



**PCCW**

## 2002 Interim Results

*for the six months ended June 30, 2002*

**Hong Kong**

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**September 5, 2002**

# Forward Looking Statements

This presentation contains forward-looking statements as defined in Section 21E of the U.S. Securities Exchange Act of 1934, as amended. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of PCCW Limited (“the Company”) about its business and the industry and markets in which it operates. These forward-looking statements include, without limitation, statements relating to revenues, earnings, and stock performance. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions are also intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company’s control and are difficult to predict. Consequently, actual results could differ materially from those expressed or forecast in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include: (a) the continuing effects of deregulation of the Hong Kong telecommunications markets and the Company’s ability to deal with those effects; (b) the Company’s ability to expand its operations outside Hong Kong; (c) the Company’s ability to implement a business strategy involving business combinations, strategic investments and acquisition; (d) the Company’s substantial debt which may impair its ability to implement its business plans; (e) the Risk Factors set out in the “Risk Factors” section of the Company’s 2001 Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission on July 1, 2002 and published on the Company’s website.

# Overview

Mr. Richard Li  
*Chairman & Chief Executive*

# Interim Results Highlights

**1H'02**

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## Solid Operating Performance

- Profit Before Exceptional
- Profit After Exceptional
- Revenue
- Core Revenue

US\$140M (+17.2% y-o-y)  
US\$ (92)M  
(9.8)% y-o-y  
(4.6)% y-o-y

## Efficiency Gains

- Growth in EBITDA
- Enhanced EBITDA Margin

5.6% y-o-y  
from 35% to 40%

## Improving Balance Sheet

- Total Debt Reduced
- Free Cash Flow pre-Cyberport
- Cyberport Investment

17% y-o-y  
US\$ 159M  
US\$ 127M

# Delivering on Promises

## Progress Achieved

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**Improved Capital Structure**

**Sharpened Efficiencies &  
Improved Margins**

**Growth in Broadband &  
Business eSolutions**

## Objectives Unchanged

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**Debt Repayment Program  
on Track**

**Continue to Improve  
Free Cash Flow**

**Organic Growth  
Opportunities to Improve  
Top Line**

# Outlook

**Free Cash  
Flow Strength**

- **Free cash flow inclusive of Cyberport will rise significantly over the next two years**
- **PCCW in shape to pay dividend in 24 months**

***Healthy Free Cash Flow Provides Flexibility***

# Review of P&L

Mr. Mike Butcher  
*Executive Director & Group COO*

# Group Results - Half Year 2002

(US\$ million)

	1H01	2H01	1H02	Change	
				YoY	Sequential
<b>Revenue</b>	1,450	1,365	1,308	-9.8%	-4.2%
<b>EBITDA<sup>(1)</sup></b>	501	447	530	+5.6%	+18.5%
<i>EBITDA Margin</i>	35%	33%	40%		
<b>Operating Profit <sup>(1)</sup></b>	336	276	349	+3.9%	+26.6%
<b>Profit Attributable to Shareholders</b>					
<b>- Before Exceptional Loss from Disposal of RWC</b>	120	123	140	+17.2%	+14.4%
<b>- After Exceptional Loss from Disposal of RWC<sup>(2)</sup></b>			(92)		
<b>EPS - Basic (HK Cents)</b>	4.22	4.24	(3.11)		

*Profit Before Exceptional Improved 17% y-o-y*

(1) EBITDA and operating profit are before gains/losses on investments, provisions for impairment losses and results from associates, joint ventures and unconsolidated subsidiaries.

(2) Sale of 40% of RWC, accounting treatment with no impact on operations or cash flow.



# Solid Core Revenue

(US\$ million)

	1H01	2H01	1H02	Change	
				YoY	Sequential
<b>TSS<sup>(1)</sup></b>	<b>1,280</b>	<b>1,262</b>	<b>1,167</b>	<b>-8.8%</b>	<b>-7.5%</b>
<b>Business eSolutions <sup>(1)</sup></b>	<b>126</b>	<b>122</b>	<b>146</b>	<b>+15.8%</b>	<b>+20.2%</b>
<b>Infrastructure</b>	<b>92</b>	<b>83</b>	<b>40</b>	<b>-56.9%</b>	<b>-51.9%</b>
<b>Others<sup>(2)</sup></b>	<b>34</b>	<b>26</b>	<b>47</b>	<b>+37.8%</b>	<b>+76.6%</b>
<b>Eliminations <sup>(1)</sup></b>	<b>(82)</b>	<b>(128)</b>	<b>(92)</b>		
<b>Total Revenue</b>	<b>1,450</b>	<b>1,365</b>	<b>1,308</b>	<b>-9.8%</b>	<b>-4.2%</b>
<b>One Off Items</b>					
<b>- Infrastructure</b>	<b>(66)</b>	<b>(52)</b>	<b>(5)</b>		
<b>- Reach Normalization<sup>(3)</sup></b>	<b>(19)</b>	<b>(13)</b>	<b>-</b>		
<b>Core Revenue</b>	<b>1,365</b>	<b>1,300</b>	<b>1,303</b>	<b>-4.6%</b>	<b>+0.3%</b>

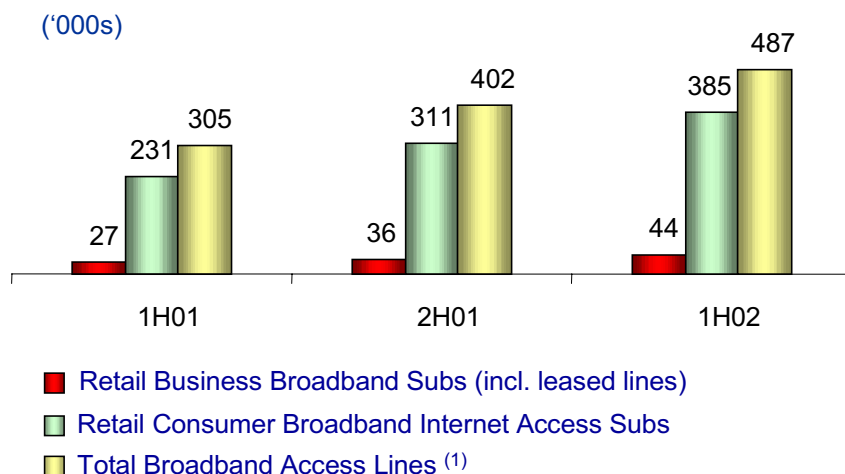
(1) Retail consumer Internet access and multi-media services were transferred into TSS effective Jan 1, 2002. Internet Data Center was integrated into Business eSolutions. 2001 figures reflect changes.

(2) Others includes PCCW Japan, Ventures, Greater China Business, remainder of Internet Services, and Corporate Functions.

(3) In connection with the formation of Reach in February 2001, Reach assumed responsibility for certain wholesale international telecommunications services and the associated turnover.

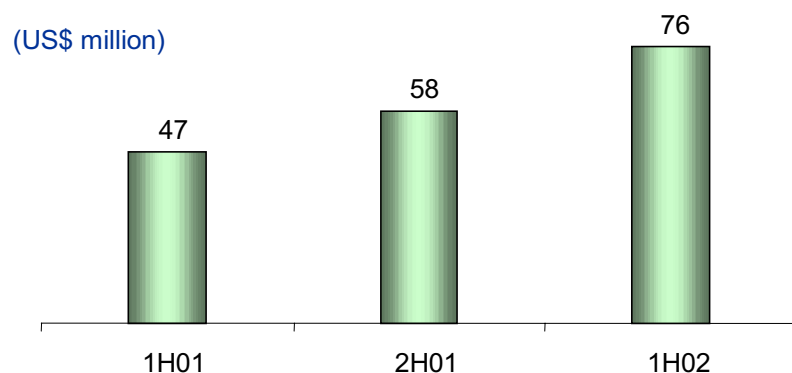
# Delivering on Broadband Growth

## Broadband Lines



- **Retail consumer broadband Internet net adds of 12,000 per month**
- **Access churn managed at less than 2%**
- **Broadband value added services:**
  - *enhancing customer relationships*
  - *differentiating service*
  - *improving ARPU*

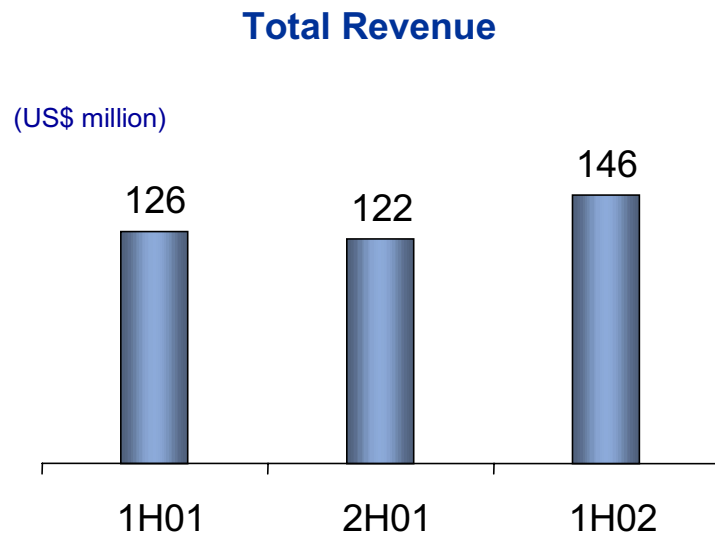
## Retail Consumer Broadband Internet Revenue



	<u>BB VAS</u>	<u>Users as of July '02</u>
Sept '01	Now.com.hk	120,000
Oct '01	Parental Control	25,000
Jan '02	Netsee	36,000
Apr '02	Wireless (public & home)	10,000
Apr '02	Mailguard	57,000
May '02	Net Album	40,000

(1) PCCW retail consumer & business, and external wholesale customers

# Delivering on BeS China Focus & Expansion



## China

- PCCW - China Telecom JV
- PCCW - Sinopec JV
- Demand remains strong
  - ERP - Finance/ Accounting + HR systems
  - Data centralization & supporting infrastructure

## Hong Kong

- Enterprise demand softer due to economy
- HK ID card

**External revenue 75% of total revenue**

# Improved EBITDA and Operating Profit

(US\$ million)

EBITDA	1H01	2H01	1H02	Change	
				YoY	Sequential
TSS <sup>(1)</sup>	607	579	575	-5.3%	-0.6%
Business eSolutions (incl. IDC) <sup>(1)</sup>	9	(1)	16	+81.2%	-
Infrastructure	40	33	36	-10.1%	+8.9%
Others <sup>(2)</sup>	(155)	(164)	(97)	+37.0%	+40.6%
<b>Total EBITDA<sup>(3)</sup></b>	<b>501</b>	<b>447</b>	<b>530</b>	<b>+5.6%</b>	<b>+18.5%</b>
Depreciation & Amortization	168	161	180	+6.9%	+11.8%
<b>Operating Profit <sup>(3)</sup></b>	<b>336</b>	<b>276</b>	<b>349</b>	<b>+3.9%</b>	<b>+26.6%</b>
Capex	143	166	74	-48.3%	-55.4%

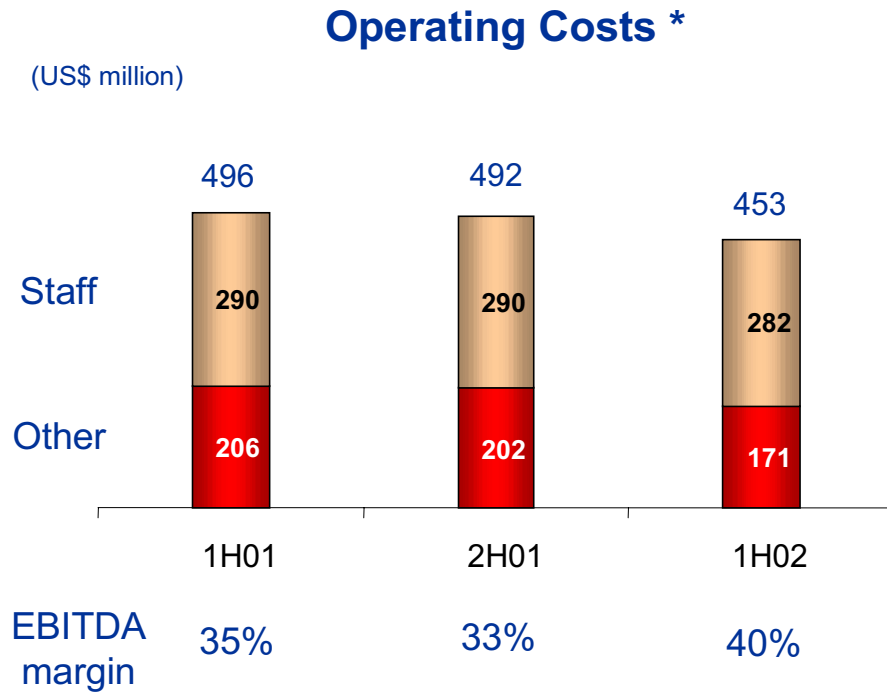
*EBITDA Margin Enhanced from 35% to 40% y-o-y*

(1) Retail consumer Internet access and multi-media services were transferred into TSS effective Jan 1, 2002. Internet Data Center was integrated into Business eSolutions. 2001 figures reflect changes.

(2) Others includes PCCW Japan, Ventures, Greater China Business, remainder of Internet Services, and Corporate Functions.

(3) EBITDA and operating profit are before gains/losses on investments, provisions for impairment losses and results from associates, joint ventures and unconsolidated subsidiaries.

# Continued Efficiency Gains



	YoY	Sequential
<b>Operating Costs *</b>	<b>- 9%</b>	<b>- 8%</b>
<b>Staff costs</b>	<b>- 3%</b>	<b>- 3%</b>
<ul style="list-style-type: none"> <li>–6 months savings of 2001 exercises</li> <li>–March 25 exercise</li> </ul>		
<b>Other Opex</b>	<b>- 17%</b>	<b>- 15%</b>
<ul style="list-style-type: none"> <li>–Across the board operating more effectively</li> <li>–Greater productivity and operating efficiency achieved through out the business</li> </ul>		

*Ongoing Programs for Operational & Productivity Improvements*

\* Exclude depreciation and amortization.

# Share of Results of Joint Ventures & Associates

(US\$ million)	1H01	2H01	1H02	
Share of jointly controlled companies	37	30	38	→
Share of results of associates	12	8	8	→
Share of results of unconsol. Subsid.*	19	-	-	
<b>Share of results of JV's &amp; associates</b>	<b>68</b>	<b>38</b>	<b>46</b>	

Reach	2H01	1H02
Revenue	661	636
EBITDA	207	209
PBT (50%)	40	49

RWC	2H01	1H02
Revenue	295	272
EBITDA	89	89
PBT (40%)	21	18

\* Non-recurring item in 1H01 represents share of results of profit from 40% of CSL and 100% of HKTI for the month of Jan'01.

# Strong Cash Flow

(US\$ million)

	1H01	2H01	1H02
<b>CAPEX</b>	(143)	(166)	(74)
<b>Cash flow<sup>(1)</sup> before Cyberport investment</b>	<b>(65)</b>	<b>344</b>	<b>159</b>

*Cash Flow Positive After Cyberport Investment*

(1) Cash flow being cash flow from operating activities less capex.

# Review of Balance Sheet

Mr. Alex Arena

*Executive Director & Group CFO*



# Sale of 40% RWC (CSL)

## Debt Reduction & Shareholders' Equity Improvement

- **Attractive sale price**

(US\$)	Sale 60%	Sale 40%	Combined
<b>Value</b>	<b>1,680m</b>	<b>614m</b>	<b>2,294m</b>
<b>EV/Sub</b>	<b>2,926</b>	<b>1,440</b>	<b>2,353<sup>(3)</sup></b>
<b>EV/EBITDA</b>	<b>17.9x<sup>(1)</sup></b>	<b>8.8x<sup>(2)</sup></b>	<b>14.3x<sup>(3)</sup></b>

- **Reduces total debt by US\$614m**
  - Redeemed US\$750m Telstra CB plus US\$54m accrued interest
  - Issued US\$190m mandatory convertible note
- **Improves Shareholders' Equity by US\$259m**

*No Impact on Cash Flow*

(1) Based on FY01 - June year end

(2) Based on calendar year - December year end

(3) Multiples based on weighted average

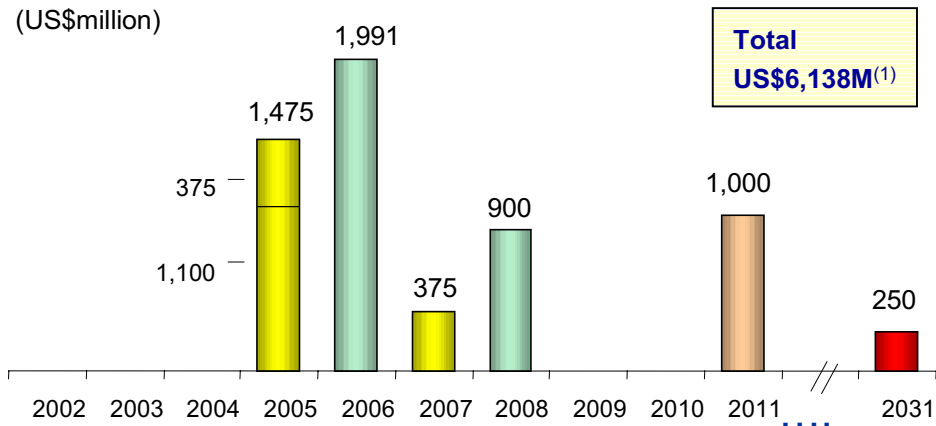
# Improving Shareholders' Equity

	Dec 01	June 02	Key Movements
(US\$ million)			
Current assets	1,757	1,660	<ul style="list-style-type: none"> <li>Investment and Ventures portfolio carrying value reduced from \$298M to \$264M</li> </ul>
Non-current assets	4,976	4,696	<ul style="list-style-type: none"> <li>Sale of 40% RWC with book carrying value of \$355M</li> <li>Cyberport 1H02 investment \$127M</li> </ul>
<b>Total assets</b>	<b>6,733</b>	<b>6,356</b>	
Current liabilities	(1,406)	(1,080)	
Non-current liabilities	(6,237)	(5,790)	<ul style="list-style-type: none"> <li>As part of RWC transaction                             <ul style="list-style-type: none"> <li>Redemption of Telstra CB \$750M</li> <li>Issuance of mandatory CB \$190M</li> </ul> </li> </ul>
<b>Total liabilities</b>	<b>(7,643)</b>	<b>(6,870)</b>	
<b>Shareholders' equity</b>	<b>(910)</b>	<b>(514)</b>	<ul style="list-style-type: none"> <li>Realization of goodwill in relation to sale of RWC</li> <li>1H02 operating results</li> </ul>

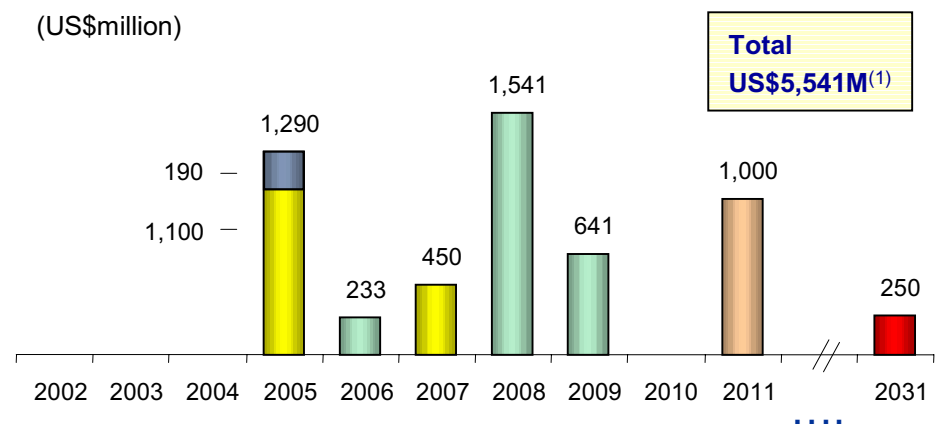
*On Current Earnings Trends Positive Equity within 2 years*

# Debt Maturity Lengthened

Dec 2001



June 2002

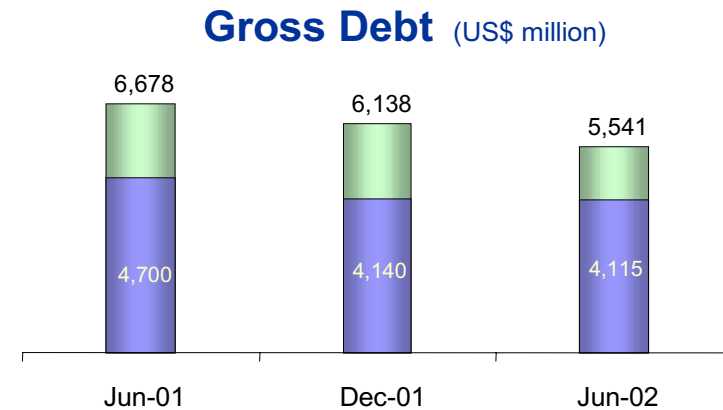
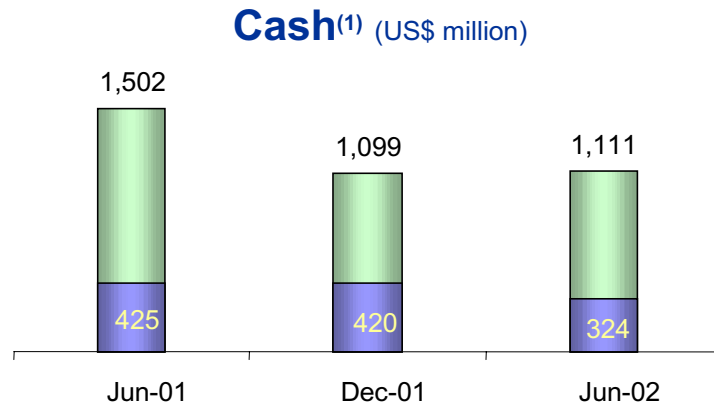


- **Current weighted average maturity - 7 yrs**
- **Average cost of debt 4%**
- **Refinancings since Dec 01:**
  - \$450M 5-year Convertible Bond due 2007
  - \$641M 6-year Bank Facility due 2008
  - \$641M 7-year Bank Facility due 2009
  - Retired US\$750M Convertible Bond and issued US\$190M Convertible Note to Telstra via the disposal of RWC stake
- **All debt hedged into HK\$**
- **Stable investment grade credit rating**

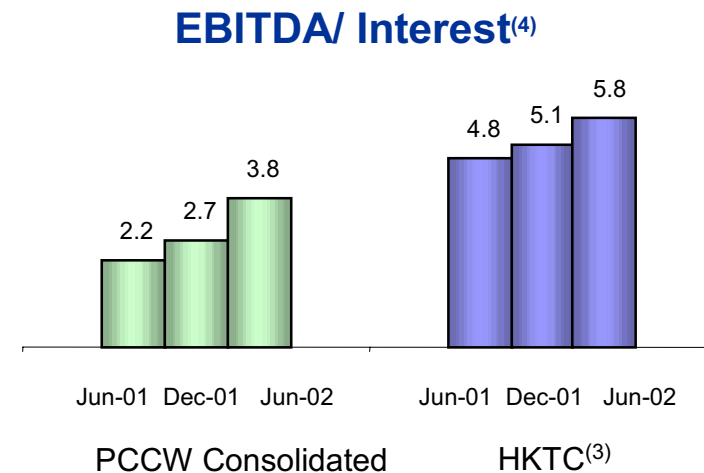
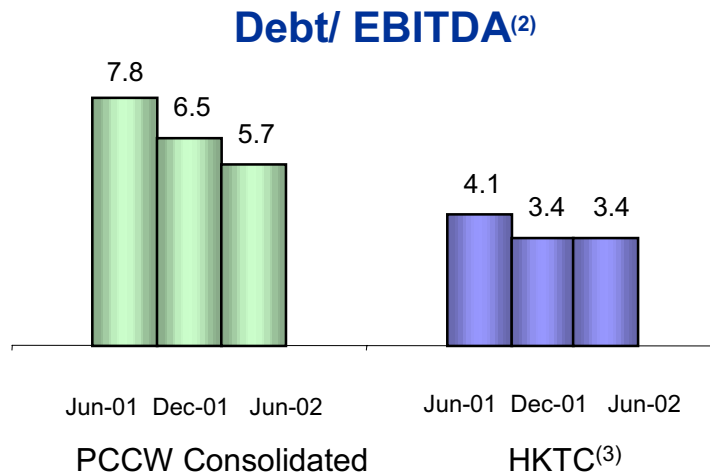
(1) Total debt balances include Beijing property loan due from '03 to '08

(2) The US\$190M mandatory convertible note issued to Telstra has conservatively been treated as debt. However, the Note is structured as a mandatory convertible for conversion into PCCW's ordinary shares upon maturity in June 2005. PCCW also has the option to redeem the CB in cash any time prior to maturity.

# Further Debt Reduction & Improving Credit Fundamentals



█ PCCW Consolidated █ HKTC<sup>(3)</sup>



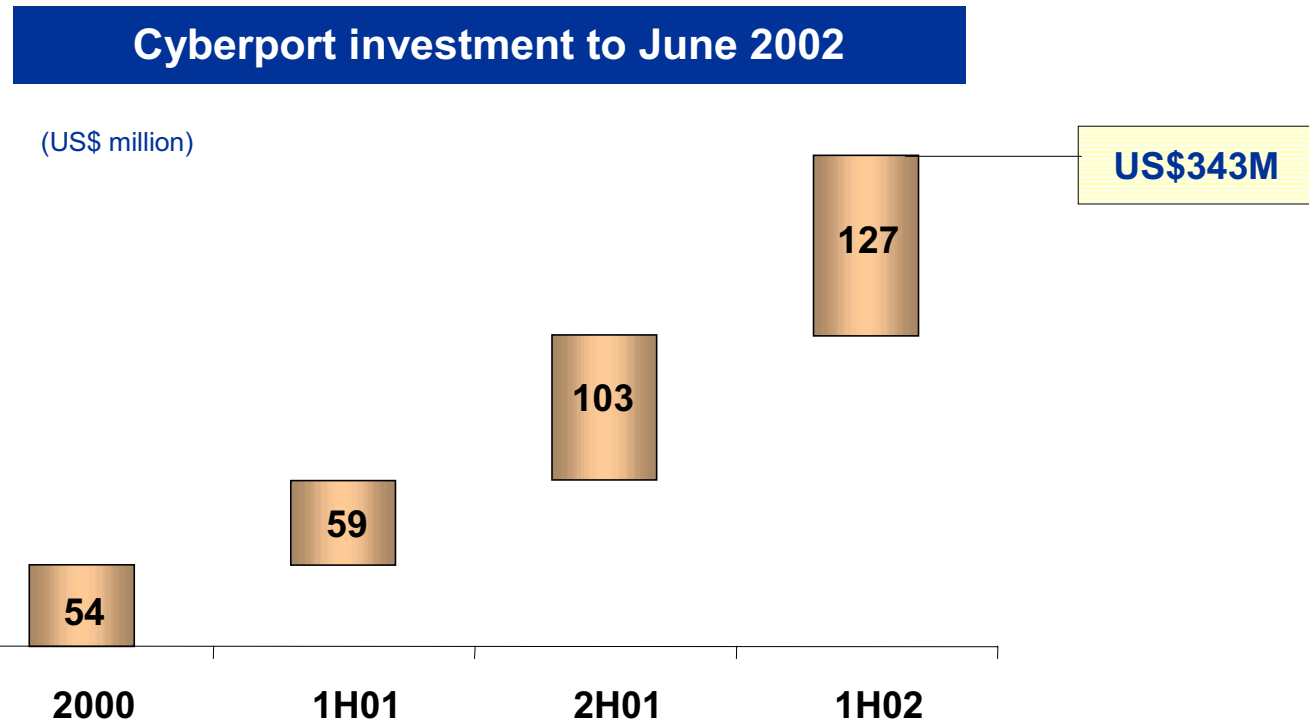
(1) Consolidated cash balances are net of short term debt.

(2) Debt/EBITDA is calculated based on the gross debt as at period end divided by the EBITDA for the last 12-month period

(3) Retail Internet access was transferred into HKTC effective April 1, 2002

(4) Based on 6-month period

# Cyberport Project on Schedule



- **Projected to become self-funding in 2003**
- **Flexibility to alter construction time table in response to market conditions**

*After Cyberport Investment Peaks (2002)  
PCCW's Cash Flow Steps Up Significantly*

# Outlook

Mr. Mike Butcher

*Executive Director & Group COO*

# 1H Summary

Despite soft economic environment and against a backdrop of poor industry fundamentals we have achieved:

## Operations

- Efficiency and productivity gains
- Enhanced margins
- Improved underlying profit

## Solid Balance Sheet

- Further debt reduction
- Extend maturities - first repayment 2005
- Stable investment grade credit rating
- Previous commitment to pay down US\$ 1BN over the next 5 years on track

## Cashflow

- Prudent capital investment whilst maintaining quality
- Cyberport on track – projected to become self-funding in 2003

# 2H Outlook

## Top Line

- Tough economic environment - anticipate to continue
- Continue to focus on core telecom business - retention & growth
- Growing by eSolutions business
- Full year flat to slightly down

## Free Cash Flow

- Major projects for operation and productivity improvements
- Continue to reduce opex in network & process
- EBITDA improvement in h-o-h growth
- Free cash flow (before Cyberport) to improve dramatically

## Direction

- Leadership team is key
- Strategic options identified
- Continue prudent financial management
- Strong debt reduction due to cash flow
- Assume flexibility in a volatile environment



# Appendix

# Statutory Consolidated Profit and Loss

(US\$ million)	1H01	2H01	1H02	YoY	Sequential
<b>Turnover</b>	1,450	1,365	<b>1,308</b>	-10%	-4%
<b>Operating profit before net gains/(losses) on investments and provisions for impairment losses</b>	336	276	<b>349</b>	4%	26%
Gains/(losses) on investments, net	32	67	<b>(16)</b>	NA	NA
Provisions for impairment losses	0	(12)	<b>0</b>	NA	NA
Profit from operations	368	331	<b>333</b>	-9%	1%
Finance costs, net	(227)	(165)	<b>(138)</b>	39%	16%
Share of results of JV, assoc., and unconsol subsidiaries <sup>(1)</sup>	68	38	<b>46</b>	-33%	18%
Loss on disposal of interest in RWC	-	-	<b>(232)</b>	NA	NA
Profit before taxation	209	204	<b>9</b>	-96%	-96%
Taxation	(96)	(87)	<b>(107)</b>	-11%	-23%
Profit/(loss) after taxation	113	117	<b>(98)</b>	NA	NA
Minority interests	7	6	<b>6</b>	NA	NA
Profit/(loss) attributable to shareholders	120	123	<b>(92)</b>	NA	NA
<b>Profit attributable to shareholders before exceptional item</b>	<b>120</b>	<b>123</b>	<b>140</b>	<b>17%</b>	<b>14%</b>

(1) Non-recurring item in 1H01 represents share of results of profit from 40% of CSL and 100% of HKTI for the month of Jan '01.

# Metrics

## TSS Revenue (1)

6 months period ended (US\$ million)	1H 01	2H 01	1H02
Local Telephony Services (Direct Exchange Lines, interconnection, local access link and exchange co-location)	497	468	449
Local Data Services (Wholesale and retail Consumer Internet access, traditional IP/data products)	267	280	287
International <sup>(2)</sup> (IDD, retail IPLC, int'l data & messaging, LAC/MDF)	291	282	243
Other Services (Equipment sales, TeleServices, sub-contracting services)	225	232	188
<b>Total</b>	<b>1,280</b>	<b>1,262</b>	<b>1,167</b>
<b>EBITDA</b>	<b>607</b>	<b>579</b>	<b>575</b>
<b>EBITDA Margin</b>	<b>47%</b>	<b>46%</b>	<b>49%</b>

## TSS Operating Drivers

	1H 01	2H 01	1H02
<b>Local Telephony ('000)</b>			
Exchange lines in service	3,598	3,489	3,354
Business lines	1,510	1,470	1,419
Residential lines	2,088	2,019	1,935
<b>Local Market Share</b>	92%	89%	87%
Business Lines (incl. IDA)	87%	83%	82%
Residential Lines	96%	93%	90%
Traditional Data (Exit Gbps)	119	140	160
Retail IDD minutes ('M mins)	560	525	525
IPLC Bandwidth (Exit Mbps) <sup>(2)</sup>	1,085	1,059	672
Total broadband access lines ('000) (Retail Consumer, Business and wholesale customers)	305	402	487
Retail Consumer Broadband Internet Subscribers('000)	231	311	385
Consumer Narrowband Subscribers ('000)	370	320	264

(1) Retail Consumer Internet access and multimedia services businesses were transferred into TSS effective Jan 2002. 2001 figures have been reclassified to reflect such restructuring.

(2) In connection with the formation of Reach in February 2001, Reach assumed responsibility for certain wholesale international telecommunications services and the associated turnover.

# Metrics

## Business eSolutions (incl. IDC)

	1H01	2H01	1H02
Retail business broadband ('000)			
	26.9	36.4	44.2
(US\$ million)			
<b>Revenue</b>			
SI & eSolutions <sup>(1)</sup>	67	95	77
Business broadband	21	27	31
TDL	38	-	38
<b>Total Revenue</b>	<b>126</b>	<b>122</b>	<b>146</b>
<b>EBITDA</b>	<b>9</b>	<b>(1)</b>	<b>16</b>

(1) Includes IDC

(2) Ventures, Corp Functions, PCCW Japan, Internet Services and Others

## Headcount - as at Jun 2002

	Dec 01	Jun 02
TSS	11,366	10,443
Business eSolutions	1,392	1,322
Infrastructure	307	343
Others <sup>(2)</sup>	1,518	1,373
<b>Total</b>	<b>14,583</b>	<b>13,481</b>
<b>Total (excluding part-time/temp)</b>	<b>14,080</b>	<b>13,002</b>