in accounting estimates. These changes increased depreciation expense for the year ended 31 December 2004 by about ₱2,047 million before related income taxes. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The weighted EUL of all assets, as of 31 December 2004, is 9.39 years.

Depreciation and amortization also includes full amortization of remaining bond issuance cost of ₱100 million related to 2009 Senior Notes redeemed in August 2004. (See Related discussion under Liquidity and Capital Resources Section)

Consolidated EBITDA for the full year of 2004 increased by 19% to ₱33,040 million compared to ₱27,853 million for the same period in 2003. Consolidated EBITDA is defined as consolidated earnings before interest, taxes, depreciation and amortization and other income/expenses. Consolidated EBITDA margin for the period ended 31 December 2004 was 63% compared to 59% for the same period in 2003. EBITDA margin is computed on the basis of net service revenues.

Details of Consolidated Other Income/(Expenses) for the year ended 31 December 2004 and 2003 are as follows:

For the year ended 31 December (In millions of Pesos)	Globe Consolidated		
	2004	2003	YoY change (%)
Interest Income .....	454	757	-40%
Interest Expense .....	(4,379)	(4,506)	-3%
Capitalized Interest Expense .....	78	482	-84%
Net Interest Expense.....	<u>(3,847)</u>	<u>(3,267)</u>	18%
Equity in Net Loss of Investee Company.....	-	(4)	-
Swap Costs and Other Financing Charges.....	(1,750)	(1,818)	-4%
Provision for Impairment in Value of Investments.....	-	(907)	-
Reversal of provision for restructuring cost on network integration...	-	113	-
Others – net .....	504	1,048	-52%
Sub-Total .....	<u>(1,246)</u>	<u>(1,568)</u>	-21%
<b>Total Other Expenses.....</b>	<b><u>(5,093)</u></b>	<b><u>(4,835)</u></b>	5%

Globe Group posted an 18% increase in total net interest expense of ₱3,847 million in 2004 from ₱3,267 million for the same period in 2003. Interest and other related financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation are

capitalized as part of the cost of the property. The capitalization of these borrowing costs, as part of the cost of the property: (a) commences when the expenditures and borrowing costs being incurred during the installation and related activities necessary to prepare the property for its intended use are in progress; (b) is suspended during extended periods in which active development is interrupted; and (c) ceases when substantially all the activities necessary to prepare the property for its intended use are complete. These costs are amortized using the straight-line method over the estimated useful lives of the related property.

Globe also registered a 25% decrease in swap costs to ₱1,056 million accruing on the long term currency and interest rate swap contracts for the year ended 31 December 2004 compared to ₱1,408 million for the same period last year. *(See related discussion in Foreign Exchange Exposure section).*

Others-net decreased by 52% to P504 million for 2004 from P1,048 million in 2003 due to a higher net foreign exchange gain in 2003 and favorable resolution of previous charges.

In 2003, Innove recognized full provision for its 4.25% equity investment in C2C Holdings Pte. Ltd. (C2C Holdings) amounting to ₱895 million. The provision was made following the assessment by C2C Holdings of the estimated future cash flows expected from the continuing use of the cable network assets of C2C Pte. Ltd. (C2C) until the end of its economic useful life and after considering the increased potential risk to the restructuring of C2C's debt. This considered an independent market study commissioned to revalidate the bandwidth market potential and its effect on C2C Holdings.

Consolidated earnings before interest, other expenses (income) and taxes (EBIT) grew by 9% to ₱17,143 million for the full year of 2004 compared to ₱15,692 million for the same period in 2003.

For the period ended 31 December 2004, Globe's provision for current and deferred income tax amounted to ₱1,506 million after adjustments pertaining to current tax of prior periods, including that on incentives availed by Globe from its Income Tax Holiday (ITH). Globe's incentives from ITH are due to expire on 31 March 2005. Globe's effective income tax rate was 18% before equity in Innove's net income. Innove's provision for current and deferred income tax registered a net benefit of ₱713 million due largely to the reinstatement of tax benefits on the remaining balance of previously unrecognized deferred tax assets deemed recoverable from future taxable income. Globe's consolidated provision for current and deferred income tax amounted to ₱793 million in 2004 from ₱513 million in 2003.

Consolidated net income increased by 9% year-on-year to ₱11,257 million from the ₱10,345 million posted for the same period in 2003.

Accordingly, consolidated basic and diluted earnings per common share were ₱79.93 and ₱79.80, respectively, for 2004. For the full year of 2003, basic and diluted earnings per share were at ₱68.79 and ₱68.65, respectively. The increase in earnings per share for 2004 was due to improved operating results for the period plus the accretion resulting from Globe's buyback of 12 million shares in October 2003. *(See related discussion in Capital Resources Section)*

Basic earnings per share (EPS) is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding during the period including fully-paid but unissued shares, if any, as of the end of the period after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period. Diluted EPS is computed assuming that the stock options are exercised and qualified convertible preferred shares are converted.

## Foreign Exchange Exposure

The Philippine Peso closed at ₱56.34 as of 31 December 2004 from ₱55.59 as of the same date last year. As a result of the translation of these foreign currency-denominated assets and liabilities, Globe Group's reported net foreign currency revaluation gain amounted to ₱301 million compared to ₱1,234 million loss for the periods ended 31 December 2004 and 2003, respectively.

The foreign exchange differentials arising from remeasurement of foreign currency-denominated accounts (other than those relating to the liabilities/borrowed funds attributed to financing capital projects and those covered by swap agreements) are charged/credited to current operations. Globe Group's net foreign exchange gains credited to current operations amounted to ₱90 million and ₱304 million for the year ended 31 December 2004 and 2003, respectively.

The consolidated foreign exchange differentials attributed to the remeasurement of foreign currency-denominated liabilities used to finance the acquisition and installation of Globe and Innove's property and equipment consisted of net foreign exchange losses amounting to ₱305 million and ₱1,107 million for the year ended 31 December 2004 and 2003, respectively. These foreign exchange differentials were added to or deducted from the cost of the appropriate property and equipment accounts. Globe's foreign exchange differentials arising from remeasurement of foreign currency-denominated liabilities/borrowed funds covered by currency swap contracts amounted to ₱515 million gain and ₱431 million loss for the year ended 31 December 2004 and 2003, respectively. These gains (losses) were offset by the translation losses (gains) from the related currency swaps.

SFAS 21/IAS 21, The Effects of Changes in Foreign Exchange Rates, provides certain restrictions in allowing the capitalization of foreign exchange differentials. SFAS 21/IAS 21 will become effective for financial statements covering periods beginning on or after January 1, 2005. Accordingly, Globe Group under these standards, will no longer be able to capitalize foreign exchange differentials effective 1 January 2005. On such date, any remaining balance of the capitalized foreign exchange differentials, net of income tax effect, will be adjusted retroactively against retained earnings and comparative consolidated financial statements will be restated. As of 31 December 2004, the net cumulative foreign exchange losses included in property and equipment amounted to ₱4,538 million, net of accumulated depreciation of ₱3,376 million.

To mitigate foreign exchange risk, Globe enters into short-term foreign currency forwards and long-term foreign currency swap contracts. Short-term forward contracts are used to manage Globe's foreign exchange exposure related to foreign currency-denominated monetary assets and liabilities. For certain long term foreign currency denominated loans, Globe enters into long term foreign currency and interest rate swap contracts to manage its foreign exchange and interest rate exposures.

As of 31 December 2004, Globe had US\$236 million in outstanding foreign currency swap agreements, some of which have option features. Globe Telecom also sold currency options with total notional amount of US\$16 million maturing on 30 March 2005 and 30 September 2005.

Globe also has outstanding interest rate swaps. As of 31 December 2004, Globe has US\$88.7 million in notional amount of US\$ swaps under which it effectively swapped some of its floating rate US\$ denominated loans into fixed rate, with semi-annual payment intervals up to August 2007. Globe also has US\$5 million in notional amount of US\$ swaps under which it effectively swapped 9.75% fixed coupon of its 2012 Senior Notes to a floating rate based on LIBOR, subject to a cap. The performance of the swap is linked to the 10 year and 30 year US\$ Constant Maturity Swap Rates.

Globe also has a fixed to floating interest rate swap contract with a notional amount of ₱1 billion, in which it effectively swaps a fixed rate Philippine peso denominated bond into floating rate with quarterly payment intervals up to February 2009.

Total swap costs accruing on the above long term currency and interest rate swap contracts amounted to ₱1,056 million in 2004.

As of 31 December 2004, Globe had investments in US Dollar Linked Peso Notes (DLPN) with a face value totaling ₱150 million maturing on 5 December 2005. The Notes are issued by the Republic of the Philippines (ROP), denominated in Philippine Pesos, with coupon payments and redemption amounts adjusted for the appreciation or depreciation of the US dollar to the Philippine peso exchange rate. As such, the instrument behaves similarly to a US-dollar asset. Globe had US\$2.9 million outstanding non-deliverable currency forward contracts to fix the Philippine peso cash flows from coupon and redemption of the DLPNs.

For disclosure purposes, the estimated unrealized mark-to-market gain on the outstanding derivatives of Globe amounted to US\$8.6 million based on the mark-to-market valuation as of 31 December 2004 provided by counterparty banks. Such unrealized mark-to-market gain is not included in the determination of net income.

Consolidated foreign currency linked revenues were 26% of total net revenues for the period ended 31 December 2004 versus 30% in 2003. Foreign currency linked revenues include those that are: (1) billed in foreign currency and settled in foreign currency, or (2) billed in Pesos at rates linked to a foreign currency tariff and settled in Pesos, or (3) wireline monthly service fees and the corresponding application of the Currency Exchange Rate Adjustment or CERA mechanism, under which Globe has the ability to pass the effects of local currency depreciation to its subscribers. These revenues serve as a natural hedge to our foreign exchange exposure.

### **Liquidity and Capital Resources**

Consolidated assets as of 31 December 2004 amounted to ₱138,125 million compared to ₱140,130 million in 2003.

As of 31 December 2004, current ratio on a consolidated basis was 0.90:1 compared to 0.97:1 for the same period in 2003. Consolidated cash, cash equivalents and short term investments was at ₱14,303 million at the end of 2004 compared to ₱15,004 million for the same period in 2003. Gross debt to equity ratio was 0.92:1 on a consolidated basis and remains well within the 2:1 debt to equity limit dictated by certain debt covenants while net debt to equity ratio was 0.66:1 at the end of 2004.

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

- Total debt to equity not exceeding 2:1;
- Total debt to EBITDA of 3:1;
- Debt service coverage exceeding 1.3 times (except for refinancing of the 2009 bond which the lenders consented to exclude from the computation);
- Secured debt ratio not exceeding 0.2 times.

Consolidated net cash flow from operations amounted to ₱27,294 million for the period ended 31 December 2004 from ₱23,290 million in 2003.

As of and for the year ended 31 December (in millions of pesos)	Globe Consolidated		
	2004	2003	YoY change
Capital Expenditures (Cash) .....	20,283	17,452	16%
Increase (Decrease) in Liabilities related to Acquisition of PPE .....	936	(1,638)	-157%
Total Capital Expenditures .....	<b>21,219</b>	<b>15,814</b>	34%
Total Capital Expenditures / Service Revenues (%).....	40%	33%	

Consolidated net cash used in investing activities amounted to ₱17,679 million for the full year of 2004 compared to ₱14,778 million for the same period in 2003. Consolidated capital expenditures for the full year of 2004 amounted to ₱21,219 million. For 2005, Globe has earmarked around ₱17 billion for capital expenditures that will be spent primarily on expanding its wireless network and enhancing the necessary transmission facilities in areas where traffic is expected to surge. The 2005 capital expenditures program will be funded through internally-generated cash and debt financing.

Consolidated net cash used in financing activities for the full year of 2004 amounted to ₱9,074 million compared to ₱14,433 million for the same period in 2003. Consolidated total debt as of 31 December 2004 amounted to ₱52,218 million. Loan repayments of Globe for the full year of 2004 amounted to ₱18,874 million (US\$335 million).

In February 2004, Globe issued ₱3.0 billion worth of Philippine SEC registered bonds. This completed Globe's refinancing requirement for its 2009 bonds. As of 30 June 2004, Globe had redeemed US\$77 million of its 2009 Senior Notes. On 2 August 2004, Globe Telecom exercised its call option on the 2009 Senior Notes. The Company redeemed the remaining balance of US\$143 million at 106.5%. US\$88 million worth of swaps and forwards used to hedge the Senior Notes also matured. Consequently, previously deferred debt issuance costs of ₱100 million related to the notes were fully amortized upon redemption and included in depreciation and amortization expenses.

During the year, Globe secured the following term loan facilities with various institutions to finance its capital expenditure requirements.

- In April 2004, Globe signed a US\$100 million term loan facility with Norddeutsche Landesbank Girozentrale (Singapore branch) as Lender. The facility is a 5-year term loan with floating rate of interest over US\$ LIBOR.
- In June 2004, Globe signed a 5-year ₱2 billion term loan facility with Metropolitan Bank and Trust Company (Metrobank) as Lender. The facility is a 5-year term loan with a floating rate of interest over MART.
- In July 2004, Globe raised US\$100 million senior unsecured notes due 2012 which was consolidated to form a single series with Globe's US\$200 million 9.75% notes due 2012 issued on April 4, 2002. Additionally, Globe signed a 5-year ₱5 billion fixed term loan facility with various lenders under the DBP-JBIC program. The facility is a 5-year term loan with a fixed rate of interest.

As of 31 December 2004, gross debt reached P52,218 million, 77% of which are denominated in US\$. Of the 77%, 33% have been swapped to peso debt. As a result, the amount of US\$ debt swapped into pesos and peso-denominated debt accounts for approximately 48.5% of consolidated loans as of 31 December 2004.

Below is the schedule of debt maturities for Globe for the years stated below based on total debt as of 31 December 2004:

Year Due	Principal (US\$ millions)
2005 .....	161
2006 .....	170
2007 .....	128
2008.....	53
2009 through 2012 .....	415
<b>Total</b>	<b>927</b>

Stockholders' equity was ₱57,016 million as of 31 December 2004. On 16 October 2003, Globe approved the purchase of 12 million common shares from DeTeAsia Holdings GmbH (DeTeAsia) at ₱680 per share for a total of ₱8.19 billion. This purchase was equivalent to 7.9% of Globe's total outstanding common shares. DeTeAsia's offer to sell all or part of its 37.7 million shares had earlier been accepted by Ayala Corporation (AC) and Singapore Telecom International Pte. Ltd (STI), a wholly-owned subsidiary of Singapore Telecommunications, Ltd. (ST). AC and STI then gave Globe an option to participate in the transaction by buying back a portion of the shares of DeTeAsia. Globe closed its purchase of common shares from DeTeAsia last 24 October 2003.

With Globe's decision to participate, the DeTeAsia's Globe common shares were sold as follows: Ayala at 10.04 million shares, STI with 15.64 million shares and Globe with 12 million shares. On 12 November 2003, AC and ST each sold 3.75 million common shares at ₱765 a share through a transaction on the Philippine Stock Exchange. After the transaction, both AC (including shares owned by a subsidiary where it has full voting power) and ST each owned 40% of Globe's outstanding common shares. Subsequently, the Company's free float increased from 14.5% to 20%.

As of 31 December 2004, Globe's capital stock consists of:

1. Preferred stock Series "A" at a par value of ₱5 per share of which 158.5 million are outstanding out of a total authorized of 250 million shares.

Preferred stock "Series A" has the following features:

- (a) Convertible to one common share after 10 years from issue date at a price which shall not be less than the prevailing market price of the common stock less the par value of the preferred shares;
- (b) Cumulative and non-participating;
- (c) Floating rate dividend (set at MART 1 plus 2% average for a 12-month period);
- (d) Issued at ₱5 par;
- (e) Voting rights;
- (f) Globe has the right to redeem the preferred shares at par plus accrued dividends at any time after 5 years from date of issuance; and
- (g) Preferences as to dividend in the event of liquidation.

On 15 December 2004 the Board of Directors (BOD) approved the declaration of cash dividends to preferred shareholders as of record date 31 December 2004 amounting to ₱75 million which remains outstanding as of 31 December 2004 and was included under "Accounts payable and accrued expenses" account in the consolidated balance sheets. The 2003 dividends payable to convertible preferred shareholders amounting to ₱68 million was paid on 28 September 2004.

2. Common shares at a par value of ₱50 per share of which 151.9 million shares have been issued and 139.9 million are outstanding out of a total authorized of 200 million shares. The 12 million shares acquired from DeTeAsia are considered treasury shares.

On 29 January 2004, the BOD approved a new dividend policy to declare cash dividends to its common shareholders on a regular basis as may be determined by the BOD from time to time. The BOD had set out a dividend payout rate of approximately 50% of prior year's net income payable semi-annually in March and September of each year. This will be reviewed annually taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity. The BOD also declared the first semi-annual cash dividend in 2004 of ₱18 per share payable to common stockholders of record as of 18 February 2004 and a total of ₱2.52 billion dividends was paid on 15 March 2004. Additionally, the BOD on 2 August 2004 approved the declaration of the second semi-annual cash dividends for 2004. A total of ₱2.52 billion in dividends were paid on 15 September 2004 with record date on 20 August 2004. *(Please refer to Recent Developments Section for 2005 Cash Dividend)*

Consolidated Return on Average Equity (ROE) for the period ended 31 December 2004 stood at 21%.

On July 1, 2004, Globe Telecom granted additional stock options to key executives and senior management personnel of the Globe Group under the Executive Stock Option Plan 2. It required the grantees to pay a nonrefundable option purchase price of ₱1,000. The grantees were given until September 30, 2004 to accept the offer. As of 31 December 2004, a total of 803,800 stock options were granted to key executives and senior management personnel. The agreement provides for an exercise price of ₱840.75 per share. 50% of the options become exercisable from July 1, 2006 to June 30, 2014, while the remaining 50% become exercisable from July 1, 2007 to June 30, 2014. 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.

## **RECENT DEVELOPMENTS**

Globe is an intervenor in and Innove (formerly Isla Communications Co., Inc.) is a party to Civil Case No. Q-00-42221 entitled "Isla Communications Co., Inc. et. al., versus National Telecommunications Commission et. al.," before the Regional Trial Court (RTC) of Quezon City by virtue of which Globe and Innove, together with other cellular operators, sought and obtained a preliminary injunction against the implementation of National Telecommunications Commission (NTC) Memorandum Circular No. 13-6-2000. NTC Memorandum Circular 13-6-2000 sought, among others, to extend the expiration period of prepaid cards to two years. The NTC appealed the issuance of the injunction to the Court of Appeals (CA). On **25 October 2001**, Globe and Innove received a copy of the decision of the CA ordering the dismissal of the case before the RTC for lack of jurisdiction, but without prejudice to the cellular companies' seeking relief before the NTC which the CA claims had jurisdiction over the matter. Globe subsequently filed a Petition for Review with the Supreme Court (SC) seeking to reverse the decision of the CA. After initially denying the petition, the SC on **2 September 2003**, overturned the CA's earlier dismissal of the petitions filed by SMART and Globe. In its 13-page decision, the SC said that the Quezon City trial court could hear and decide the case, contrary to NTC's argument. The SC has also since denied the NTC's motion for reconsideration. We are awaiting resumption of the proceedings before the RTC of Quezon City. In the event, however, that Globe is not eventually sustained in its position and NTC Memorandum Circular No. 13-6-2000 is implemented in its current form the Company would probably incur additional costs for carrying and maintaining prepaid subscribers in its network.

On **7 February 2003**, AT&T and MCI filed a petition before the United States Federal Communications Commission (US FCC) seeking a stop-payment order on settlements to the Philippine carriers on the ground that Philippine carriers were "whipsawing" AT&T and MCI/WorldCom (MCI) into agreeing to an increase in termination rates to the Philippines. Whipsawing occurs when a foreign monopoly supplier uses its market power to negotiate a more favorable agreement from one US carrier and extract the same terms from other

US carriers. On **10 March 2003** the Chief International Bureau of the US FCC issued an order suspending all settlement payments of U.S. facilities-based carriers to a number of Philippine carriers, including Globe Telecom, until such time as the US FCC issues a Public Notice stating otherwise. This Order had the effect of preventing U.S. facilities-based carriers such as AT&T from paying the affected Philippine carriers for switched voice services, whether rendered before or after the date of the Order. In response, the NTC issued an Order last **12 March 2003** ordering Philippine carriers not to accept traffic from US carriers who do not pay for services rendered and to take all steps necessary to collect payment for services rendered.

- On **November 2003**, Globe announced the conclusion of interim commercial arrangements with MCI and Sprint. On **9 January 2004**, Globe reached an interim termination rate agreement with AT&T for US-Philippine traffic. On **26 January 2004** the US FCC lifted its stop-payment order against Globe following confirmation by US carriers that service with Globe had been normalized. U.S. carriers are now required to resume payments for termination services. Globe has started receiving various payments from these carriers after the lifting of the stop payment order.
- In **June 2004**, the FCC issued an order denying the Petitions for Review filed by the different Philippine carriers and upholding the finding of whipsawing. In the same order, the FCC stated that the matter of lifting the International Settlements Policy (ISP) over the Philippine route will be decided on in the FCC's proceedings relative to its ISP Reform Order. Pursuant to the ISP Reform Order, countries whose rates are at or below benchmark will be dropped from the coverage of the ISP unless serious concerns are raised on the route. In **August 2004**, the FCC, as a pre-requisite to lifting the ISP over the Philippine route required US carriers to certify that the rates they are charged by the Philippine carriers are benchmark-compliant. As of **11 October 2004**, all three major US carriers (AT&T, MCI and Sprint) have certified to the benchmark compliance of the Philippine route. However, the FCC has not yet lifted the ISP over the Philippine route to date.
- On **10 and 11 January 2004**, the United States Department of Justice (US DOJ) served subpoenas on several Philippine telecom executives, including two Globe managers and the Innove CEO, requiring them to appear before a grand jury investigation in Hawaii. The investigation is for the purpose of determining if the conduct of the Philippine carriers in relation to the termination rate disputes with U.S. carriers may have violated U.S. laws. The investigation is still ongoing and the outcome of the investigation is presently not determinable.

On **29 October 2004**, the Singapore Exchange Securities Trading Limited advised Globe that its US\$300 million 9.75% Notes due 2012 ("Notes") had been listed and quoted on the Singapore exchange. The legal listing on the Singapore exchange signifies that the Notes are listed in a register kept by the Singapore exchange but are not included on the main board of the Singapore exchange or SGX. Trades in the Notes would not be made through the Singapore exchange but would be conducted on a direct bilateral basis between trading houses and settled via international clearing houses. Last 22 July 2004, Globe successfully raised US\$100 million in the international capital markets through the re-opening of its US\$200 Million Senior Notes due 2012 which are also listed in Luxembourg. (*See Liquidity and Capital Resources Section*)

On **3 November 2004**, Globe Telecom announced that it signed an agreement with six other leading Asia Pacific mobile operators to form a regional mobile alliance, Bridge Mobile Alliance, which will operate through a Singaporean-incorporated company, Bridge Mobile Pte. Ltd. ('Bridge Mobile'). The joint venture company will look at driving commercial and other benefits for the operators and delivering regional mobile services to their subscribers. The seven operators are Bharti (India), Globe Telecom (Philippines), Maxis (Malaysia) Optus (Australia), Singtel (Singapore) Taiwan Cellular Corporation (Taiwan) and Telkomsel (Indonesia).

On **9 November 2004**, Moody's Investor Service (Moody's) placed on review for possible downgrade the Ba2 foreign currency senior implied and senior unsecured bond ratings of Globe. This rating action follows Moody's decision to place the Philippines' Ba2 foreign currency sovereign ceiling under review for possible downgrade. At the same time, Moody's affirmed the Ba1 local currency senior implied and senior unsecured issuer ratings of Globe. The outlook for these ratings remains positive.

On **10 November 2004**, Ayala Corporation (AC) announced that it sold 7 million common shares, equivalent to 5% of the common shares in Globe to SingTel. Substantially all of these shares (6,287,565) are part of the block AC acquired from Deutsche Telecom (DT) last October 2003. After the sale, AC's common shareholdings decreased from 40% to 35%. AC intends to use the sale proceeds to pay down part of its debt at the parent level and further strengthen its financial position.

On **22 November 2004**, the Philippine Rating Services Corporation (PhilRatings) announced that it has maintained its PRS Aaa rating for Globe's outstanding ₱3.0 billion bonds. A rating of PRS Aaa is defined as: "Smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues."

On **December 2004**, Innove launched its "No NDD charges for Globelines to Globelines calls nationwide" program. As part of its program, effective 5 January 2005, Globelines postpaid subscribers would no longer be charged National Direct Dialing (NDD) charges for calls made from their Globelines postpaid phones to any other Globelines postpaid phone nationwide. However, on 4 January 2005, Innove suspended the implementation of the program after receiving a cease-and-desist order (CDO) from the NTC in view of complaints by the Private Telephone Companies of the Philippines (PAPTELCO) and PT&T for alleged predatory pricing. Innove has replied to the complaint of PAPTELCO and PT&T and continues to work with the NTC to discuss the program. On 11 January 2005, Globe filed a complaint against several telecom companies seeking to enjoin various carriers' unlimited call pricing schemes that Globe claims constitute predatory pricing. On 14 January 2005, the NTC temporarily lifted the CDO and directed Innove to offer its toll-free NDD services for a period not exceeding 30 days upon receipt of the memo from NTC pending a review and resolution of all price and rate reduction schemes.

On **15 December 2004**, the Board of Directors of Globe Telecom Holdings, Inc. (GTHI), an associate of Globe Telecom, having completed and concluded its only activity related to the Philippine Deposit Receipts, approved the dissolution of GTHI.

On **6 January 2005**, *Globe Kababayan* launched its "Quick Remit and Load Card" service that enables Overseas Filipino Workers (OFW) to remit cash and reload credits to Globe Handyphone and Touch Mobile phones. The "Quick Remit and Load Card" service allows OFWs to do away with queuing at overseas remittance centers and making over-the-counter payments of cable fees. This service complements *G-CASH*'s international remittance service. Additionally, OFWs need not wait for days-off to remit money or reload credits to *Globe Handyphone* and *Touch Mobile* phones as the service can be availed anytime and anywhere. The "Quick Remit and Load Card" service will be manufactured and distributed internationally by Paysetter, Inc. and will be available in ₱1,200, ₱3,200 and ₱5,200 denominations.

On **16 January 2005**, *Touch Mobile* offered its new "Power Piso" call rates where *Touch Mobile* to *Touch Mobile* calls will be charged ₱1.00 per minute only starting on the 3rd minute of each call. The 1st two (2) minutes will be charged the current ₱5.50 per minute rate. The "Power Piso" campaign is part of *Touch Mobile*'s new repositioning to "TM, Ang Bagong Touch Mobile" that is focused on giving more peso value to its mass consumers by making its services more affordable. Additionally, starting 16 January 2005, *Touch Mobile* subscribers can access selected Value Added Services (VAS) content for only ₱1 per download. This

will be a permanent service available to *Touch Mobile* subscribers. Initial VAS content will include daily job openings, jokes and tips. Other VAS services will be offered at the regular rate of ₱2.50 per download.

On **30 January 2005**, Globe launched its “MyGlobe Tracker” service which allows *Globe Handyphone* postpaid and prepaid subscribers to track the location of friends, family and celebrities through their mobile phones using location-based technologies and applications that act on or react to geographic triggers. These services provide a general location or vicinity of a subscriber. Currently, five types of services are available to Globe subscribers on “MyGlobe Tracker:”

- (a) *myFriend Tracker* – Subscribers can locate friends and get information on their location;
- (b) *myFamily Tracker* – Parents can get information on the location of their children;
- (c) *myChat Tracker* – Subscribers can get a list of chatters in their area;
- (d) *Celebrity Tracker* – Subscribers can get alerts from celebrities in their area;
- (e) *Nginig Tracker* – Subscribers can get information on paranormal readings within their area. This is based on the ABS-CBN show “NGINIG”.

Registration for the above services is currently free while location requests range from ₱5 (SMS) and ₱10 (MMS).

On **1 February 2005**, the Board of Directors declared the first semi-annual cash dividend in 2005 of ₱20 per common share with a record date of 18 February 2005 and payment date of 15 March 2005. This cash dividend declaration is consistent with the Company’s dividend policy of paying out approximately 50% of prior year’s net income payable semi-annually in March and in September of each year.

On **1 February 2005**, the Board of Directors approved an offer to purchase one share for every fifteen shares of the outstanding common stock of Globe (par value ₱50) from all shareholders of record as of 10 February 2005, at a price of ₱950 per share. The approval allows Globe to purchase up to 9,326,924 shares representing 6.67% of its outstanding common shares. Each shareholder is entitled to tender a proportionate number of shares owned at the 1:15 ratio, referred to as the Tender Ratio, for purchase by Globe upon and subject to the terms and conditions of the tender offer. Assuming all shareholders participate in the tender offer to the full extent, the total purchase price will be about ₱8.86 billion. Tendering shareholders will be eligible to receive the cash dividends declared on 1 February 2005 for their tendered shares.

Globe intends to commence the tender offer on 3 February 2005 and to end the offer on 2 March 2005. On 1 February 2005, the Company filed with the Securities and Exchange Commission the tender offer report (SEC Form 19-1) with a copy of the letter to the shareholders, the terms and conditions of the tender offer and the tender form. These will also be sent to the stockholders in due course and will be available from the PSE and its member brokers starting 3 February 2005.

On **1 February 2005**, the Board of Directors approved the retirement of the purchased shares and the existing 12 million treasury shares acquired in 2003 from DeTeAsia.

## Other Matters:

The following are the major stockholders of Globe Telecom as of 31 December 2004:

Stockholders	Common	% of Common	Preferred	% of Preferred	Total	% of Total
Ayala Corp*	48,900,847	35	-	-	48,900,847	17
ST	63,036,015	45	-	-	63,036,015	21
Asiacom			158,515,021	100	158,515,021	53
Public	27,967,005	20	-	-	27,967,005	9
<b>Total</b>	<b>139,903,867</b>	<b>100</b>	<b>158,515,021</b>	<b>100</b>	<b>298,418,888</b>	<b>100</b>

\* Ayala Corporation's effective ownership includes nominee shares and shares owned by a subsidiary.

## BOARD OF DIRECTORS as of 31 December 2004

Jaime Augusto Zobel de Ayala II	Chairman
Delfin L. Lazaro	Co-Vice Chairman
Lim Chuan Poh	Co-Vice Chairman
Gerardo C. Ablaza, Jr.	Director
Romeo L. Bernardo	Director
Lucas Chow	Director
Fernando Zobel de Ayala	Director
Dr. Roberto F. de Ocampo	Director
Xavier P. Loinaz	Director
Guillermo D. Luchangco	Director
Jesus P. Tambunting	Director

## KEY OFFICERS

Gerardo C. Ablaza, Jr.*	President and Chief Executive Officer
Ferdinand M. De la Cruz	Head, Consumer Business Group
Rodell A. Garcia	Chief Information Officer
Gil B. Genio	Chief Executive Officer – Innove
Delfin C. Gonzalez, Jr.	Chief Financial Officer
Cesar M. Maureal	Head, Human Resources Group
Rebecca V. Ramirez	Head, Internal Audit
Atty. Rodolfo A. Salalima	Head, Corporate and Regulatory Affairs
Atty. Renato O. Marzan	Corporate Secretary

## CONSULTANTS

Andrew Buay	Chief Operating Adviser
Robert L. Wiggins	Chief Technical Adviser

\* Member of the Board of Directors.

## **SIGNATURES**

Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant GLOBE TELECOM, INC.

EDITH C. SANTIAGO

2 February 2005

Vice President – Financial Control

DELFIN C. GONZALEZ, JR.

2 February 2005

Chief Financial Officer & Authorized Representative