



**PCCW**  
電訊盈科

# 2003 INTERIM RESULTS

*For the six months ended June 30, 2003*

**Hong Kong, August 28, 2003**



**Jack So**  
*Deputy Chairman and  
Group Managing Director*

- **Return to profit, debt further reduced**
- **Cost control continues, exit non-core business**
- **Prospect for top line stabilization/ growth positive because**
  - **Major marketing campaign through new product launches**
  - **Government reviewing regulatory restrictions**
- **Existing regulatory restriction on PCCW outdated**
  - **Disincentive for investment and upgrading of technology**
  - **Against natural justice & free market**

- **Focus on Hong Kong, eye on Mainland market**
  - A good start has been made
- **New technology:**
  - Over 200 Wi-Fi hot spots in Hong Kong
  - Low cost option on wireless broadband in U.K.
- **Medium term goal to pay dividend, face challenges ahead with confidence**

- 轉虧為盈，負債減少
- 控制成本，出售非核心業務
- 營業額將有穩定／上升趨勢，因為
  - 新產品推出配合大型推廣活動
  - 港府將檢討現有之規管限制
- 現有對電盈之規管已過時
  - 阻碍投資意欲及科技發展
  - 違反公正和自由市場精神

- 業務以香港為中心，而大陸市場發展已有良好開端
- 新科技發展包括
  - 在港已設立二百多個**Wi-Fi**上網熱點
  - 以低成本取得在英國無線寬頻的發展權
- 目標在不久將來派息，以信心迎接挑戰



**Alex Arena**

*Executive Director and  
Group Chief Financial Officer*





## *Financial Highlights Reflect Our Operating Success*

**Revenue**

↑ 5%

**EBITDA Margin**

↑ 2%

To 42%, excluding Bel-Air

**Net Profit**

**US\$90m**

From loss in H1'02

**Operating Cash Flow<sup>(1)</sup>**

**US\$57m**

From US\$1m in H1'02

**Net debt**

↓ 8%

Adjusted for July share placement

**PCCW Has Delivered in  
Difficult Market Conditions**

(1) After investment in Cyberport but before pre-sales proceeds from Residence Bel-Air received, net of monies applied to construction costs and non-recurring items.



# Solid Financial Results Through Difficult Market Conditions

(US\$m)	H1'02	H2'02	H1'03	Change %	
				HoH	YoY
<b>Revenue</b>	<b>1,308</b>	<b>1,270</b>	<b>1,375</b>	<b>+8%</b>	<b>+5%</b>
<i>Total Ex-Residence Bel-Air</i>	1,308	1,270	1,189	-6%	-9%
<b>Depreciation and Amortization</b>	(180)	(183)	(184)		
<b>Operating Profit</b>	<b>349</b>	<b>319</b>	<b>302</b>	<b>-5%</b>	<b>-13%</b>
<i>Before Net Gains/(Losses) On Investments And Provision For Impairment Losses</i>					
<b>Profit From Operations</b>	<b>333</b>	<b>228</b>	<b>347</b>	<b>+52%</b>	<b>+4%</b>
<b>Share of Results of:</b>	46	61	(52)		
<i>Jointly Controlled Companies and Associates (Including Reach)</i>					
<b>Net Finance Costs</b>	(138)	(118)	(131)		
<b>Loss on Disposal of RWC/ Impairment Loss for Goodwill of Reach</b>	(227)	(1,059)	-		
<b>Profit/ (Loss) Before Tax</b>	<b>14</b>	<b>(845)</b>	<b>164</b>		
<b>Tax</b>	(78)	(102)	(86)		
<b>Profit/ (Loss) For The Period Attributable To Shareholders</b>	<b>(57)</b>	<b>(938)</b>	<b>90</b>		

**Though A Negative Result At Reach  
Has Impacted Net Profit After Tax**

# Reach Results Reflect Difficult Market Conditions

(US\$m)  
(HKGAAP)

H1'02

H1'03

Revenue

636

452

EBITDA

209

37

Profit/(Loss) Before Tax

99

(99)

PCCW Share of Profit/(Loss)

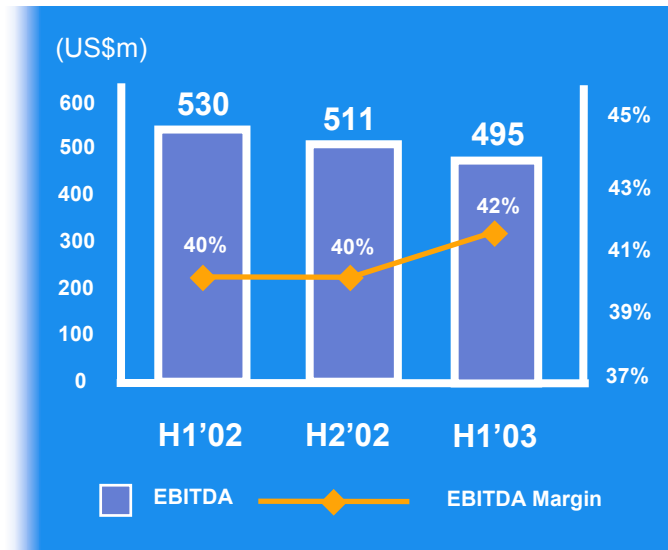
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(49)

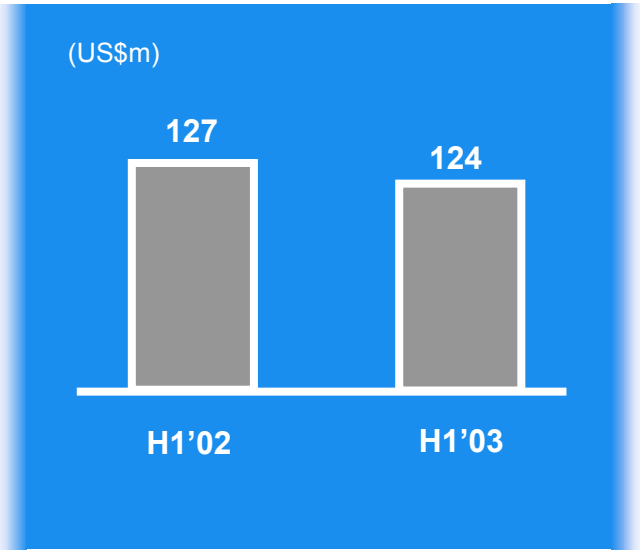
- **Reach continues to be:**
  - Asian market leader
  - Strategic asset for both shareholders
- **Financial restructuring completed**
- **Operations are being overhauled**
- **Market conditions continue to be difficult**

# EBITDA Margin and Core Operating Cash Flow Are Strong

## EBITDA



## Core Operating Cash Flow<sup>(1)</sup>



(1) Before pre-sales proceeds from Residence Bel-Air received, net of monies applied to construction costs and non-recurring items.

# We Have Significantly Strengthened Our Balance Sheet

(US\$m)



(See appendix for detailed legend)

## Debt Profile

- No short-term debt
- Average maturity approximately 7 years
- Fixed/floating mix approximately 60%/40%
- Average cost of debt in H1'03 approximately 5%

## Recent Events

- HKTC ratings:
  - Fitch rating of BBB+ stable outlook
  - S&P rating of BBB
  - Moody rating of Baa2
- Net proceeds of \$400m equity placement all used to reduce debt

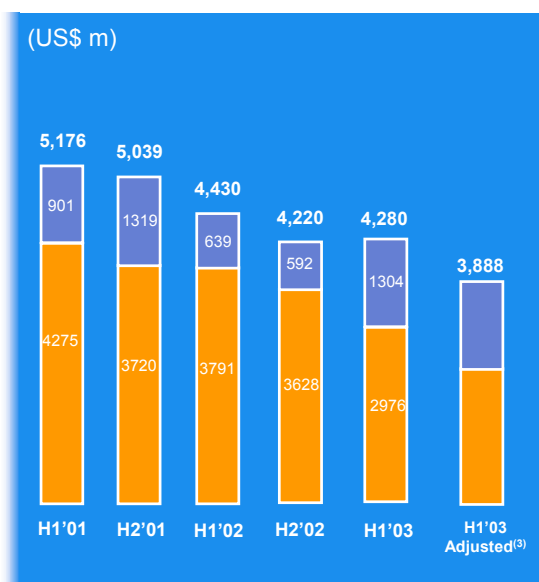
**We Are Deleveraging Substantially Ahead of Targets**



# Improving Credit Fundamentals

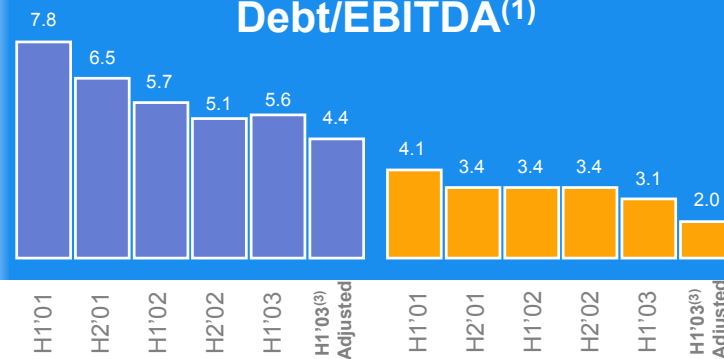


## Net Debt

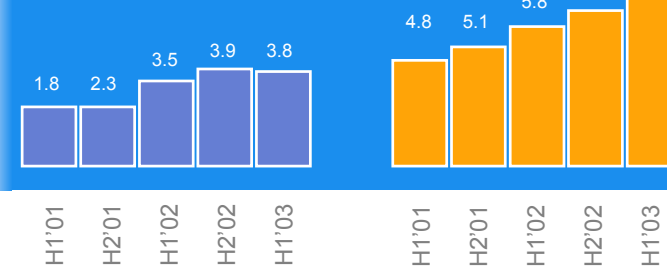


■ PCCW Consolidated  
■ HKTC

## Debt/EBITDA<sup>(1)</sup>



## EBITDA/Interest<sup>(2)</sup>

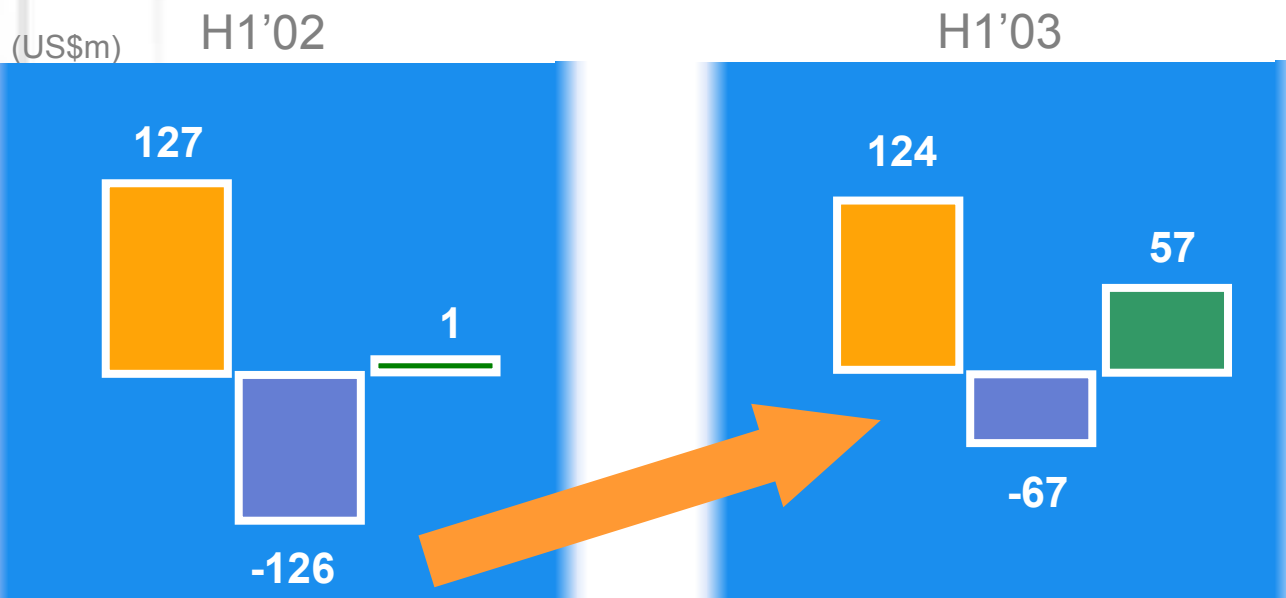


(1) Debt/EBITDA is calculated based on the gross debt as at period end divided by the EBITDA for the last 12-month period

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

(3) Net debt was adjusted for equity issue completed in July 2003. Gross long-term debt was adjusted by debt repayments subsequent to June 30, 2003.

# Group Cash Flow



- Core Operating Cash Flow\*
- Investment In Cyberport
- Operating Cash Flow After Investment In Cyberport

**We Expect Cyberport To Be On Track To Return Cash**

\*Before pre-sales proceeds from Residence Bel-Air received, net of monies applied to construction costs and non-recurring items.

# Outlook

## Revenues

- Expect stabilization in core revenue
- Cyberport sales to resume in second half

## Margins

- Core business margins should continue to be strong
  - *Cost reduction has been effective*
  - *Some initial impact from new services*
- Overall margins will be impacted by Residence Bel-Air sales

## Cash Flow

- Negligible investment in Cyberport needed in second half

## Debt

- Group free cash flow will be principally applied to future debt reduction



Residence Bel-Air

ISLAND SOUTH

貝沙灣

**Robert Lee**

*Executive Director and  
Chairman - PCCW Infrastructure*





# *Cyberport Residential Residence Bel-Air*



Residence Bel-Air  
ISLAND SOUTH

貝沙灣

## Financial Recap

- Investment through H1'03
  - US\$566m in total
- Expected PCCW investment in Cyberport in 2003:
  - In March '03 projected \$100-125m
  - Actual spend US\$67m to June '03
  - Expected maximum of US\$70m full year



# Cyberport Residential Residence Bel-Air Sales

貝沙灣

Sales Update

100% of 544 units sold as of August 25, 2003

Sales Achieved

US\$490m

Pricing

Above breakeven point

Sales Proceeds

Cover all of 2003 construction costs & 80% of 2004 construction costs

Future Sales Target

Sales	Financial Results
50 units	100% of '04 construction costs funded
770 units	US\$100m to PCCW

**Cash Flow Self-Sufficiency Remains  
Key Target for Residence Bel-Air**



# *The Next Phase of Sales Is Approaching*



Residence Bel-Air  
ISLAND SOUTH

貝沙灣

## **Future Outlook Positive**

- Positive economic signals and improving market sentiment
- Supply of new luxury flats on Hong Kong Island remains limited
- Substantial liquidity and continued low rates

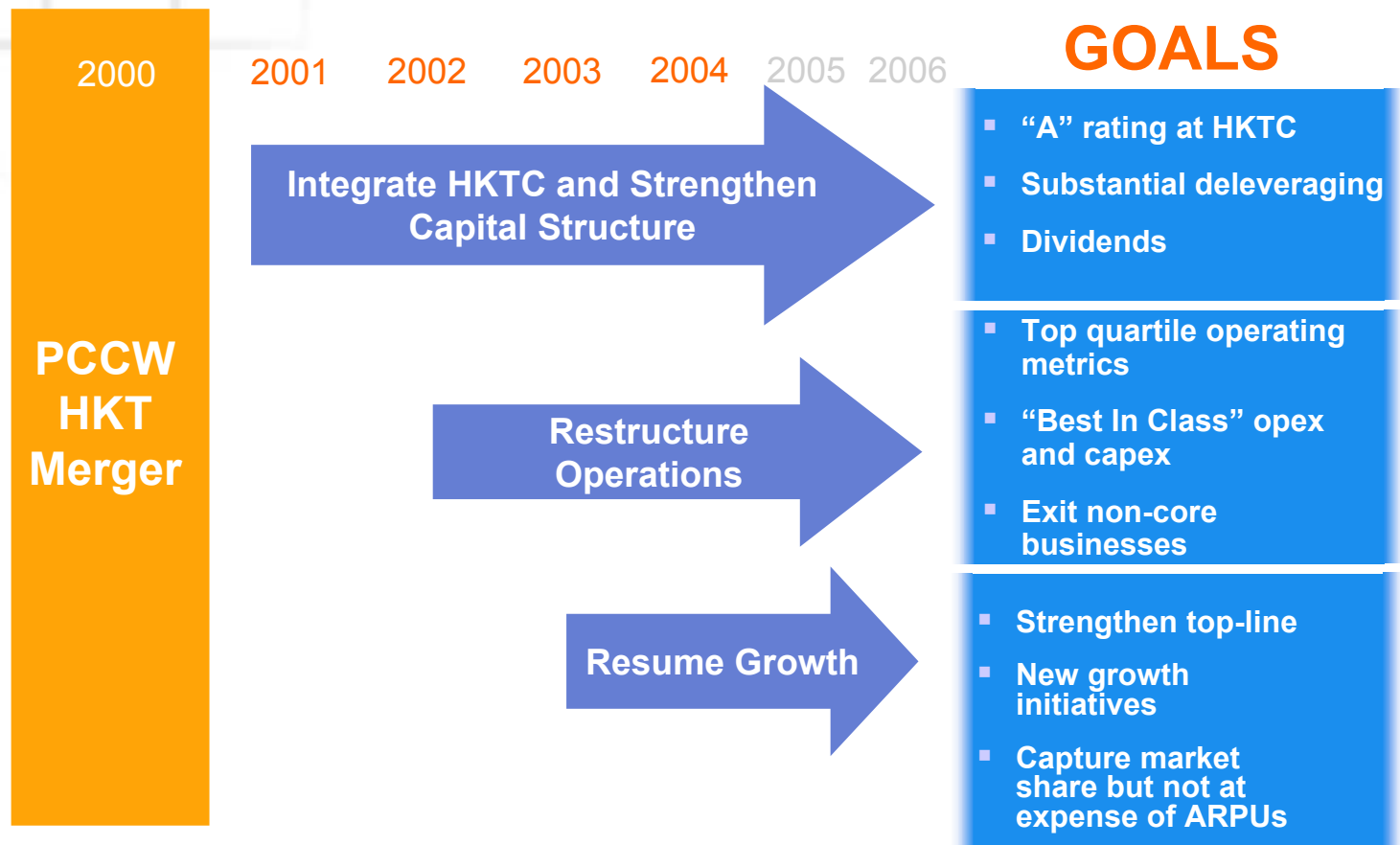
**Continued Strong Sales Program Will  
Accelerate Return of Cash to PCCW**



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**OPERATIONAL &  
STRATEGIC REVIEW**  
SMS info

**Mike Butcher**  
*Executive Director and  
Chief Operating Officer*

# *PCCW is Focused on Creating Long-Term Value*



# *Challenging Environment in 2003.....*

## Hong Kong

- Economic weakness
- Impact of SARS
- Unbalanced regulatory regime

## Industry

- Narrowband market contracting
- Broadband market expanding
- Intense competition in all market segments

**PCCW Has Delivered Solid Results  
Despite These Challenges**



## *Solid Results:*

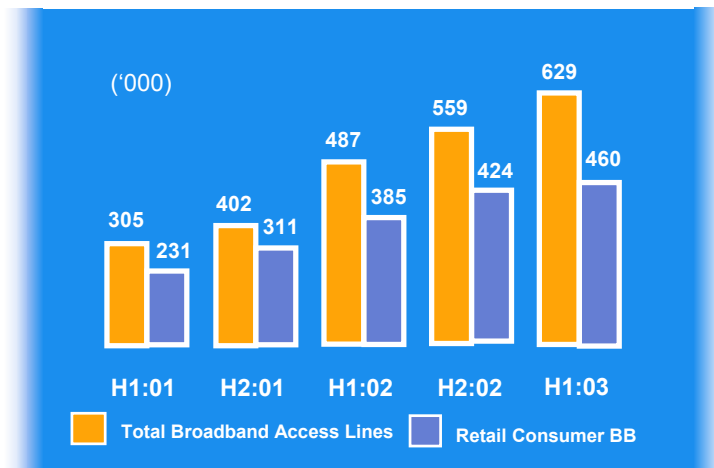
### *We Reduced Our Narrowband Line Loss*

- **5% fewer total lines lost in H1'03 vs. H2'02**
  - Focused on selected customer segments
  - Highly targeted promotion strategy
- **16% fewer business lines lost in H1'03 vs. H2'02**
  - Aggressive sales efforts
  - New corporate product offerings
- **New generation fixed-line launched to further reduce churn**

**GOAL: Reduce Churn  
and Increase Winback**

# Solid Results:

*Broadband Growth Has Continued  
at Above 10,000 Lines per Month*



## Key Results

- Market share of new lines greater than 50%
- Premium ARPUs holding and strong
- Annual customer growth over 20%
- Quality product with strong service support

**The Clear Market Leader In One of The World’s  
Most Advanced Broadband Markets**

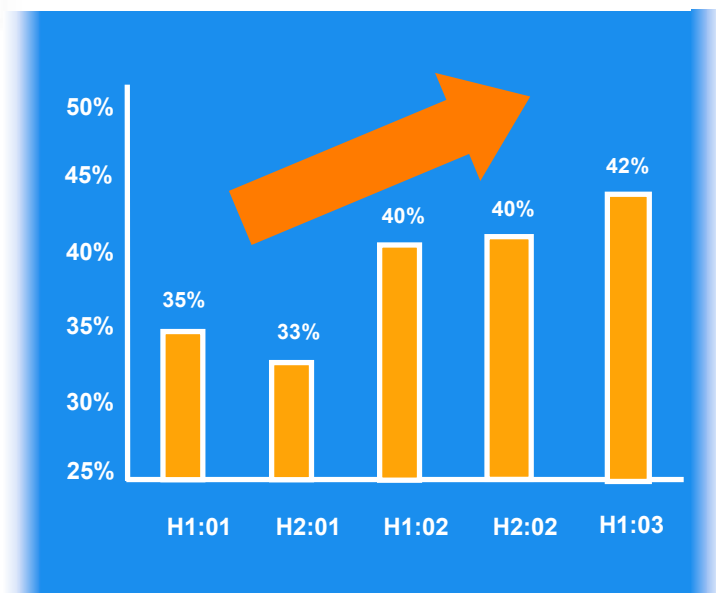




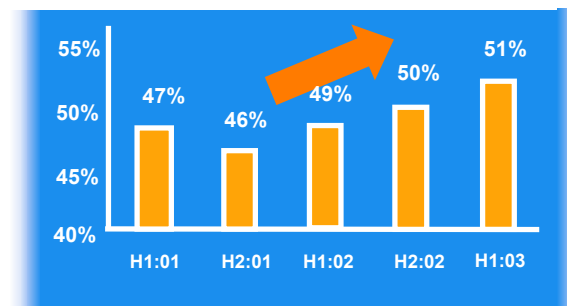
# Solid Results:

## Margins Continue to Improve

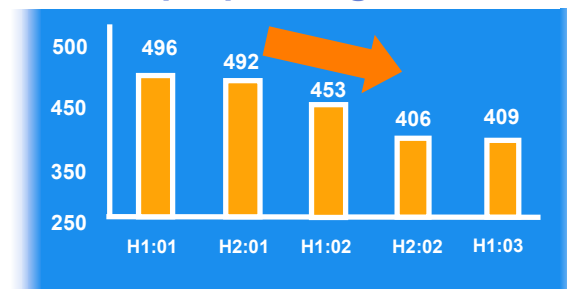
Group EBITDA Margin<sup>(1)</sup>



TSS EBITDA Margin



Group Operating Costs



**As We Control All Costs**

(1) Excludes Bel-Air



# 2003 - Operating Strategy

## *Defend*

- Aggressively defend market share
  - Premium pricing
  - Value differentiation
- Regulatory initiatives

## *Innovate*

- New generation fixed-line
- New value propositions
- Convergent platforms
- Broadband innovation

## *Grow*

- New products & services
  - Fixed-line
  - Broadband
  - New products
- Business eSolutions
- Growth initiatives

**Further Improve Operating Trends for 2003/2004**

# Defend

## Defend Competitive Position

- Focus on customers to maintain premium pricing and market position
- Provide best value for money with premium support & service
- Differentiation with new services in H2'03

## Significant Regulatory Progress

- Unbundling review under way for narrowband and broadband
- Non-dominant status applications under way
- Other regulatory initiatives in progress

**Our Defence is Strong**

*Innovate*

**New Generation Fixed Line Launch.....**



**Fixed Line SMS  
Personal Assistant  
Auto Receptionist**

**Our Customers Sign Up for  
350,000 Lines in Just 6 Weeks**



*Accept No Less*

# Innovate

## **New Generation of Fixed-Line Services Have Dramatically Exceeded All of Our Targets**

### **New Generation Fixed-Line Success**

- **Winback up 125% since launch of New Generation Fixed-Line**
  - Over 80% are returning PCCW customers
- **Maintain premium ARPUs**
  - Over 98% of all customers taking term contracts
- **Reduce churn rates**

### **180,000 Residential Lines**

- **Activation rate above 70%**
  - Information popular (Lottery, News, Weather)

### **170,000 Business Lines**

- **Corporate users include:**
  - 3 Hong Kong banks (over 10,000 lines)
  - Retail, including cosmetic, coffee, and restaurants (1,500 lines)
  - Hotel, travel agents and airlines (2,000 lines)
  - Trading and manufacturing (5,000 lines)

**Achieved 40%+ Of All Competitors' Lines At Almost Double Their ARPUs**



*Accept No Less*



# Grow

- *Broadband Is a Key Growth Driver*
- *Today We Announce Our Innovative Value-Added Broadband Services*
- *Expect:*
  - *Substantial take up*
  - *Premium ARPUs*
  - *Increasing overall market share*

**New Broadband Services to be Unveiled  
Immediately Following Q&A**

# Future

## Looks Better Than For Some Time



PCCW Restructured  
and Reorganized

- **Operating Costs Dramatically Reduced With Ongoing Programs in Place**
  - New work practices
  - Greater variable costs
  - Pension plan restructured to limit liabilities



Narrowband

- **Dramatic Uptake of New Generation Fixed-Line**
  - Stabilize market share and maintain ARPUs
  - Introduction of exciting new services over time
  - Opportunity for additional ARPU from VAS in the future



Broadband

- **Significant New Service Announced Today**
  - New revenue streams to increase ARPUs
  - Total market share should increase
  - Strengthen further Netvigator market position
  - Platform for the future



**PCCW Has Laid A Firm Foundation  
For The Future**

# Summary

## *PCCW Is Well Placed For The Future*

- New generation fixed-line redefines narrowband business dynamics
- Broadband initiatives will increase our market leadership and provide significant new ARPUs
- Residence Bel-Air sales well ahead of plan
- Cost control continues to improve margins and free cash flow
- Stronger balance sheet increases financial flexibility



# *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 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements, which may include statements regarding PCCW’s future results of operations, financial condition or business prospects, revenues, earnings and stock performance are based on PCCW’s current beliefs, assumptions, expectations, estimates and projections.

These statements are not guarantees of future performance and are subject to significant risks, uncertainties and other factors, some of which are beyond PCCW’s control and are difficult to predict. 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.



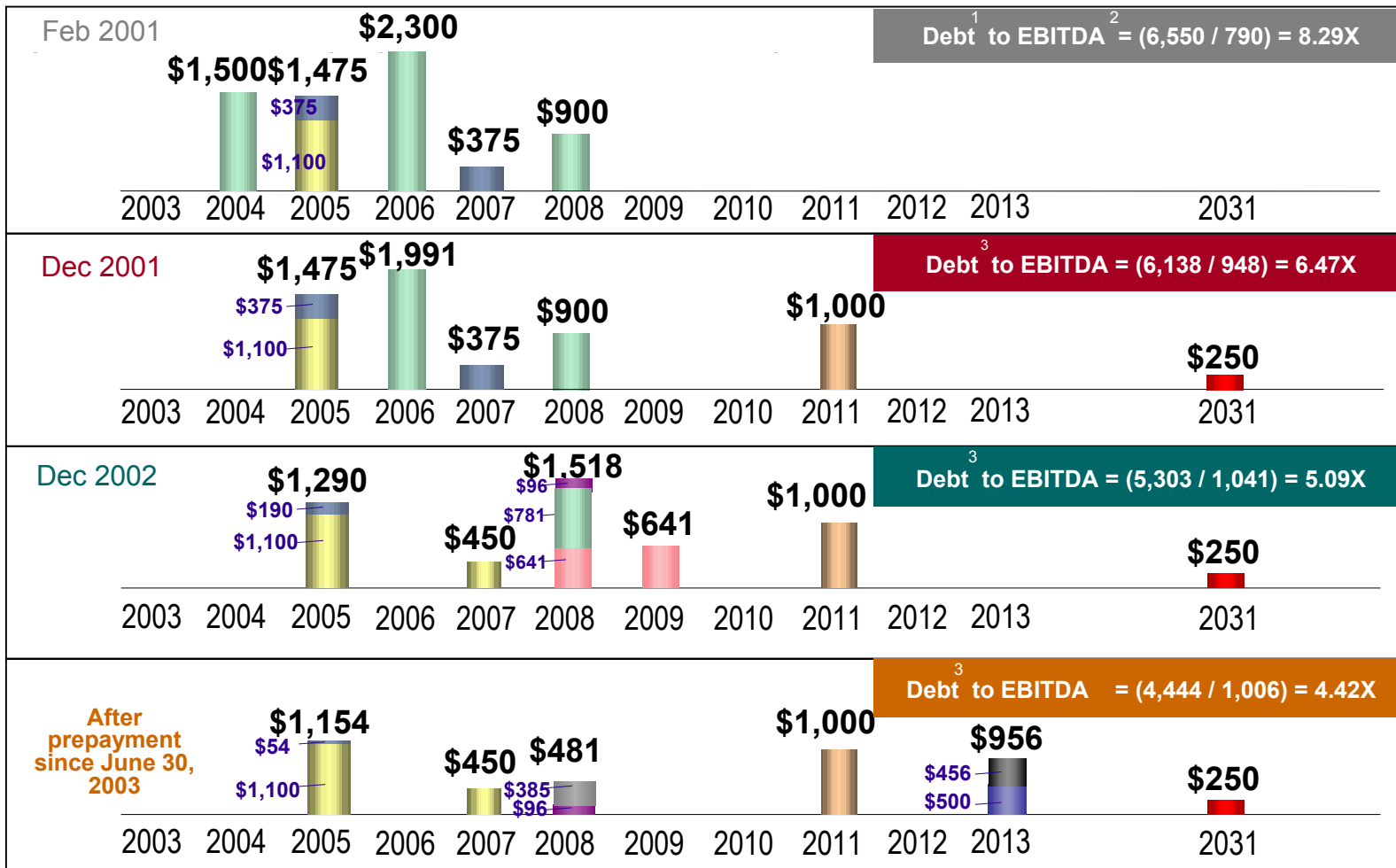
# Questions & Answers



# Appendix

# PCCW Consolidated Debt Maturity Profile

US\$m



Rating

Since rating PCCW debt is down US\$2.1bn or 32%

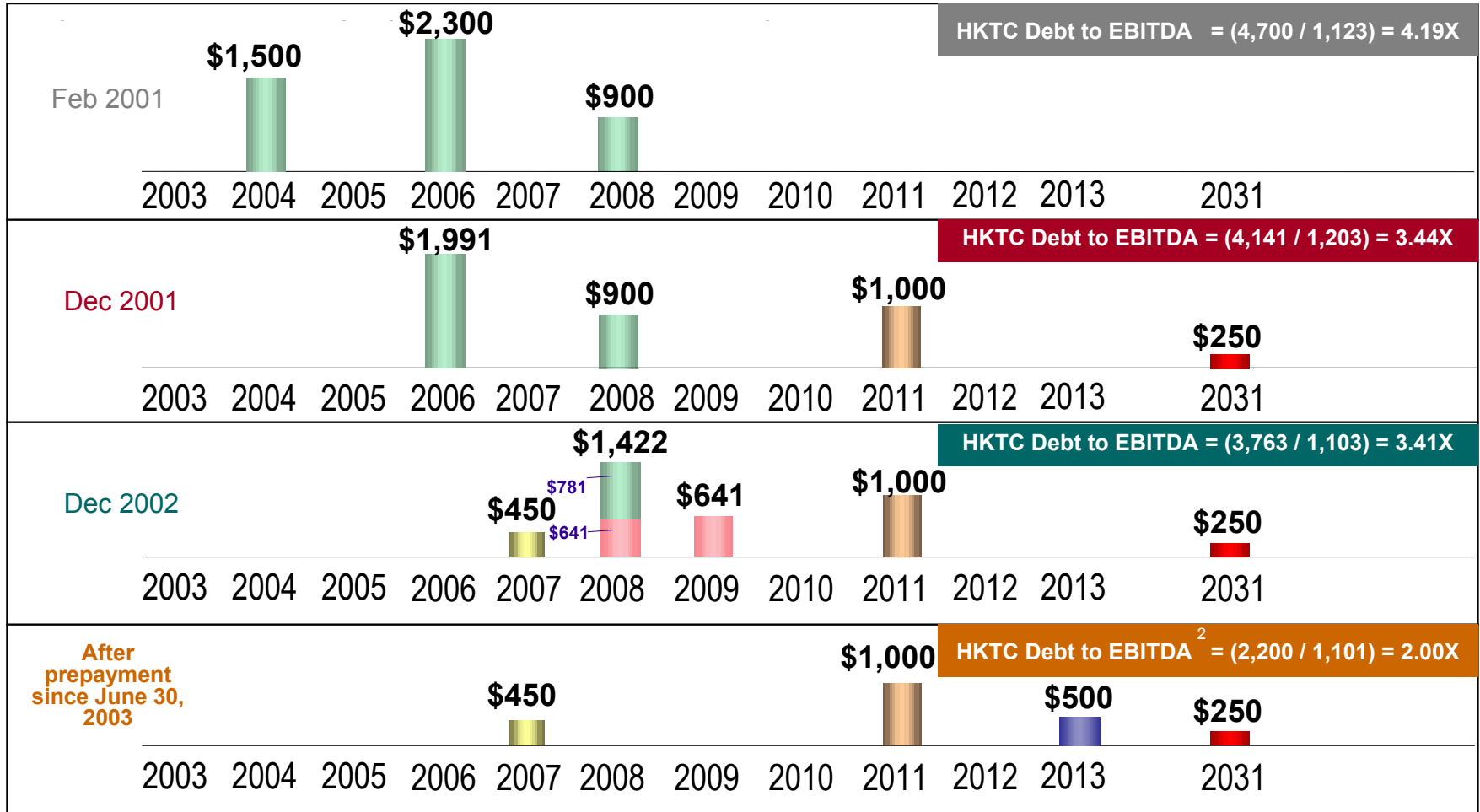
- Term Loan Facility (Original US\$4.7bn facility)
- Term Loan Facility (HK\$ facilities)
- HK\$750m Term Loan Facility
- Mandatory Convertible Note
- 6% Guaranteed Note
- Convertible Bonds
- Japanese Yen Bond
- US\$ Bond
- 7.88% Guaranteed Note
- Term Loan Facility

- <sup>1</sup> Excludes Beijing property RMB loan
- <sup>2</sup> PF2000 figures
- <sup>3</sup> Includes Beijing property RMB loan



# HKTC Debt Maturity Profile

US\$m



Rating

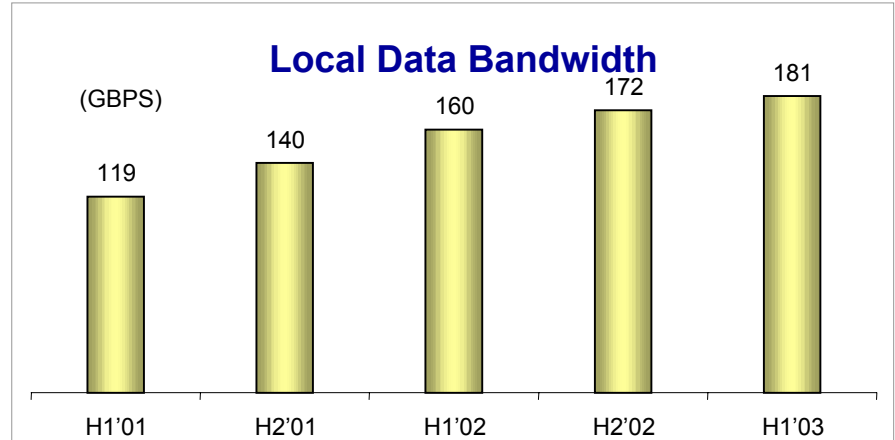
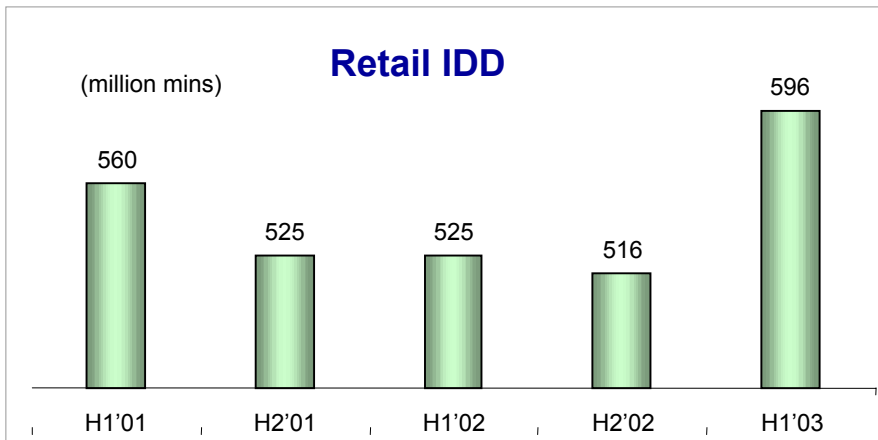
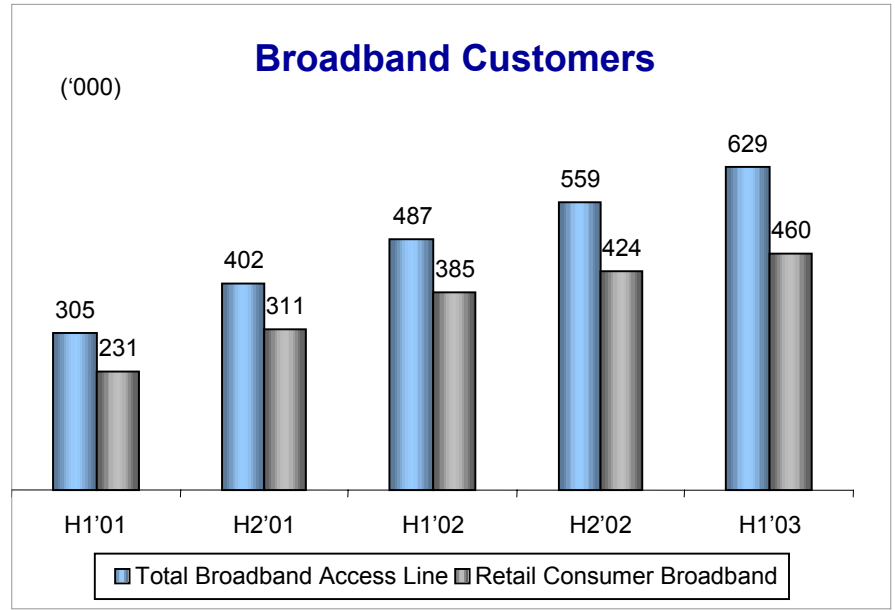
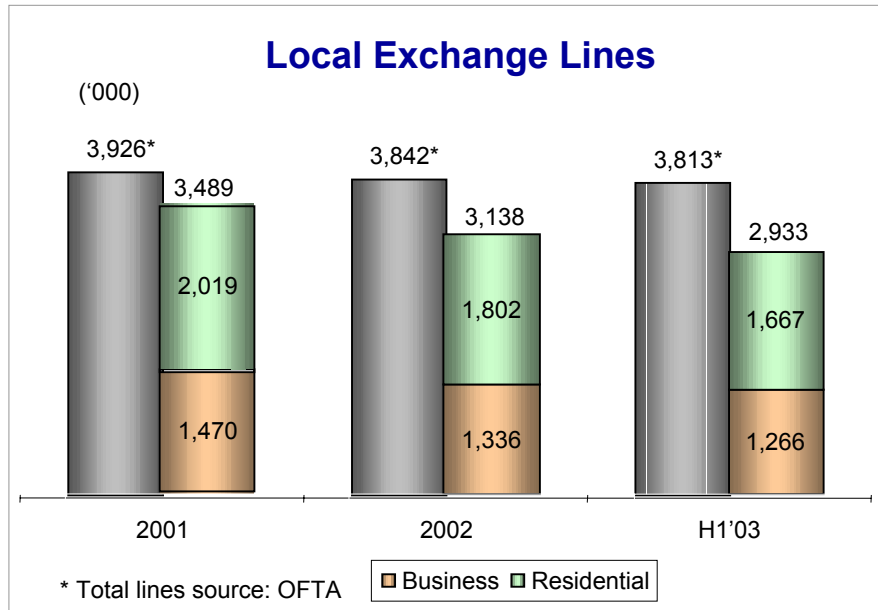
Since rating HKTC debt is down US\$2.5bn or 53%

- Term Loan Facility (Original US\$4.7bn facility)
- Term Loan Facility (HK\$ facilities)
- HK\$750m Term Loan Facility
- Mandatory Convertible Note
- 6% Guaranteed Note
- Convertible Bonds
- Japanese Yen Bond
- US\$ Bond
- 7.88% Guaranteed Note
- Term Loan Facility

<sup>1</sup> Dec 2000 figures  
<sup>2</sup> Mar 2003 figures



# Hong Kong Telephony Remains Competitive While Data and Broadband Growing Strongly



# Metrics

## TSS Revenue

6 months period ended (US\$ m)	H1'02	H2'02	H1'03
Local Telephony Services (Direct Exchange Lines, interconnection, local access link and exchange co-location)	449	430	394
Local Data Services (Wholesale and retail Consumer Internet access, traditional IP/data products)	287	284	286
International (IDD, retail IPLC, int'l data & messaging, LAC/MDF)	243	213	197
Other Services (Equipment sales, TeleServices, sub-contracting services)	188	215	198
<b>Total</b>	<b>1,167</b>	<b>1,142</b>	<b>1,075</b>
<b>EBITDA</b>	<b>575</b>	<b>567</b>	<b>548</b>
<b>EBITDA Margin</b>	<b>49%</b>	<b>50%</b>	<b>51%</b>

## TSS Operating Drivers

	H1'02	H2'02	H1'03
<b>Local Telephony ('000)</b>			
Exchange lines in service	3,354	3,138	2,933
Business lines	1,419	1,336	1,266
Residential lines	1,935	1,802	1,667
<b>Local Market Share</b>	<b>87%</b>	<b>82%</b>	<b>77%</b>
Business Lines (incl. IDA)	82%	79%	75%
Residential Lines	90%	84%	78%
Traditional Data (Exit Gbps)	160	172	181
Retail IDD minutes ('M mins)	525	516	596
IPLC Bandwidth (Exit Mbps)	672	855	1,265
Total broadband access lines ('000) (Retail Consumer, Business and wholesale customers)	487	559	629
Retail Consumer Broadband			
Internet Subscribers('000)	385	424	460
Consumer Narrowband Subscribers ('000)	264	225	196