

A Year of Innovation

Annual Results

For the year ended December 31, 2003

Hong Kong, March 4, 2004



Forward Looking Statements

The statements included in this presentation that are not historical in nature are “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 as amended and Section 21E of the U.S. Securities Exchange Act of 1934 as amended. These forward-looking statements, which may include statements regarding PCCW’s future results of operations, financial condition or business prospects, are subject to significant risks and uncertainties and are based on PCCW’s current expectations.

Actual results may differ materially from those expressed or implied in these forward-looking statements as a result of a variety of factors. These factors are discussed in PCCW’s reports furnished to or filed with the U.S. Securities and Exchange Commission, including, but not limited to, PCCW’s most recent Annual Report on Form 20-F.

Overview

Jack So

*Deputy Chairman
&
Group Managing Director*

Company Focus in 2003

- Stabilizing the core business
- Revitalizing our offer to the market
- Improving the Company's financial position
- Pressing for reform of out-dated regulation
- Expanding business beyond Hong Kong

A Year of Substantial Achievement

Innovative Services Launched

- New Generation Fixed-line Services
- nOW Broadband TV
- PCCW Convergence

Customer-driven Initiatives

- Increased value of our core offerings
- Marked improvements in retention rates
- Rapid growth in new services, & IT business in China

Cash Flow Improvement

- Sellout of Residence Bel-Air phases 1 & 2
- No further cash injection needed
- Strong operating cash flow

Debt Further Reduced

- Net debt reduced by US\$485 million
- Moved majority of debt to low fixed rates
- Extended average length of debt to 7 years

2003 Financial Performance

(US\$ million)	<u>2003</u>	Change y-o-y
Revenue	2,891	+12%
<i>Revenue (excl. Bel-Air)</i>	2,364	-8%
EBITDA	945	-9%
<i>EBITDA Margin (incl. Bel-Air)</i>	33%	vs. 40%(2002)
<i>EBITDA Margin (excl. Bel-Air)</i>	40%	vs. 40%(2002)
Operating Profit	556	-17%
One-time Charges	(892)	-
Profit/ (Loss)	(782)	-
for the year attributable to shareholders		
Net Debt	3,735	-11%

One-time Charges

- All non-cash items
- Do not affect cash flow
- Will not hinder our dividend plans
- US\$ 892m in one-time provisions
 - *US\$ 533m against our entire stake in Reach*
 - *US\$ 359m Japan, fixed assets, other intangible assets*
- We do not expect material impairments in 2004 & the foreseeable future

Dividend Policy

Management remains committed to paying dividends

- Significant progress made towards goals of reducing debt and achieving “A” ratings at HKTC
- Technical matters need to be resolved including the reorganization of the balance sheet
- This process expected to be completed by end of 2004

Outlook

Exploit Growth Opportunities

- Offer more innovative services to our customers
- Continue to expand our Unihub IT business in China
- Exploit our broadband expertise beyond Hong Kong - wireless broadband in UK

Operating cost

- Maintain strict cost control & operational efficiency

Regulatory Reform

- Persist in pressing for reform of out-dated regulatory policies, for fair competition

Debt reduction

- Continue to pay down debt & strengthen financial flexibility

Committed to Start Paying Dividends

(Jack So's section in Chinese)

概覽

副主席
兼
集團董事總經理

蘇澤光

2003年業務重點

- 鞏固核心業務
- 推陳出新
- 改進財務狀況
- 爭取改革過時的規管政策
- 拓展香港以外業務

2003年重大進展

推出多項 創新服務

- 「新世代」固網電話服務
- **now** 寬頻電視
- **PCCW Convergence**

貫徹以客為尊 策略

- 提升核心業務價值
- 大幅減低傳統電話服務客戶流失
- 新服務以及內地的資訊科技業務取得增長

提升現金流量

- 貝沙灣第一及第二期全部售出
- 毋須再為項目注資
- 現金流量穩健

進一步減債

- 債務淨額下降 **4.85**億美元
- 大部分債務轉為定息貸款
- 債務的平均還款期延長至約 **7** 年

2003年財務業績

(百萬美元)	<u>2003年</u>	與去年同期比較
收益	2,891	+12%
收益 (未計貝沙灣)	2,364	-8%
EBITDA	945	-9%
EBITDA邊際利潤 (計入貝沙灣)	33%	vs. 40%(2002)
EBITDA邊際利潤(未計貝沙灣)	40%	vs. 40%(2002)
營業溢利	556	-17%
一次過撥備	(892)	-
本年度股東應佔 溢利／(虧損)	(782)	-
債務淨額	3,735	-11%

一次過撥備

- 並非現金項目
- 不會影響穩健現金流量
- 不會妨礙派發股息目標
- 一次過撥備**8.92**億美元
 - 於恆通的**5.33** 億美元投資全數減值
 - 日本遊戲業務、網絡固定資產、其他無形資產減值**3.59** 億美元
- 預期於**2004**年以至可見未來，不會再有重大的撥備

派息政策

管理層致力令公司派發股息

- 在 (一) 減債，及
(二) 令香港電話公司邁向「A」級信貸評級；
兩個方面取得莫大進展
- 著手解決因派發股息而涉及的技術問題，包括重整資產負債表
- 預期2004年年底可完成這項程序

展望未來

拓展業務

- 推出更多創新服務
- 拓展「優創」在內地的資訊科技業務
- 應用我們在香港開發寬頻技術的經驗，在英國拓展無線寬頻業務

提升營運效益

- 貫徹嚴謹的成本控制措施，提升營運效益

爭取改革規管政策

- 繼續向政府爭取改革過時的規管政策，以免競爭能力受到不公平限制

償還債務

- 繼續減債，並加強公司的財務靈活度

致力令公司及早派發股息

Financial Review

Alex Arena

Executive Director

&

Group Chief Financial Officer

Financial Highlights

	<u>Group</u>	<u>Ex Bel-Air</u>
Revenue	US\$2,891m (+12%)	US\$2,364m (-8%)
EBITDA	US\$945m (-9%)	US\$944m (-9%)
<i>EBITDA Margin</i>	33%	40%
Recurring Operating Cash Flow ⁽¹⁾	US\$184m (+59%)	
Net debt	US\$3,735m (Reduced by 11%)	

(1) After investment in Cyberport but before non-recurring items

Summary P&L

(US\$m)	<u>2002</u>	<u>2003</u>
Turnover	2,578	2,891
Operating profit before net gains on investments & one-time charges	668	556
Gains on investments, net	2	52
Provision for impairment & restructuring costs	(109)	(320)
Profit from operations	561	288
Finance costs, net	(256)	(271)
Share of results of associates & JVs	107	(106)
Loss on disposal of JVs & impairment loss	(1,243)	(572)
Profit/(Loss) before taxation	(831)	(661)
Taxation	(180)	(149)
Minority interests	16	28
Net loss attributable to shareholders	(995)	(782)

One-time Charges

(US\$m)

Provision for Impairment Loss on Assets & Restructuring Costs:

- Obsolete Fixed Assets
- Multimedia Business Related Assets
- Game Business Related Assets in Japan
- Other Provisions & Restructuring costs

Impairment Loss on JVs and Associates :

- Reach
- Other JVs and Associates

2003

150

49

114

7

320

533

39

572

892

These are non-cash flow related. NO impact on Group's operating cash flow nor its ability to pay down debt

REACH Results

(US\$m)	<u>2002*</u>	<u>2003*</u>
Revenue	1,263	902
EBITDA	423	94
Profit / (Loss) Before Tax	189	(215)
Share of REACH's operating results	95	(105)

* The amounts are presented in accordance with HK GAAP. FY 2003 figures are unaudited

- **PCCW still puts nearly 100% of its international traffic through REACH**
- **Trading conditions remain very difficult at REACH**
 - the sector suffers from aggressive pricing and over-supply of capacity
- **The outlook has deteriorated**
 - consequently PCCW has made provisions against its entire stake in REACH

Impairment Provision for REACH

(US\$m)

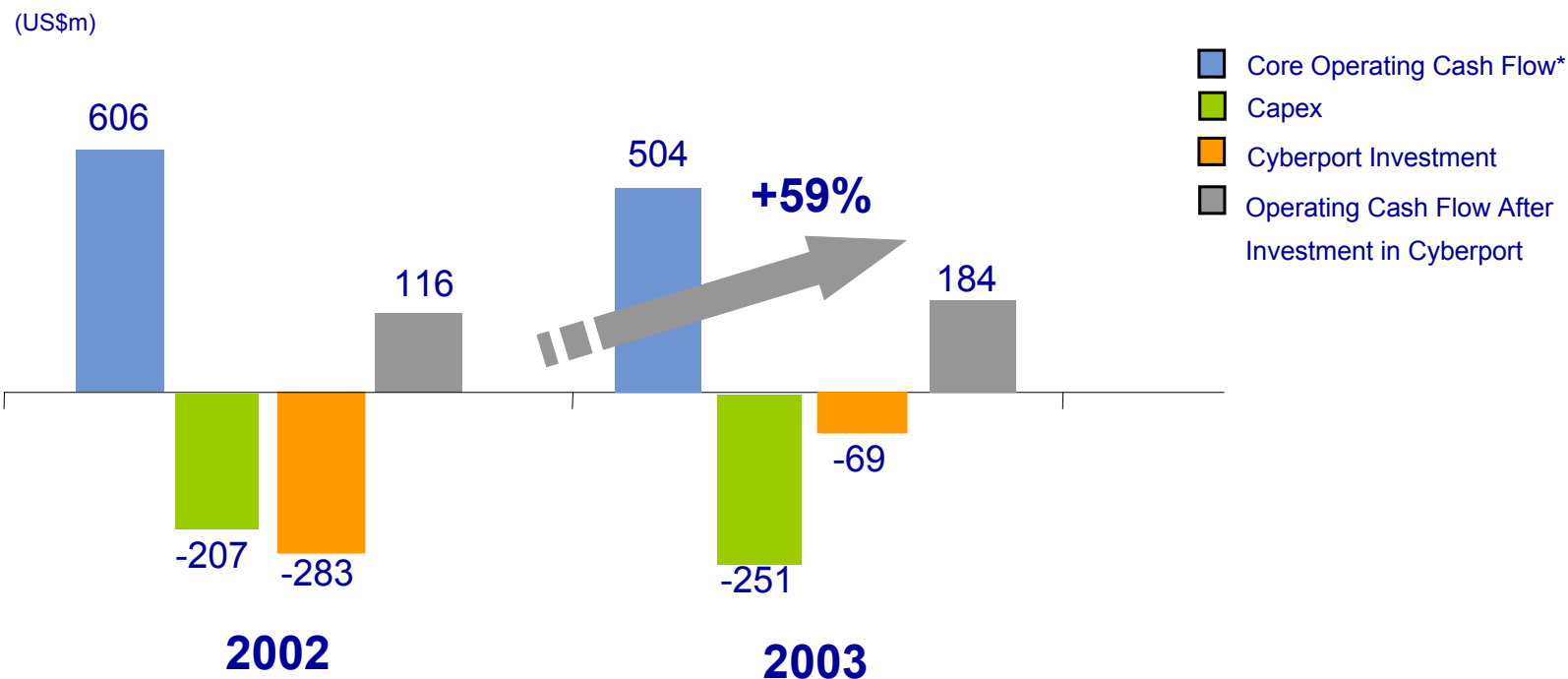
	<u>Book Carrying Value</u>	<u>Goodwill</u>	<u>Total</u>
Investment Balance as at Dec 31, 2002	461	40	501
Equity pick up for the year (post tax)	(114)	0	(114)
Capacity Prepayment (with Interest)	146	0	146
Impairment Provision made in 2003	(493)	(40)	(533)
Investment Balance as at Dec 31, 2003	<u>0</u>	<u>0</u>	<u>0</u>

- Group's interest in REACH written down to zero as at Dec 31, 2003
- No further equity pick up of future losses from REACH
- REACH's debts are non-recourse

Profit before One-time charges & REACH

(US\$m)	<u>2002</u>	<u>2003</u>
Reported Net Loss	(995)	(782)
<u>Adjusted for:</u>		
One-time charges	(1,352)	(892)
Share of REACH's operating results	95	(105)
Net Profit Before One-time Charges and REACH	<u>262</u>	<u>215</u>

Group Cash Flow



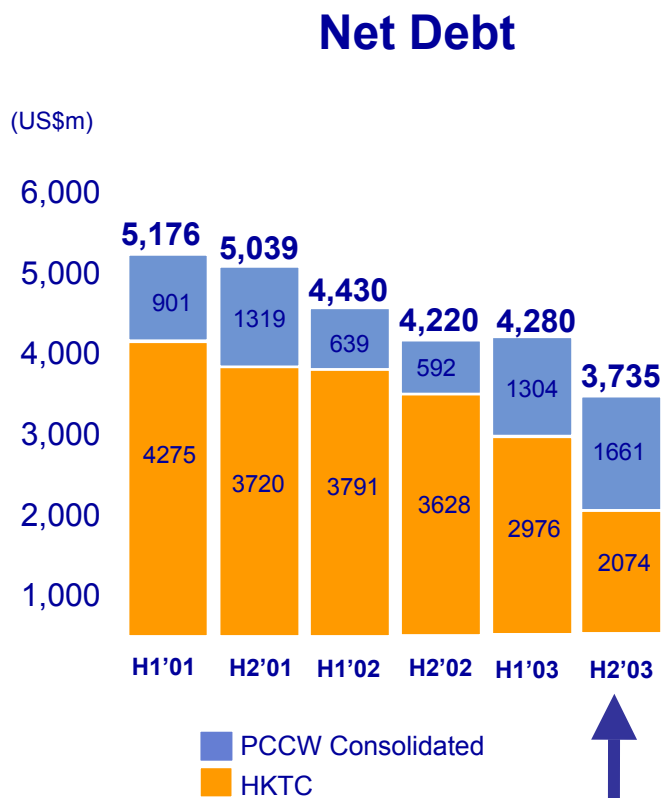
Future cash flow:

- Target US\$100m –120m cash back from Cyberport in 2004
- Capex at similar level
- Expect continued strong operating cash flow

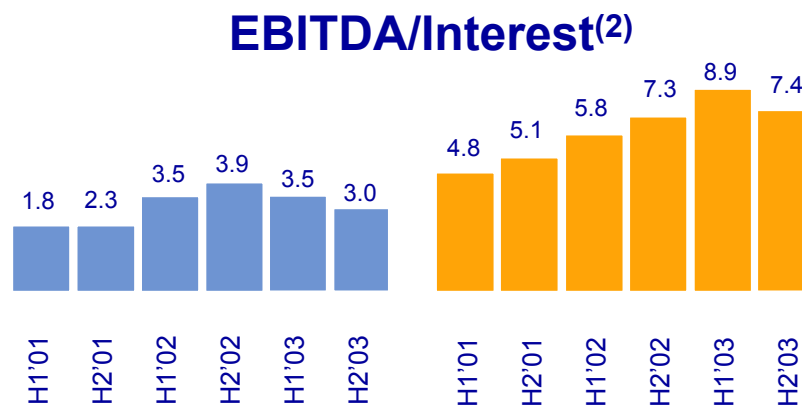
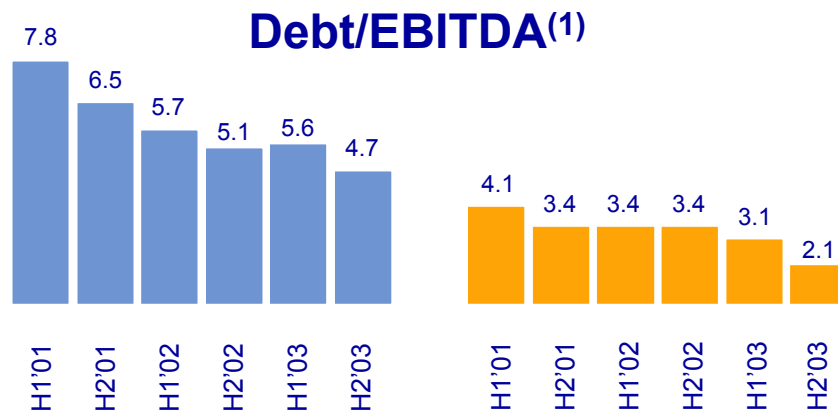
Further Debt Pay Down & Dividends are Priorities

*Before non-recurring items

Improving Credit Fundamentals



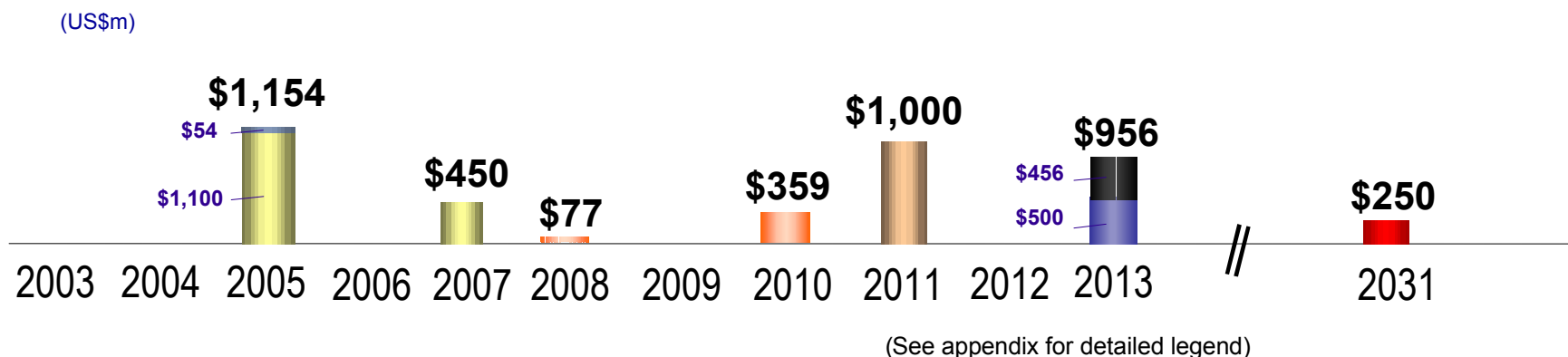
Gross Debt Y-o-Y ↓ US\$879m to US\$4,424m
Net Debt Y-o-Y ↓ US\$485m to US\$3,735m



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

(2) Based on 6-month period EBITDA divided by gross interest plus finance fees

Improving Debt Profile



Debt Profile

- No short-term debt
- Average maturity 7 years
- Average cost of debt approximately 5.6%
- Fixed/floating mix approximately 60%/40%

Recent Events

- Prepaid total US\$617m in Q1 '04
- Drew down revolvers of US\$436m in Q1 '04
- 5-Year, 6-Year & 7-Year revolving credit lines of > US\$ 1.1 bn obtained for long term liquidity & working capital purposes

Cyberport - Residence Bel-Air

Robert Lee

Executive Director

&

Chairman of PCCW Infrastructure



貝沙灣

Continued Success of Residence Bel-Air Sales

Sales Update

- All of phases 1 & 2 (1204 units) were sold

Sales Achieved

- US\$1.25 b (average > US\$1 m per unit)
- 1.9 Million Sq. Ft. of Real Estate

Total Investment

- US\$ 568m
- 2003 US\$ 69m

Pricing

- Above breakeven point

Strong sales of Bel-Air sufficient to cover all future construction costs for all phases

Positive Outlook for Phase 3 Sales and beyond

HK Property Market

- Strong property market sentiment
- Limited supply of new luxury flats on Hong Kong Island

Positive Cash Flow

- No future cash investment required from PCCW
- Expect to recoup approx. US\$100-120 m cash by Dec 2004

Future Sales Target

- Phase 3: 250 units in Q2'04 and 250 units in Q4'04

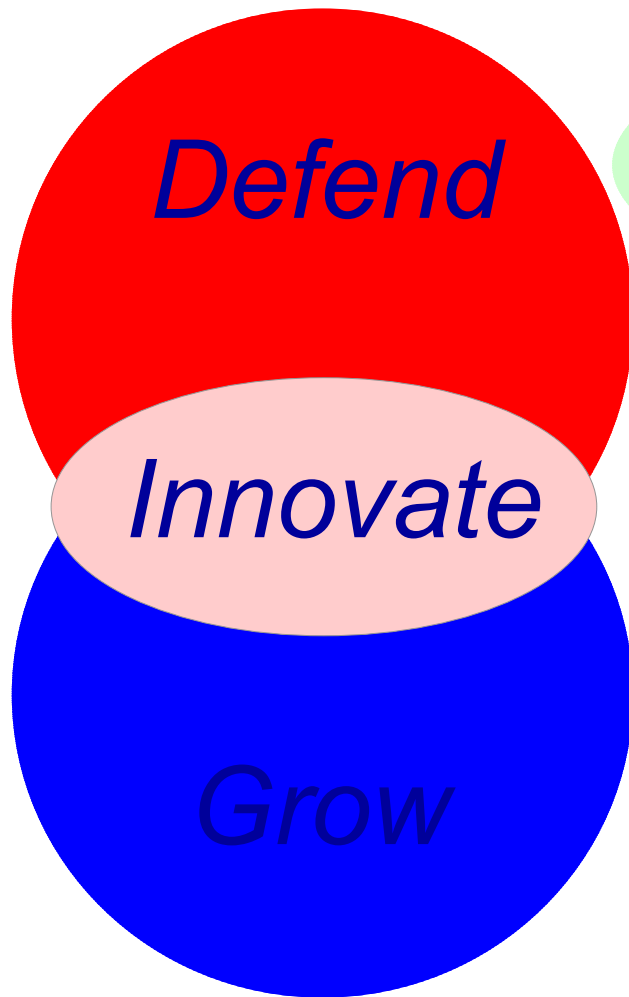
Continued Strong Sales Will Accelerate Return of Cash to PCCW

Operational & Strategic Review

Mike Butcher
Executive Director
&
Chief Operating Officer

2003 - Operating Strategy Review

Year of Innovation



Aggressively defended market share

- Innovative new products & services
- Regulatory initiatives

New products & services



**New Generation
Fixed Line Services**

Accept No Less



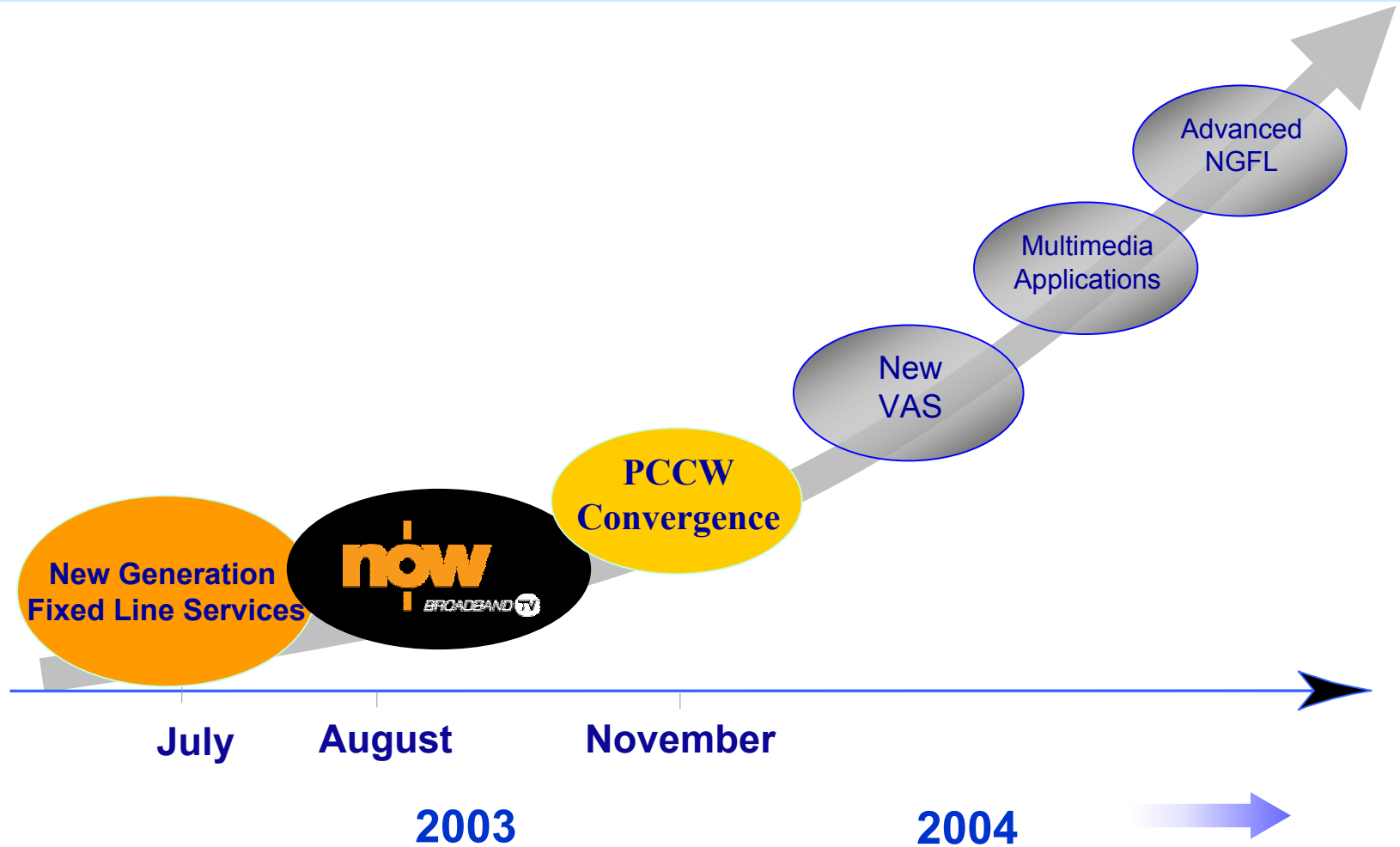
PCCW Convergence

UK BROADBAND

PCCW Innovations

Protect Customer Base & Drive Growth

We will continue to **Innovate** in our core businesses



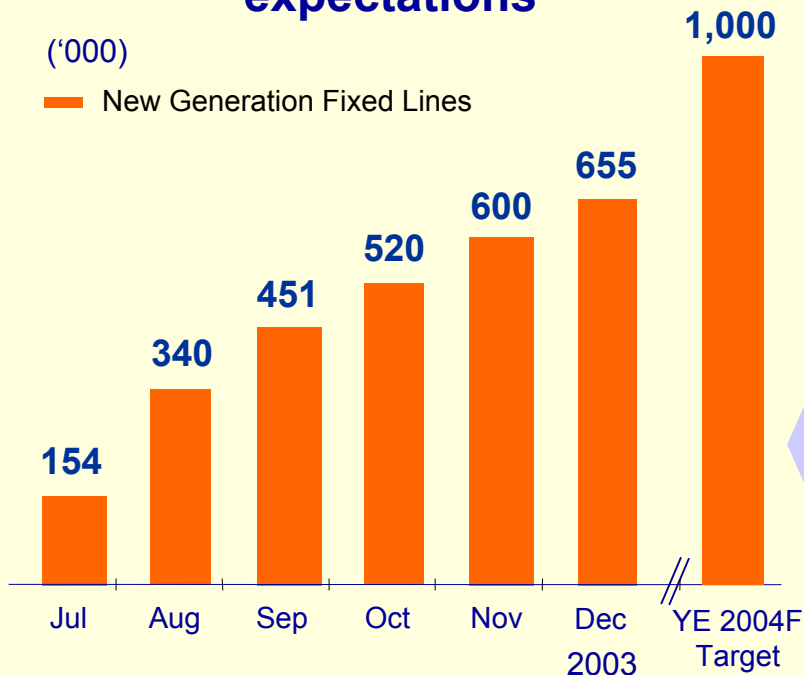
Setting New Standards in Value Differentiation



NGFL Services

Accept No Less

Sign-up rate exceeds all expectations



Dec 2003

Total Market size*	3,820k
PCCW Fixed Line	2,779k
Addressable PCCW Lines	2,000k
NGFL penetration	33%

- **Rapid adoption of new technology**
- **655,000 customers selected NGFL Services in less than 6 months**
 - Targeting 50% NGFL penetration by YE2004
- **More premium services in 2004**
 - SMS phones for SMEs
 - International SMS
 - Messaging portal
 - Customized network-based -IVRS**
 - More infotainment

* source: OFTA

** IVRS - Interactive voice response system

Retaining Customers & Creating New Revenue Sources



NGFL Services

Accept No Less

Our new cordless SMS phone



SMS628

- **Same capabilities as wired SMS phones**
 - SMS sending/ receiving
 - Interactive download of information services
 - Personal Assistant Service short-cut key
- **Additional new features**
 - Predictive English & Chinese text input
 - 4-chord polyphonic ring tone
- **More innovation to come**

Enhancing the Customer Experience



Improved Customer Retention

Accept No Loss

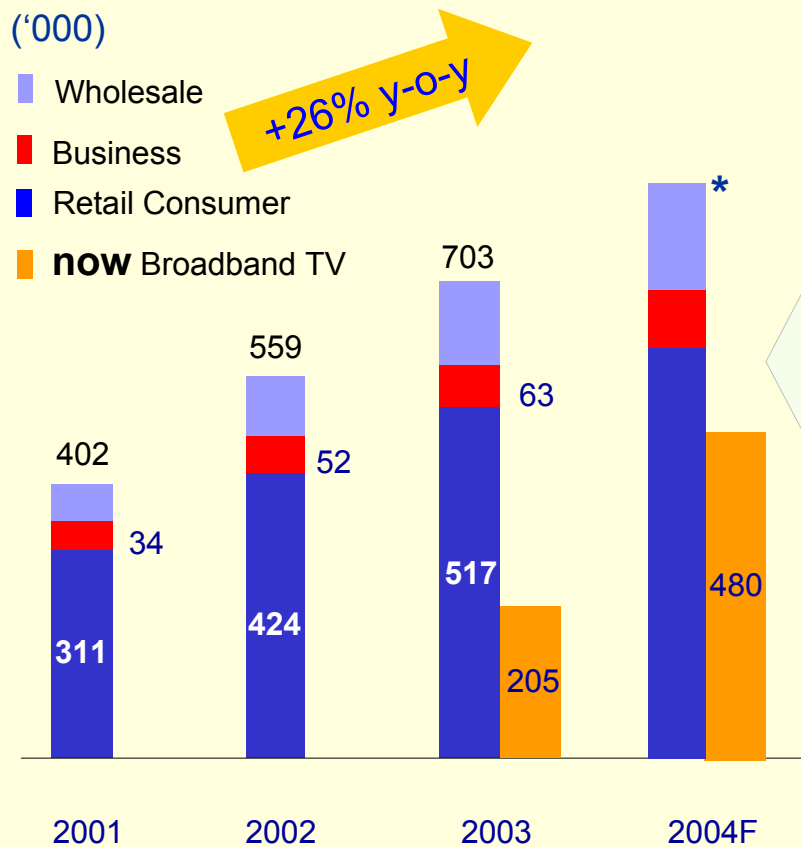


Our Innovative products widely accepted

- Customer loyalty increasing
- Customer winback rising

Reducing Churn & Increasing Win Back

Broadband customers



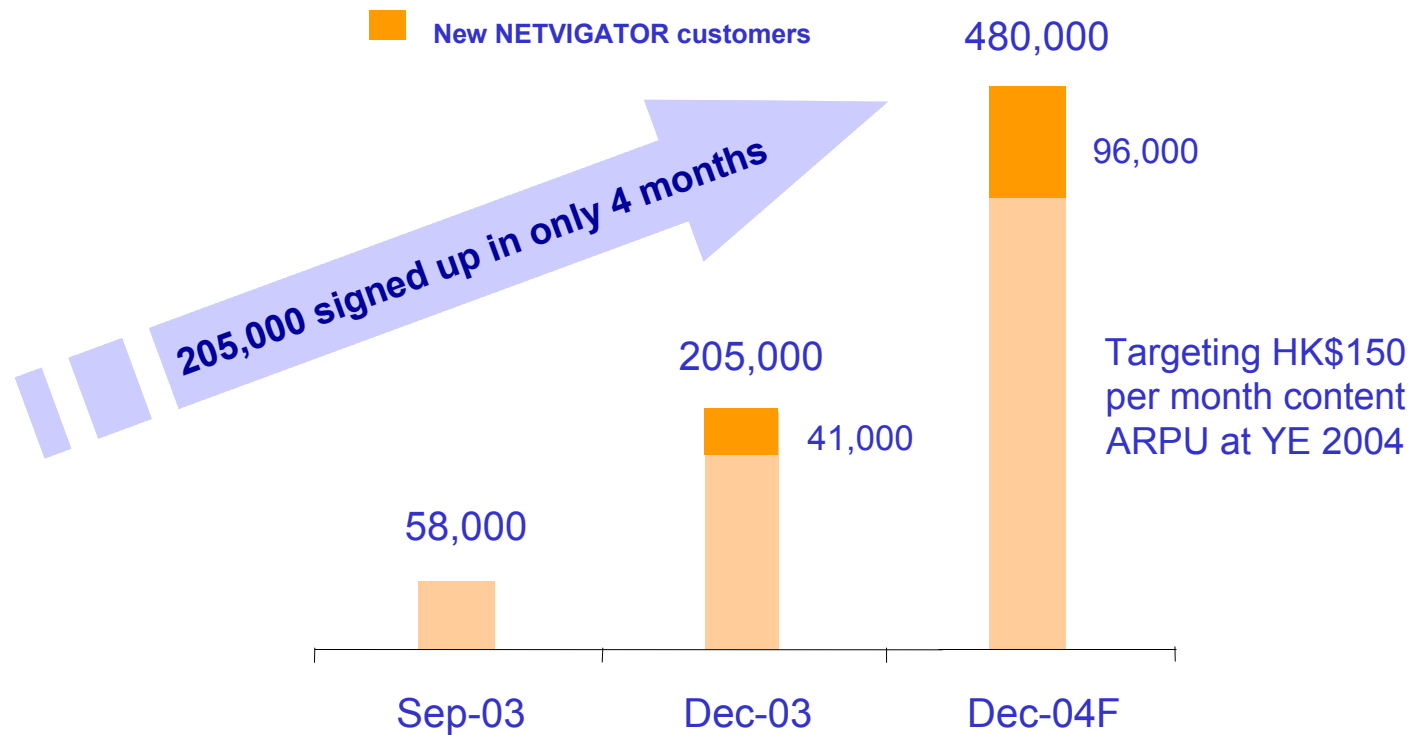
* For illustrative purposes

- Strong customer growth - revenue rising from broadband access & VAS services
- More reasons to use our broadband



- 25M VDSL service offering in Q1 2004 will satisfy business applications & demanding consumers
- Gaming, interactive applications, and home media center launching in Q4 2004

Strong sign-up continues as channels & offerings grow



Important New Revenue Stream in 2004

23 channels at launch



7 more since launch



Football

- French League
- Spanish FA Cup
- Italian FA Cup
- German FA Cup
- UEFA Cup



(new content)

A la Carte Menu Allows Customers to Choose Their Own Package of Favorite Channels

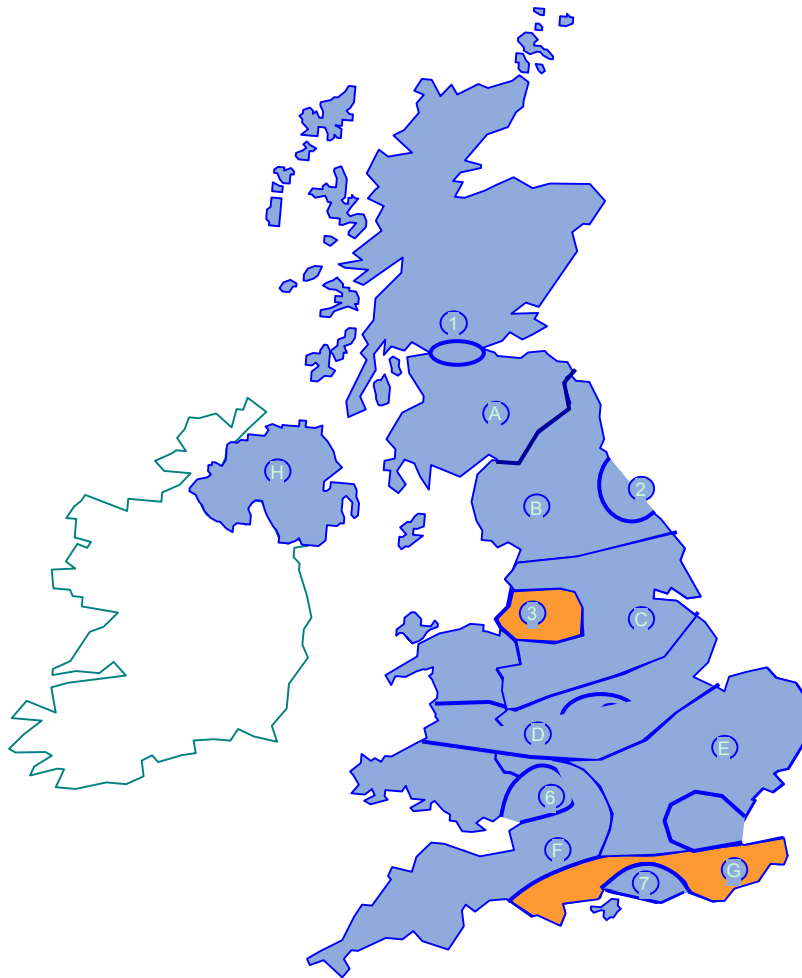
Announcing New Channels

New Channels Announced



**Providing 34 Video and 15 Audio Music Channels -
More Popular Content Will Arrive During 2004.**

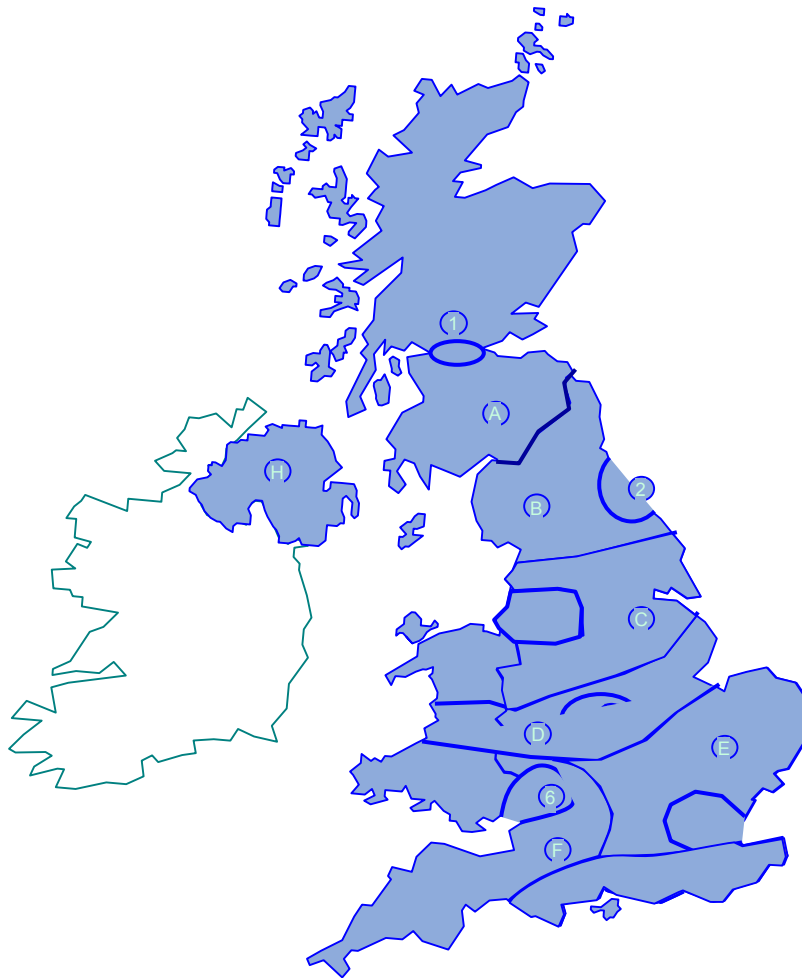
UK Wireless Broadband



- Won 13 of 15 licenses
- Acquired last two licenses
- Own nationwide license 3.4 GHz band of the radio spectrum
 - PCCW now has 100% UK footprint
 - No roll out obligations

Soft Launch on Schedule

UK Wireless Broadband



- Company named **UKBROADBAND**

- Soft launch in Q2 2004

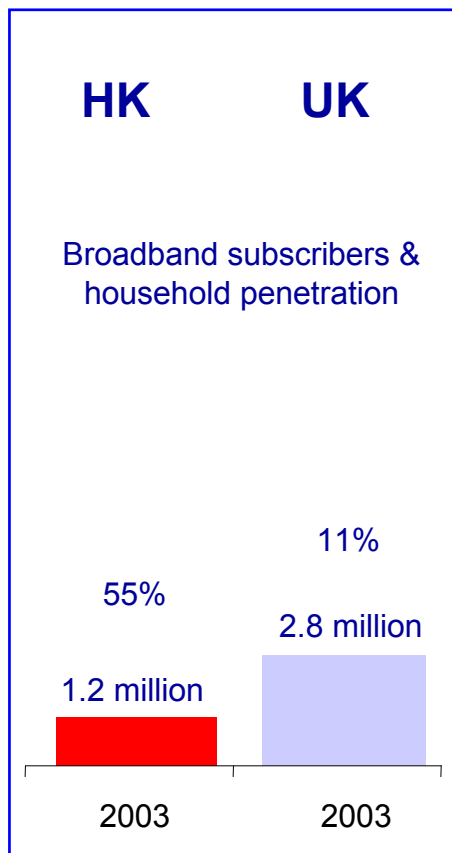


- **netvigator**® wireless broadband service to be launched

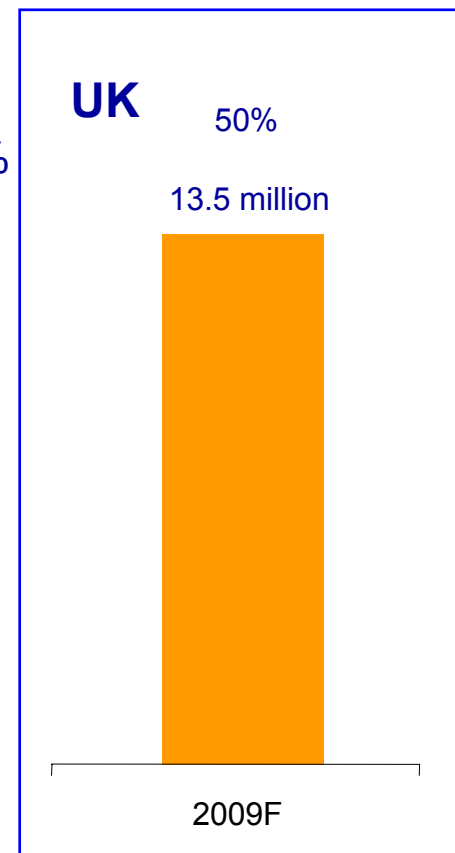
- Seamless back-end support based in HK

**Bringing Proven NETVIGATOR Services to
a New Market**

Huge Market Potential



- 2003 UK broadband penetration only 11%
- UK expected to add 2.1 million new broadband subscribers in 2004
- **Double the total Hong Kong market**
- UK forecast 13.5 million broadband subscribers (50% penetration) by 2009
- **Over 10 times the current HK market**



* Industry estimates

Broadband Market Potential of UK Greatly Exceeds Hong Kong

Outlook

Exploit Growth Opportunities

- Offer more innovative services to our customers
- Continue to expand our Unihub IT business in China
- Exploit our broadband expertise beyond Hong Kong - wireless broadband in UK

Operating cost

- Maintain strict cost control & operational efficiency

Regulatory Reform

- Persist in pressing for reform of out-dated regulatory policies, for fair competition

Debt reduction

- Continue to pay down debt & strengthen financial flexibility

Committed to Start Paying Dividends

Q & A

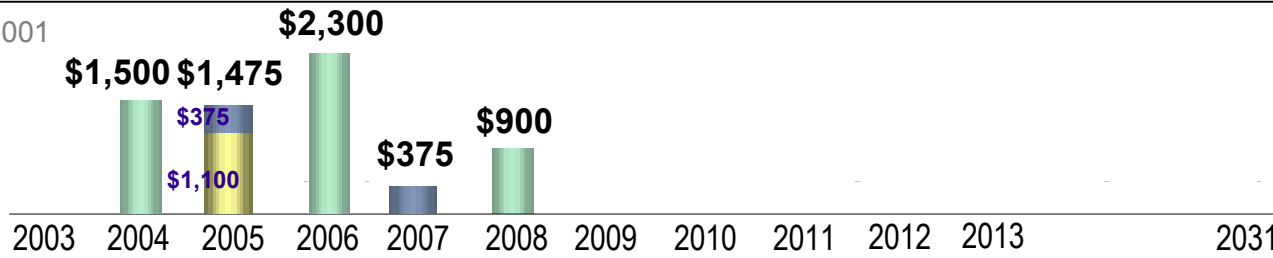
Appendix

US\$m

PCCW Consolidated Debt Maturity Profile

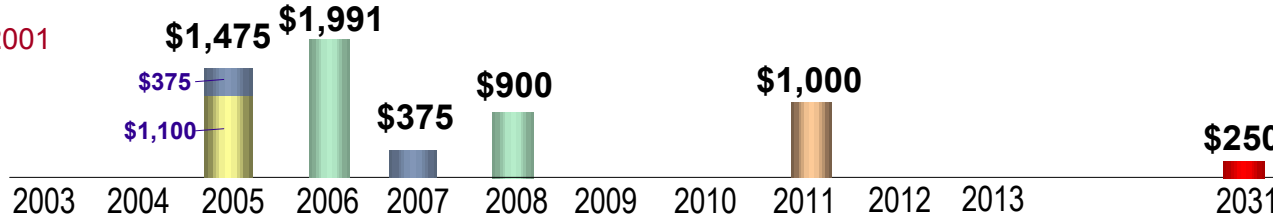
Feb 2001

¹ Debt to EBITDA² = (6,550 / 790) = 8.29X



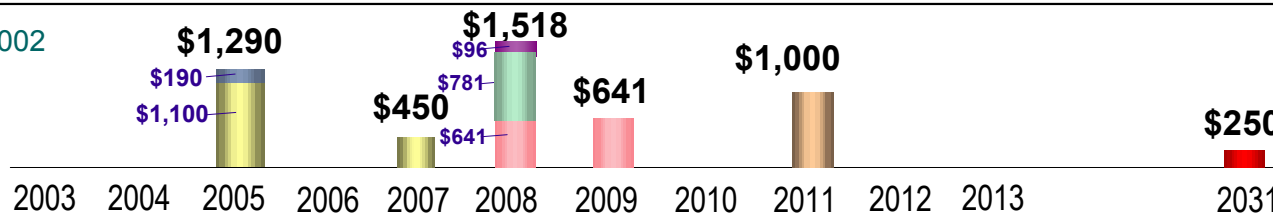
Dec 2001

³ Debt to EBITDA = (6,138 / 948) = 6.47X



Dec 2002

³ Debt to EBITDA = (5,303 / 1,041) = 5.09X



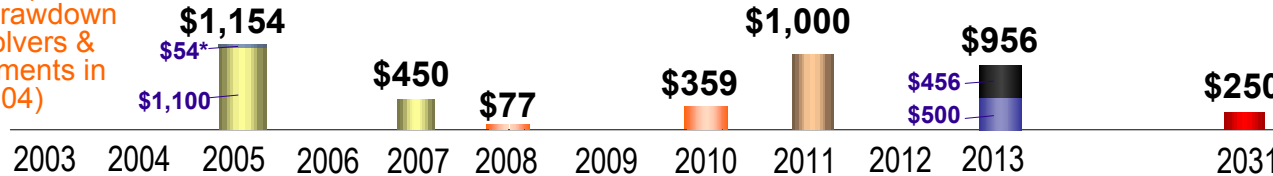
Dec 2003

³ Debt to EBITDA = (4,424 / 945) = 4.68X



Current (after recent drawdown of revolvers & prepayments in 2004)

Debt to EBITDA = (4,243 / 945) = 4.49X



- Term Loan Facility (Original US\$4.7bn facility)
- Term Loan Facilities
- HK\$750m Term Loan Facility
- Mandatory Convertible Note
- HK\$3,003m Term Loan Facility
- Revolving Credit Facility
- Convertible Bonds
- Japanese Yen Bond
- US\$ Bond due 2011
- 7.88% Guaranteed Note
- US\$ Bond due 2013

¹ Excludes Beijing property RMB loan

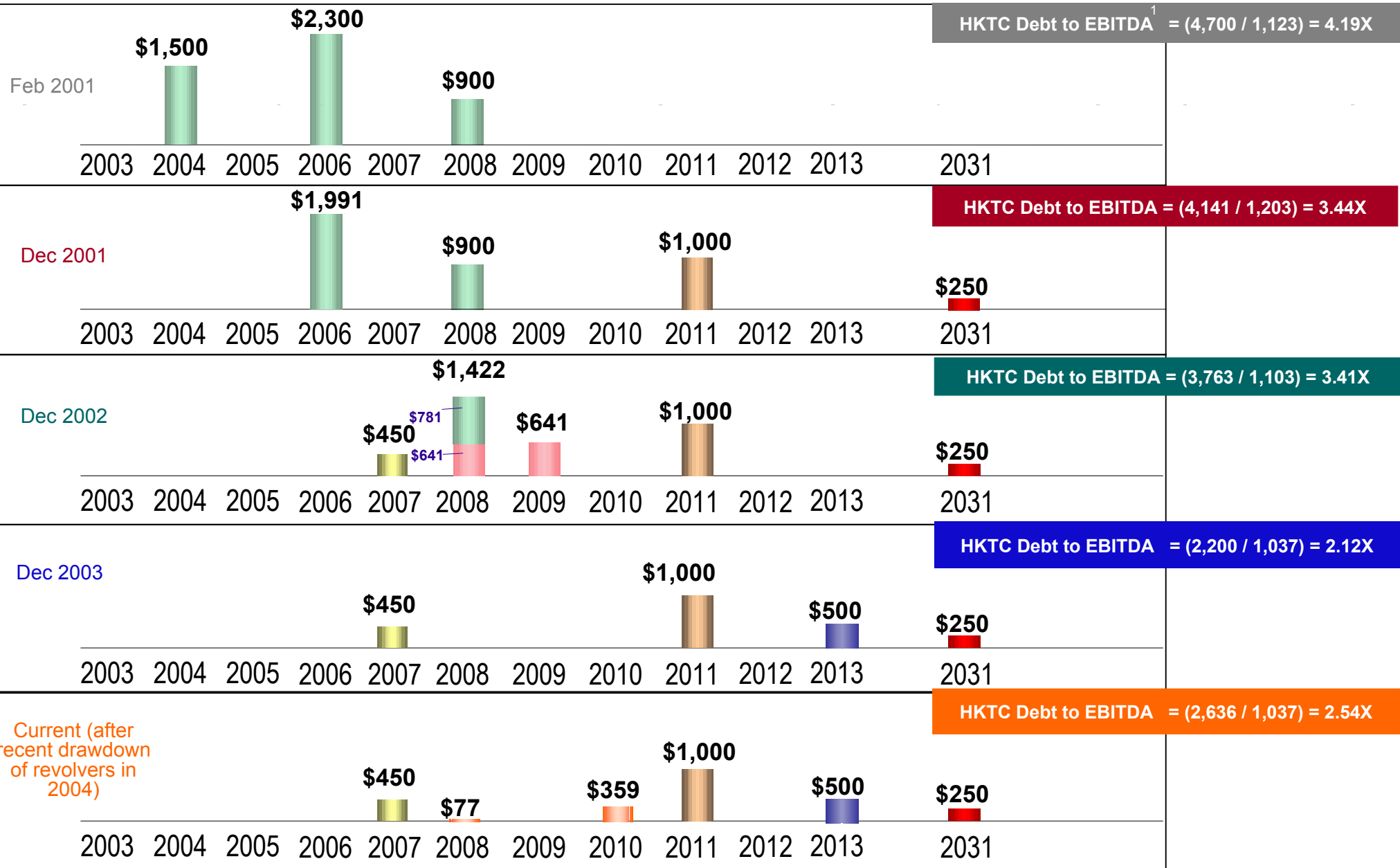
² PF2000 figure

³ Includes Beijing property RMB loan

* Principal & interest accrued to date of issuance of the new note

HKTC Debt Maturity Profile

US\$m



- Term Loan Facility (Original US\$4.7bn facility)
- Term Loan Facilities
- Revolving Credit Facility
- US\$ Bond due 2013
- Convertible Bonds
- Japanese Yen Bond
- US\$ Bond due 2011

¹ Jan - Dec 2000 figure

Metrics

TSS Revenue

(US\$ million)	<u>2002</u>	<u>2003</u>
Local Telephony Services (Direct Exchange Lines, interconnection, local access link and exchange co-location)	879	772
Local Data Services (Wholesale and retail Consumer Internet access, traditional IP/data products)	571	564
International (IDD, retail IPLC, int'l data & messaging, LAC/MDF)	456	381
Other Services (Equipment sales, TeleServices, sub-contracting services)	403	408
Total	2,309	2,125
EBITDA	1,142	1,063
EBITDA Margin	49%	50%

TSS Operating Drivers

	<u>2002</u>	<u>2003</u>
Exchange lines in service ('000)	3,138	2,779
Business lines	1,336	1,236
Residential lines	1,802	1,543
Local Market Share	82%	73%
Business Lines (incl. IDA)	79%	73%
Residential Lines	84%	73%
Traditional Data (Exit Gbps)	172	190
Retail IDD minutes ('M mins)	1,041	1,226
IPLC Bandwidth (Exit Mbps)	855	1,592
Total broadband access lines ('000) (Retail Consumer, Business and wholesale customers)	559	703
Retail Consumer Broadband Subscribers('000)	424	517
Consumer Narrowband Subscribers ('000)	225	175

Metrics

Business eSolutions (Unihub)

	<u>2002</u>	<u>2003</u>
Retail business broadband ('000)	52	63
(US\$ million)		
Revenue		
IT Business ⁽¹⁾	179	195
Business broadband	68	68
Directory Business	39	35
Total Revenue	286	298
EBITDA	19	6

(1) Includes IDC

Headcount

	<u>2002</u>	<u>2003</u>
TSS	8,445	8,897
Business eSolutions	1,280	2,229
Infrastructure	361	365
Others ⁽¹⁾	1,474	1,019
Total (including part-time/ temp)	11,560	12,510
Total (excluding part-time/ temp)	10,978	12,013

(1) Ventures, Corp Functions, **Jaleco**, Internet Services and Others