

## Telstra and PCCW Launch Joint Ventures

7 February 2001

**Australia's Telstra Corporation and Hong Kong's Pacific Century CyberWorks (PCCW) today completed their Asia-Pacific strategic alliance with the successful establishment of three joint venture companies.**

The joint venture telecommunications companies were first proposed in April 2000 and formalised on terms outlined by Telstra and PCCW in October last year. They comprise:

- the Internet Protocol backbone company (IPBC), to be incorporated as Reach Ltd (Reach), which merges the international infrastructure assets and businesses of two leading wholesale providers of voice, data and Internet connectivity services in the Asia-Pacific region.
- the Regional Wireless Company (RWC) will operate across the Asia-Pacific, starting with Hong Kong's leading mobiles business, CSL.
- the Internet Data Centre Company (IDC) which combines expertise from the two partners to establish a new Asia-Pacific data centre business.

The Telstra-PCCW joint ventures formally begin operations tomorrow following the completion of arrangements to contribute assets to the new companies.

Telstra CEO, Dr Ziggy Switkowski, said the joint ventures provide Telstra with clear growth options for the future by developing Telstra's position as a leading telecommunications provider in the Asia-Pacific region.

"These businesses offer enormous potential by giving Telstra greater access to the growth markets of Asia and across the Pacific," Dr Switkowski said. Reach, the IP backbone company, will tap into major overseas growth markets and contribute to Australia's export earnings.

"From the outset, both the Regional Wireless Company and Reach begin their independent operations with strong balance sheets and are built on solid performing businesses."

Deputy Chairman of PCCW's Executive Committee, Mr Alex Arena, said these substantial and complex transactions have been completed on time and on target.

"In working through the many complex business and financial issues the joint venture partners have shown their ability to work as a strong and effective team which augurs well for the future.

"By bringing our assets together these businesses have the scale and expertise to ensure they can compete aggressively in their respective markets", Mr Arena said.

**The IP backbone company** joint venture will be known as **Reach**, a name chosen to reflect the breadth of its connectivity solutions, serving markets throughout Asia and around the world.

Telstra and PCCW today announced key appointments for these new joint ventures.

The new Chief Executive Officer of Reach is Mr Alistair Grieve, who brings 15 years of global experience and leadership in telecommunications to the new company. His previous post was Chief Operating Officer of Maxis Communications, one of Malaysia's top telecommunications companies. Mr Grieve moved to Asia in 1993, serving until 1995 as President of Cable & Wireless's Japan operations and from 1995-99 as Hong Kong Telecom's Deputy Chief Executive.

Telstra's Group Managing Director, Infrastructure Services & Wholesale, Mr Gerry Moriarty will assume the first two-year appointment (rotational position) as Chairman of the Board. Mr Moriarty has extensive experience in the communications industry, including eight years with Telstra at senior executive level.

Reach is 50% owned by Telstra and 50% by PCCW. It will operate as an independent entity at arm's length from its parents. The Directors of Reach will be:

- Mr Gerry Moriarty (Chairman)
- Mr Alex Arena (Deputy Chair)
- Mr Dick Simpson
- Mr Keith Harrison
- Mr Tim Crossley
- Mr David Prince

**The Regional Wireless Company (RWC)** has been established to operate mobile telecommunications businesses to be developed across the region. Its principal asset is CSL (formerly HKT CSL) of which Telstra acquired 60% from PCCW for US\$1.68bn (approx. A\$3.05bn) with the remaining 40% being retained by PCCW.

Leading RWC's Hong Kong operations is CSL's CEO, Mr Hubert Ng, who brings a wealth of cellular experience to the local market and has led CSL to solid performance improvements over the last six months including reduced churn and improved market position. He will be assisted by the new appointment of Chief Operating Officer, Mr Mike Robey, formerly the General Manager Customer Management, Telstra OnAir. Mr Robey has extensive experience in customer service management including more than eight years as a member of Telstra MobileNet's senior management team.

Telstra OnAir Group Managing Director, Mr Dick Simpson will be Chairman of the RWC Board. Mr Simpson's background includes widespread experience in direct operations and joint ventures in both Europe and Asia.

The RWC will operate independently of its parent companies and be responsible to a Board comprising:

- Mr Dick Simpson (Chairman)
- Mr Alex Arena
- Mr Bruce Akhurst
- Mr Keith Harrison
- Mr Tim Crossley
- Mr David Prince

Since the full terms of the transaction were agreed last October, all key performance parameters have improved and the business has performed extremely well. CSL has the highest postpaid ARPU (average revenue per user) of any carrier in Hong Kong and a growing customer base with December providing the highest monthly subscriber increase since the introduction of Mobile Number Portability.

**The Internet Data Centre Company (IDC)** joint venture is a greenfields venture intended to draw on the partners' domestic strengths in this area and roll-out an internet data centre business model throughout the Asia-Pacific. Initial target markets, customer segments and product offerings have been identified. It is intended that the venture would take advantage of the links between IDC operations and the carrier hotel operations of the Reach venture.

Deputy Chairman of PCCW's Executive Committee, Mr Alex Arena, takes up the two-year appointment (rotational position) as Chairman of the Internet Data Centre Company Board. Mr Arena brings a depth of knowledge and experience of telecommunications in the Asia-Pacific region.

The Directors of the IDC Company are:

- Mr Gerry Moriarty
- Mr Alex Arena (Chairman)
- Mr Dick Simpson
- Mr David Prince
- Mr Tim Crossley
- Mr William Cheung

Telstra also today completed the purchase of a US\$750 million convertible bond in PCCW.

## **Background**

The key terms of the strategic alliance remain as announced in October:

### **Convertible Note**

- PCCW has issued to Telstra a convertible note for US\$750 million (redeemable by Telstra to US\$375 million after four years), with a term of six years and an interest coupon of 5% for the first four years, and 7% for the remaining two years.
- The conversion price for the convertible note is HK\$6.886.
- Telstra has granted security (including other relevant safeguards) over half of PCCW's shareholding in Reach (to be adjusted 6 monthly following an IPO to maintain security at twice the amount outstanding on the convertible note).

### **Reach - IP backbone company**

Reach integrates PCCW's international connectivity services subsidiary (formerly HKTI) and Telstra's global wholesale business, serving markets throughout Asia as well as major business centres around the globe.

Reach will target high-growth opportunities in data usage, and the rising number of new service providers in data markets. It is also set to take advantage of market opportunities created by increasing deregulation across the region.

The new company's assets include:

- interests in more than 50 submarine cable systems;
- four satellite earth stations (35 antennae) serving 20-plus satellites;
- 22 points of presence (PoPs) in 14 countries ;
- landing rights in some of the world's most deregulated markets, including the US, Japan and UK;
- an extensive suite of integrated voice, data and IP services;
- the combined expertise of 1000-plus specialist staff in 14 countries;
- initial annual revenue of US\$1.9 billion and EBITDA of US\$500 million;
- substantial existing customer base.

Primary customers will be international and domestic carriers, value-added service providers (voice resellers, ISPs, ASPs, ICPs), local access service providers (utilities, mobile companies and cable companies), and the new company's respective parent-related entities.

Reach is a 50/50 joint venture between Telstra and PCCW. It is expected to be one of the leading providers of voice and data/internet connectivity services in Asia from day one, and among the top global wholesale operators. It will tap into the strong global demand for connectivity services, driven largely by increasing usage of the Internet.

### **Regional Wireless Company**

The Regional Wireless Company combines the experience and skills gained by Telstra MobileNet in Australia and PCCW's CSL mobile property.

Telstra has acquired 60% of PCCW's CSL (formerly HKT CSL) for a purchase price of US\$1.68 billion.

- Telstra has management and board control of CSL including the right to appoint the Chairman and CEO.

- Telstra and PCCW will continue to work to create a regional wireless proposition and to bring in an appropriate strategic partner.

### **Internet Data Centre Company**

The Internet Data Centre (IDC) Company is planned to own and operate a network of internet data centres throughout the Asia/Pacific region, initially located outside PCCW and Telstra's home markets. These centres will provide a range of internet and e-enabled service offerings, initially focussing on hosting services - including co-location, dedicated and shared server hosting.

### **Board Details**

Telstra and PCCW each appoint three directors to the boards of each joint venture. The chairmen of Reach and IDC Company are appointed for a two-year term on a rotating basis. Telstra appoints the first chairman of Reach and PCCW appoints the first chairman of IDC Company. In the case of Reach and IDC Company, the chairman does not have a casting vote. In the case of RWC, the chairman is appointed by Telstra and has a casting vote. Most decisions are made by a simple majority vote by the board.

### **Background**

#### **Reach and Regional Wireless Company Executives**

**Mr Alistair Grieve**, brings global experience and leadership to Reach. His previous post was as Chief Operating Officer, Maxis Communications, one of Malaysia's top telecommunications companies. Mr Grieve moved to Asia in 1993, serving until 1995 as President of Cable and Wireless's Japan operations; and from 1995-1999 as Hong Kong Telecom's Deputy Chief Executive. He began his career as a project engineer with Cable and Wireless in the UK and Saudi Arabia before moving to Mercury Communications in New York, where his negotiations with US and Canadian carriers led to the world's first digital international private line services. Mr Grieve has a Bachelor of Science degree in electrical engineering and electronics, from the University of Dundee, Scotland.

**Mr Hubert Ng**, with more than 25 years in the technology industry, was appointed President of Mobility Services at Pacific Century CyberWorks in August 2000. He brings to PCCW over 15 years of senior management telecommunications expertise in business planning and development, operations, sales and marketing. Prior to joining PCCW, he was the Chief Executive Officer of SmarTone Telecommunications Holdings Limited, and before that, the Managing Director of Hongkong Telecom CSL Mobile. Mr Ng is the Honorary Adviser of the Internet & Telecom Association of Hong Kong, which promotes the further development of the local telecommunications industry. In 1996, he was appointed by the Government of Hong Kong to serve as a member of its Business Advisory Group.

**Mr Mike Robey**, brings a depth of management experience to his new role as CSL's Chief Operating Officer, formerly the General Manager Customer Management Telstra OnAir. Mr Robey has spent the past eight years on the senior management team of the MobileNet business within Telstra. Most recently he developed the Customer Relationship Management (CRM) capabilities of Telstra OnAir and is active in developing the cross Telstra CRM strategy. He has a background in the development and implementation of complex technologies, initially within Industrial R&D in the Chemicals and Plastics industries and more recently in mobile telecommunications. He has a Doctorate in Chemical Physics from the Australian National University.

### **Board Member Profiles for Reach, Regional Wireless Company and IDC Company**

**Mr Gerry Moriarty**, Telstra's Group Managing Director, Infrastructure Services & Wholesale, is responsible for Telstra's networks and technology, service delivery, domestic and international wholesale. He was Assistant Managing Director to the Australian Broadcasting Corporation in 1986, and in 1991 became Managing Director of Broadcast Communications Ltd, a wholly owned subsidiary of TVNZ Ltd, before joining Telstra in 1993. Mr Moriarty is a director of Foxtel, IBM-Global Services (Australia), TelstraSaturn New Zealand Limited, IT&T Skills Exchange and Bionic Ear Institute. He is a Fellow of the Institution of Engineers, Australia; Fellow of the Australian Academy of Technological Sciences and Engineering; and a Fellow of the Institute of Radio and Electronic Engineers. Mr Moriarty holds a first class honours degree in Electrical Engineering from Canterbury University, New Zealand.

**Mr Dick Simpson**, Group Managing Director, Telstra OnAir, is responsible for Telstra's mobiles and international business. Telstra OnAir's MobileNet brand is the largest and most profitable mobile phone business in Australia with more than 4.7 million customers. It also operates Australia's two largest digital cellular networks (GSM and CDMA) which provide coverage to 95% and 97% of the Australian population respectively. MobileNet is undoubtedly the leader in the Australian wireless industry. Mr Simpson has extensive experience in direct operations and joint ventures both in Europe and Asia and currently leads Telstra's international activities. Before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He was previously the Director, Residential Division at Cable & Wireless Optus and prior to this the Managing Director for Unisys Australia and New Zealand, having started his career at IBM.

**Mr Alexander Arena**, is Deputy Chairman of PCCW's Executive Committee. Mr. Arena is also a Director of Pacific Century Regional Developments Limited. He joined the Pacific Century Group in 1998. He was a Special Policy Adviser to the Government of Hong Kong from 1997 to 1998. From 1993 to 1997, Mr. Arena was the Director-General of Telecommunications in the Office of the Telecommunications Authority of Hong Kong as well as a member of the Broadcasting Authority. Mr. Arena graduated from the University of New South Wales, Australia with a Bachelor's degree in Electrical Engineering. He also completed an MBA degree at Melbourne University, Australia.

**Mr David Prince**, is PCCW's Group Chief Financial Officer. Mr Prince was previously Deputy Chief Executive and Finance Director of Cable & Wireless HKT, a position he held since February 1999. He was appointed as Finance Director to Cable & Wireless HKT in 1994. Prior to that, Mr. Prince served as Controller Strategic & Financial Planning for the C&W Group.

**Mr Keith Harrison**, is Managing Director, Global Communications Services, which includes accountability for all international wholesale services within Hong Kong and elsewhere, including JV operations with Telstra of Australia. He is Deputy Chairman of Regional Wireless Company. Mr Harrison was previously Executive Director International, with the responsibility for International Market Development, Teleservices and regional Internet development at Cable & Wireless HKT. Educated in London, he joined what is now British Telecom in 1966.

**Mr Bruce Akhurst**, is Group Managing Director, Telstra Legal & Regulatory and Group General Counsel. Mr Akhurst joined Telstra in 1996 as General Counsel. Prior to joining Telstra he was a partner and managing partner of a leading Australian law firm.

**Mr Tim Crossley**, is President Telstra Japan Retail with responsibility for Telstra's retail operations, business development and investments in Japan. Based in Tokyo, he is also Director of Telstra Japan Retail KK and Telstra Hong Kong Retail. Mr Crossley has more than 20 years experience in the international and domestic telecommunications sector with OTC(A) and Telstra. He has held various positions in Product Management, Product Development, and Business Strategy and Business Development covering voice, data and internet related services and international alliances. Mr Crossley played a significant role in the establishment of Telstra businesses in United Kingdom (1994), New Zealand (1995/6), Hong Kong (1998), Korea (1998) and Japan (1998). In addition, he was a Telstra Board representative on the Multimedia Services Affiliates Forum 1995-1998

**Mr William Cheung**, is PCCW's Chief Operating Officer. A veteran in the telecommunications industry, he has held several posts within the Company, including Executive Director, Local Network and Mobile Services. His previous responsibilities as Chief Operating Officer B2C (Asia) included planning, operation and business development of Network of the World and the company's interactive multimedia services Netvigator and iTV. Mr Cheung holds a Bachelor and Master Degree in Electrical and Electronic Engineering from the University of Hong Kong.